

Department of Legislative Services  
Maryland General Assembly  
2010 Session

FISCAL AND POLICY NOTE

House Bill 1209 (Delegate Ross)  
Ways and Means

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Property Tax - Semiannual Payment for Residential Property

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This bill requires local governments to provide for a semiannual payment of State, county, municipal, and special taxing district property taxes for all residential property. Under current law, the semiannual payment schedule is limited to owner-occupied residential property.

The bill takes effect June 1, 2010, and applies to taxable years beginning after June 30, 2010.

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Fiscal Summary

**State Effect:** Potential decrease in State interest income (general fund) beginning in FY 2011 depending on the number of additional residential properties that opt to pay property taxes on a semiannual basis. This revenue loss may be offset by service charges allowed under current law. Expenditures are not affected.

**Local Effect:** Interest income from property tax revenues may decrease beginning in FY 2011 depending on the number of additional residential properties that opt to pay property taxes on a semiannual basis. This revenue loss may be offset by service charges allowed under current law.

**Small Business Effect:** None.

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Analysis

**Current Law:** Property taxes for owner-occupied residential property are due under a semiannual schedule. The first installment is due on July 1 and may be paid without

interest on or before September 30. The second installment is due on December 1 and may be paid without interest on or before December 31. Local governments are authorized to impose a maximum service charge of 1.65% of the second payment to cover lost interest for the three-month delay in the tax collection and associated administrative fees. However, homeowners may elect to pay the full year's property tax on or before September 30 to avoid the service charge or interest.

Property taxes for property other than owner-occupied residential property are due on July 1 and may be paid without interest on or before September 30.

**Background:** Chapter 123 of 1995 granted taxpayers the option to pay property taxes in semiannual installments. Chapter 305 of 1999 required property owners to pay real property taxes for a principal residence in semiannual installments. However, Chapter 305 allowed homeowners the option of paying both property tax installments on or before September 30 of each year to avoid any service charge that a county may impose to recover anticipated lost interest and administrative expenses associated with the semiannual payment schedule.

**State Fiscal Effect:** The bill would not change the amount of property taxes paid by residential property owners. However, it would alter when payments may be received, which in turn effects the amount of interest earned from property tax payments. Currently property tax payments for nonowner-occupied residential properties are due by September 30. Payments for State and local taxes are made to the county where the property is located; the county remits the State taxes to the Comptroller's Office.

The bill may result in a decrease in interest income for the time period between September 30 and December 30, as one-half of State property tax payments for nonowner-occupied residential property may not be paid until three months later than under current law. However, the number of nonowner-occupied properties that may opt to pay on a semiannual basis cannot be reliably estimated.

However, under current law, a service charge may be imposed that is reasonably equivalent to the anticipated lost interest income associated with the three-month delay, not to exceed 1.5%. Local governments may also charge a maximum of 10% of the lost interest percentage as an administrative fee. Therefore, the service charge cannot exceed 1.65%. Depending on interest rates, the service charges imposed by local governments, and the amount of tax paid on a semiannual basis, it is possible that the service charge could offset any decrease in interest income resulting from the semiannual payment schedule.

**Exhibit 1** shows the number of nonowner-occupied residential property tax accounts in each county that may be eligible for semiannual payments pursuant to the bill. The total

assessment for these properties is estimated to be approximately \$83.4 billion in fiscal 2011.

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**Exhibit 1**  
**Nonowner-occupied Residential Property Tax Accounts**  
**Fiscal 2011**

<u>County</u>	<u>Number of Accounts</u>	<u>Assessed Value</u>
Allegany	6,228	\$422,588,726
Anne Arundel	24,399	8,101,254,586
Baltimore City	73,769	6,974,875,931
Baltimore	26,375	5,697,519,603
Calvert	6,012	1,829,587,386
Caroline	2,213	387,141,212
Carroll	4,505	1,120,740,322
Cecil	8,451	1,503,563,053
Charles	7,207	1,854,500,853
Dorchester	4,329	712,961,223
Frederick	9,466	2,388,582,626
Garrett	7,579	2,487,280,678
Harford	9,573	1,978,555,324
Howard	8,238	2,700,462,726
Kent	2,593	784,197,881
Montgomery	42,149	15,210,000,000
Prince George's	39,861	10,893,181,939
Queen Anne's	3,182	1,144,100,003
St. Mary's	6,399	1,735,340,426
Somerset	3,146	365,708,735
Talbot	4,419	2,440,156,035
Washington	8,702	1,515,316,728
Wicomico	8,767	982,788,785
Worcester	38,182	10,180,000,000
<b>Total</b>	<b>355,744</b>	<b>\$83,410,404,781</b>

Source: State Department of Assessments and Taxation

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Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2011 State budget includes \$833.4 million for general obligation debt service costs, all of which are special funds from the Annuity Bond Fund.

**Local Fiscal Effect:** Local property tax revenues will be affected in the same manner as State property tax revenues. Interest income on payments would be lost for the period between September 30 and December 30 for those property tax payments received in December. As discussed above, depending on interest rates, service charges imposed by local governments, and the amount of tax paid on a semiannual basis, it is possible that the service charge allowed under current law may offset any decrease in interest income resulting from the semiannual payment schedule.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 1083 is identified as a cross file; however, the bills are not identical.

**Information Source(s):** State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Maryland Association of Counties, Maryland Municipal League, Department of Legislative Services

**Fiscal Note History:** First Reader - March 9, 2010  
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