

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

House Bill 475
Ways and Means

(Delegates Ali and Mosby)

Baltimore City - Tax Sales - Accrual of Property Tax, Interest, and Penalties

This bill generally prohibits the accrual of property tax, interest, and penalties on real property in Baltimore City, under specified circumstances. The bill must be construed to apply retroactively and must be interpreted to affect real property in Baltimore City that has at least three years of taxes in arrears.

Fiscal Summary

State Effect: The bill is not anticipated to affect State operations or finances.

Local Effect: Baltimore City expenditures increase by at least \$325,000 beginning in FY 2019. Baltimore City revenues may decrease by a significant amount, as discussed below. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Minimal.

Analysis

Bill Summary:

Accrual of Real Property Tax: In Baltimore City, property tax may not continue to accrue on real property (1) if the taxes on the property are in arrears for at least three years and (2) the property has not been sold at tax sale during the three-year period.

Interest and Penalties: In Baltimore City, specified interest and penalties for failure to pay real property tax may not accrue while (1) property tax is not accruing on the property or

(2) the owner of the property has entered into, and is in compliance with, a specified installment payment plan.

Required Payment Plan: Before real property in Baltimore City may be sold, Baltimore City must offer the owner an opportunity to enter into an installment payment plan to satisfy any unpaid taxes on the real property. The collector in Baltimore City may not sell a property if the owner has entered into an installment payment plan and is in compliance with the plan agreement.

Rate of Redemption: The bill sets the rate of redemption, in Baltimore City, at the average prime rate of interest quoted by commercial banks to large businesses during the State's previous fiscal year, based on the determination by the Board of Governors of the Federal Reserve Bank.

Current Law:

Accrual of Real Property Tax: The Mayor and City Council of Baltimore City or the governing body of a county may impose property tax on the assessment of property that is subject to that county's property tax.

Interest and Penalties: The Mayor and City Council of Baltimore City may set, by law, an interest charge for (1) an overdue final determination of estimated property tax on personal property or operating property or (2) overdue 1/4, 1/2, or 3/4 year property tax or taxing district property tax on real property.

If a person fails to pay property tax when required, the person must pay interest and any applicable penalty imposed in statute on the total tax liability on property for each month or fraction of the month from the date the property tax payment is due until the date the tax is paid.

Required Payment Plan: Statute does not require any jurisdiction to establish a payment plan for the payment of past-due property taxes.

Rate of Redemption: In Baltimore City, the rate of redemption is 6% a year, or as fixed by a law of the City Council of Baltimore City. Baltimore City advises that the tax sale redemption rate is set at 12% for residential and 18% for all other types of real property.

Background:

Tax Sales Generally: In general, a tax collector must sell, at an auction, not later than two years from the date the tax is in arrears, all property in the county on which the tax is in arrears. The time for the tax sale is established by local law. Failure of the collector to

sell the property within the two-year period does not affect the validity or collectability of any tax, or the validity of any sale subsequently made. The requirement to sell property at auction not later than two years from the date the tax is in arrears does not apply in Baltimore City.

The tax collector sets specified terms for the auction and publishes public notice of the tax sale, including requirements for potential bidders.

When a property is purchased at a tax sale, the purchaser must pay to the tax collector any delinquent taxes, penalties, sale expenses, and a high-bid premium except as otherwise specified. Except for agricultural property, when a bidder at a tax sale purchases a property in Baltimore City and Prince George's County under specified circumstances, the bidder must pay a high-bid premium that is the greater of 20% of the amount by which the highest bid exceeds the lien amount or 40% of the property's full cash value. The terms for payment of the purchase price and high-bid premiums, if any, are determined by the collector.

Generally, the property owner has the right to redeem the property within six months from the date of the tax sale by paying the total lien amount on the property, delinquent taxes, penalties, interest, and certain expenses of the purchaser. If the owner redeems the certificate, the purchaser is refunded the amounts paid to the collector plus the interest and expenses. If the owner does not redeem the certificate, the purchaser has the right to foreclose on the property after the six-month right of redemption period has passed. Under most circumstances, if the right to foreclose is not exercised by the purchaser within two years, the certificate is void, and the purchaser is not entitled to a refund of any monies paid to the collector.

Baltimore City Tax Sale: Baltimore City advises that, on an annual basis, the city collects approximately \$9.5 million at tax sale. Additionally, due to the *threat* of properties going to tax sale, Baltimore City is able to collect approximately \$45 million between January and May of each year, the period between when legal notices are sent and when the tax sale occurs. This amount represents about 5% of the annual real property tax revenue.

Local Fiscal Effect: Baltimore City revenues decrease due to the bill's restrictions on the accrual of property tax after three years, and the related prohibition against the accrual of additional interest and penalties. While a specific estimate is not available at this time, Baltimore City estimates that revenues may decrease by more than \$10 million in fiscal 2019.

Baltimore City further advises that, based on the city's experience with payment plan programs applied to delinquent water bills, delinquency rates of property owners on payment plans remain between 50% and 60% per year. Additionally, expenditures increase

to hire employees to establish and manage the payment plan program required under the bill, at an estimated annual cost of \$325,000.

Finally, Baltimore City advises that applying the referential prime rate as determined by the Board of Governors of the Federal Reserve Bank significantly lowers the tax sale redemption rate charged in Baltimore City. Under the bill, Baltimore City estimates that the rate would be less than 4.9%. Reducing the rate would lower incentives for investors to participate in the tax sale program, potentially further reducing revenues.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore City; Judiciary (Administrative Office of the Courts); State Department of Assessments and Taxation; Department of Legislative Services

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