

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 396
Ways and Means

(Delegate Carr, *et al.*)

Budget and Taxation

Property Tax - Optional Installment Payment Schedule

This bill authorizes local governments to provide, by law, for an installment payment schedule for county, municipal, or special taxing district real property taxes. **The bill takes effect June 1, 2019, and applies to taxable years beginning after June 30, 2019.**

Fiscal Summary

State Effect: None.

Local Effect: County and municipal interest income from property tax payments may decrease beginning in FY 2020 depending on the number of eligible homeowners who decide to pay property taxes in installments. The revenue loss may be fully offset by service charges imposed by local governments. However, allowing installment payments may result in a “cash flow” issue for local governments as well as increased computer programming expenditures.

Small Business Effect: None.

Analysis

Bill Summary: The bill specifies that the authorized installment payment schedule may be scheduled in advance of the property tax bill. Local governments may authorize advance payment or an installment payment schedule for (1) county property tax collected by the county; (2) municipal property tax collected by the county at the request of the municipality; or (3) special taxing district property tax collected by the county at the request of the special taxing district.

A municipal government may authorize advance payment or an installment payment schedule for municipal property taxes collected by the municipality.

Local governments are prohibited from authorizing advance payment or an installment payment schedule for property taxes imposed on real property that is subject to a deed of trust, a mortgage, or any other encumbrance that includes the escrowing of property tax payments.

If a fee or other charge imposed by a county, municipality, or special taxing district is also included on a tax bill, the county or municipality may also authorize, by law, the payment of the fee or charge through the installment payment schedule.

An installment payment schedule may include any number of due dates scheduled on or after January 1 and on or before July 1 or September 30, whichever is applicable. For any installment payment scheduled after July 1, the local government may impose a service charge. No interest may be charged if payment is made before the next installment is due or the last installment is due, whichever is earlier.

A county or municipal government may provide, by law, for (1) any additional eligibility criteria for an installment payment schedule; (2) the process for electing an installment payment schedule; (3) the number of installment payments allowed each year; (4) the due date for each installment payment; and (5) any other provision necessary to carry out installment plans for property tax payments.

A taxpayer may elect to pay the property tax imposed on real property through an installment payment schedule. The failure by the taxpayer to make an installment payment under an authorized installment payment schedule may not be considered to be a failure to pay the property tax when due except as otherwise provided under the semi-annual payment schedule for property tax payments.

Current Law: Property taxes for owner-occupied residential property and small businesses that pay less than \$100,000 in property taxes are due on 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 may add a service fee to the second installment to pay for administrative costs. However, homeowners and certain small business owners may elect to pay the full year's property tax on or before September 30 to avoid a service charge or interest charge. Property taxes for other property are due on July 1 and may be paid without interest on or before September 30.

The assessment of properties is done by the State Department of Assessments and Taxation. Local governments and the State depend on the department to establish the

assessable base upon which both State and local property taxes are levied. Real property taxes are collected by the county, Baltimore City, or municipal finance offices. The State tax portion is remitted to the Comptroller of the Treasury.

The interest on State property taxes is charged on the total tax liability at a rate of 1% for each month (or fraction thereof) that the property taxes are past due. The first installment of taxes is due July 1, and interest accrues after October 1. The second installment is due on December 1, and interest accrues after January 1.

Unpaid taxes are a lien on the real property. The collector is required to sell property for which taxes are in arrears. County, municipal, and special taxing district interest rates on overdue taxes are two-thirds of 1% per month, unless otherwise provided by law.

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.

Chapter 401 of 2012 authorized Prince George's County to provide, by law, for an installment payment schedule of no more than six payments each year for county, municipal, and special taxing district property taxes due on owner-occupied residential property if the homeowner is at least 62 years old and the property is not subject to a deed of trust, mortgage, or other encumbrance. The county must provide for (1) any additional eligibility criteria for the installment payment schedule; (2) the process for electing an installment payment schedule; (3) the due date of each payment installment; and (4) any other provision necessary to carry out the installment payment schedule. Under the bill, these provisions are repealed.

Local Fiscal Effect: County and municipal interest income may decrease beginning in fiscal 2020 to the extent that local governments implement installment payment schedules for property taxes and homeowners decide to make property tax payments in installments. The bill does not change the amount of property taxes owed by homeowners but rather when the taxes are paid. However, any loss of interest income may be offset as the bill authorizes local governments to impose a service charge to process installment payment plans.

Local governments may incur significant costs to reprogram tax processing systems. Montgomery County advises that its current tax processing system, Munis, cannot be set up to allow for installment payments so the county would incur costs to reprogram their

billing and collection system. Montgomery County reports that about half the counties in the State use the Munis tax processing system for property tax payments.

Montgomery County notes that it may need to hire more staff to process installment payments. Depending on when the payments are made, the county could have cash flow issues in the first half of the year if a significant number of property owners were to pay property taxes in multiple installments.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Montgomery and Worcester counties; Maryland Association of Counties; Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

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Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510