

Department of Legislative Services  
Maryland General Assembly  
2011 Session

FISCAL AND POLICY NOTE

House Bill 695  
Ways and Means

(Delegates Ross and Carr)

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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, 2011, and applies to taxable years beginning after June 30, 2011.

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Fiscal Summary

**State Effect:** Potential decrease in State interest income (general fund) beginning in FY 2012 depending on the number of additional residential properties 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 2012 depending on the number of additional residential properties 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 semi-annual payments to nonowner-occupied residential properties may result in a “cash flow” issue for local governments.

**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.

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 the State Department of Assessments and Taxation (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 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 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 certain residential property may not be paid until three months later than under current law. However, the number of residential property owners who 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 nonowner-occupied residential property accounts elect to pay property taxes on a semiannual basis, interest income may decrease by approximately \$268,200, assuming a 3% annual interest rate.

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, and the amount of tax paid on a semiannual basis, it is more than likely 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 nonowner-occupied residential property accounts elect to pay property taxes on a semiannual basis, the maximum amount of service charges imposed could total approximately \$590,000.

**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 \$127.7 billion in fiscal 2011.

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 nonowner-occupied residential property accounts elect to pay property taxes on a semiannual basis, total county interest income may decrease by approximately \$2.6 million, 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 more than likely that the service charge could offset any decrease in interest income resulting from the semiannual payment schedule. Based on the earlier scenario, the maximum service charge imposed could total \$5.6 million. However, expanding the semi-annual property tax payments to nonowner-occupied residential properties may result in a "cash flow" issue for local governments.

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

<b>County</b>	<b>Number of Accounts</b>	<b>Estimated Assessable Base</b>
Allegany	15,712	\$502,538,692
Anne Arundel	43,217	12,971,215,464
Baltimore City	82,170	7,371,736,401
Baltimore	50,262	10,098,056,360
Calvert	14,970	2,878,433,576
Caroline	6,507	457,856,812
Carroll	12,162	1,865,633,282
Cecil	18,240	2,218,687,103
Charles	17,916	3,243,044,742
Dorchester	11,818	903,671,682
Frederick	19,839	4,092,844,597
Garrett	18,464	2,850,607,814
Harford	20,291	3,125,481,789
Howard	16,069	5,987,993,477
Kent	6,577	845,003,857
Montgomery	58,112	25,265,903,169
Prince George's	55,078	22,486,017,330
Queen Anne's	8,831	1,136,530,247
St. Mary's	17,306	2,388,096,922
Somerset	9,462	474,525,529
Talbot	7,946	2,457,676,604
Washington	16,404	1,972,197,526
Wicomico	18,524	1,437,001,171
Worcester	46,032	10,693,083,743
<b>Total</b>	<b>591,909</b>	<b>127,723,837,889</b>

Source: State Department of Assessments and Taxation

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## **Additional Information**

**Prior Introductions:** HB 1209 of 2010 received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None.

**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 8, 2011  
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