

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 466

(Senator Peters, *et al.*)

Budget and Taxation

Property Tax Assessment Appeals - Due Date for Payment and Stay of Collection

This bill provides that the payment of real property taxes based on an assessment under appeal may be paid without interest or penalty within 30 days after the final disposition of the appeal by the State Department of Assessments and Taxation or the Property Tax Assessment Appeals Board (PTAAB). In addition, these appeals do not require the posting of a bond in order to stay the collection of the property taxes.

The bill takes effect June 1, 2008 and applies to all taxable years beginning after June 30, 2008.

Fiscal Summary

State Effect: State property tax revenues would decrease beginning in FY 2009 to the extent that interest and penalties on late property tax payments are no longer collected.

Local Effect: Local property tax revenues would decrease, perhaps significantly, beginning in FY 2009 to the extent that interest and penalties on late property tax payments are no longer collected.

Small Business Effect: None.

Analysis

Current Law: Property taxes, including penalties and interest when applicable, must be paid regardless of whether the assessment is under appeal. Upon final disposition of the appeal, taxpayers are provided a refund if the ruling is in their favor. In general, property

tax payments are due July 1. However, payments may be made without interest or penalty by September 30. In addition, payments may be made on a semi-annual basis. The State and counties, unless otherwise specified, charge an interest rate of 1% for each month that the property tax is overdue.

State Fiscal Effect: State property tax revenues would decrease to the extent that interest and penalties are no longer paid for late property tax payments under appeal. As noted previously, property tax payments may be made on a semi-annual basis and late payments are subject to interest and penalties.

Another consequence of the bill would be to allow taxpayers to defer property tax payments, without interest or penalties, by appealing their assessment. This would, for the most part, simply result in a shifting of property tax payments but could result in the loss of interest income and penalties. The amount of any decrease in interest and penalty revenues cannot be reliably estimated and depends on the number of assessment appeals.

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 2009 State budget allowance includes \$744.8 million for general obligation debt service costs, all of which are special funds from the Annuity Bond Fund.

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased in order to meet debt service payments. This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

To the extent the bill results in an increase in the number of assessment appeals, expenditures for PTAAB could increase accordingly. However, the amount of any increase in the number of assessment appeals cannot be reliably estimated at this time. However, according to PTAAB, each 5% increase in the number of appeals filed and heard by PTAAB results in a \$15,000 increase in administrative expenses.

Local Fiscal Effect: Local property tax revenues could decrease due to the same reasons discussed above. Local governments receive a considerable amount of revenues from interest and penalties due to the late property tax payments. As shown in **Exhibit 1**, local revenues from interest and penalties for late property tax payments can exceed \$1 million

in many jurisdictions. Prince George's County collected \$4.5 million in fiscal 2006 due to interest and penalties from late property tax payments and is projected to collect \$3.4 million in fiscal 2008.

Exhibit 1
Local Revenues – Interest and Penalties from Late Property Tax Payments
General Fund Budgets

<u>County</u>	<u>FY 2006</u> <u>(Actual)</u>	<u>FY 2007</u> <u>(Estimated)</u>	<u>FY 2008</u> <u>(Estimated)</u>
Anne Arundel	\$1,452,652	\$1,981,000	\$1,991,000
Calvert	446,386	360,000	500,000
Charles	1,988,077	320,000	320,000
Montgomery	1,040,917	1,178,625	1,254,584
Prince George's	4,495,395	3,280,000	3,378,400

Source: County Government Budget Documents

Additional Information

Prior Introductions: None.

Cross File: HB 892 (Delegate Ross, *et al.*) – Ways and Means.

Information Source(s): Property Tax Assessment Appeals Board, Department of Legislative Services

Fiscal Note History: First Reader - March 4, 2008
mll/hlb

Analysis by: Michael Sanelli

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