

Department of Legislative Services
2011 Session

FISCAL AND POLICY NOTE
Revised

House Bill 463
Ways and Means

(Delegate Elliott, *et al.*)

Budget and Taxation

Property Tax - Semiannual Payment Schedule - Business Property

This bill requires county and municipal governments to establish a semiannual payment schedule for State, county, municipal, and special taxing district property taxes for business property with a property tax bill of \$100,000 or less. Under current law, small businesses with a property tax bill less than \$50,000 are authorized to pay on a semiannual basis.

The bill takes effect October 1, 2011, and applies to taxable years beginning after June 30, 2012.

Fiscal Summary

State Effect: Potential decrease in State interest income (general fund) beginning in FY 2013 depending on the number of businesses that opt to pay property taxes on a semiannual basis. This revenue loss may be fully 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 2013 depending on the number of businesses that opt to pay property taxes on a semiannual basis. This revenue loss may be fully offset by service charges allowed under current law. However, expanding the semiannual payments to more businesses may result in a “cash flow” issue for local governments.

Small Business Effect: Minimal. The overall amount of taxes paid by small business is not affected. However, in some instances, the cash flow for these businesses may benefit from paying property taxes in two installments.

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.

Chapter 680 of 2010 required county and municipal governments to establish a semiannual payment schedule for State, county, municipal, and special taxing district property taxes for small business property with a property tax bill of \$50,000 or less. Small business property is defined as property that has a commercial use code assigned by SDAT and which has total State and local property taxes of no more than \$50,000 in a taxable year.

Property taxes for property other than owner-occupied residential property and specified small business 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 a qualifying business. 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 commercial properties are due by September 30. Payments for State and local taxes are made to the county where the business 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 certain businesses may not be paid until three months later than under current law. However, the number of businesses that may opt to pay on a semiannual basis cannot be reliably estimated. As a point of reference and *for illustrative purposes only*, if one half of the

business property accounts elect to pay property taxes on a semiannual basis, interest income may decrease by approximately \$42,000, assuming a 3% annual interest rate. The estimate is based on the difference between the small business assessable base that was made eligible for semiannual payments last year and those businesses with property tax bills of \$100,000 or less so as to capture the businesses that are newly eligible under the bill.

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. Based on the earlier scenario, where one-half of the specified business property accounts elect to pay property taxes on a semiannual basis, the maximum amount of service charges imposed could total approximately \$91,700.

Exhibit 1 shows the number of commercial property tax accounts in each county that may be eligible for semiannual payments pursuant to the bill. The total fiscal 2012 assessment for these properties is approximately \$19.8 billion.

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 2012 State budget includes \$878.4 million for general obligation debt service costs, including \$865.8 million in special funds from the Annuity Bond Fund, \$1.6 million in transfer tax revenues, and \$11.1 million in federal funds.

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 a point of reference and *for illustrative purposes only*, if one half of the business property accounts elect to pay property taxes on a semiannual basis, total county interest income may decrease by approximately \$415,100, assuming a 3% annual interest rate. 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. Based on the earlier scenario, the maximum service charge imposed could total \$913,200. However, expanding the

semiannual property tax payments to additional business properties may result in a “cash flow” issue for local governments.

Exhibit 1
Commercial Property Tax Accounts with a Property Tax Bill of \$100,000 or Less
Fiscal 2012

County	Number of Accounts	Assessed Value
Allegany	272	\$97,558,222
Anne Arundel	1,352	2,216,535,014
Baltimore City	448	1,100,818,988
Baltimore	2,119	3,336,973,066
Calvert	152	158,298,379
Caroline	69	10,276,076
Carroll	603	247,750,596
Cecil	452	222,948,371
Charles	343	331,763,881
Dorchester	97	4,599,267
Frederick	711	870,666,408
Garrett	142	35,403,016
Harford	512	692,368,700
Howard	686	1,839,463,570
Kent	64	67,718,464
Montgomery	1,669	3,445,196,025
Prince George's	814	3,455,300,890
Queen Anne's	509	203,124,665
St. Mary's	279	373,872,418
Somerset	9	32,378,407
Talbot	65	41,923,845
Washington	422	486,768,203
Wicomico	137	146,057,005
Worcester	265	421,771,340
Total	12,191	\$19,839,534,815

Source: State Department of Assessments and Taxation

Howard County advises that a shift to semiannual payments will severely affect the county's cash flow in the months of September through November until the November 30 income tax distribution is received. Carroll County indicates that the bill will not have a significant effect on county finances due to a relatively small commercial tax base.

Frederick County advises that due to its ability to impose certain interest charges on account balances in the months of October, November, and December, the county may realize increased payments from business opting to pay on a semiannual basis. However, the extent of any change in payments will depend on the decision of each business. Baltimore City advises that it may have to borrow money to cover the delay in collecting these property taxes and it is possible that the interest on repayment could be more than the interest and finance charges allowed under a semiannual payment schedule.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation; Baltimore City; Carroll, Frederick, Howard, and Montgomery counties; Maryland Association of Counties; Department of Legislative Services

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