

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 492 (Delegate Frick)
Ways and Means

Municipal Property Taxes - Annual Budget Ordinance and Special Rates

This bill requires a municipality in selecting classes of property subject to a municipal property tax, if the municipality chooses to tax classes of property other than real property and personal property, to select only classes and subclasses of property identified in Title 8 of the Tax Property Article. In addition, a municipality must establish these classes of taxable property in an ordinance that is separate from the municipality's annual budget ordinance.

The bill takes effect June 1, 2014, and applies to taxable years beginning after June 30, 2014.

Fiscal Summary

State Effect: None.

Local Effect: Minimal effect on municipal property tax revenues. Only four municipalities currently have established different classes of property that are taxed at different rates. Municipal expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Minimal.

Analysis

Current Law: Title 8 of the Tax Property Article establishes the methods of property valuation and assessments; and lists those classifications of property created by the General Assembly. For assessment purposes, property is divided into two classes – real property and personal property. Real property is divided into 11 subclasses and personal

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property is divided into 7 subclasses as shown in **Exhibit 1**. The State only imposes a property tax on real property; whereas, county governments impose separate tax rates for real and personal property. The personal property tax rate must be set at 2.5 times the real property tax rate. Several county governments do not impose a personal property tax on business property. State and county governments are not authorized to set separate property tax rates among different subclasses of property.

Unlike the State and county governments, municipalities have broader discretion to impose property tax rates on different classes of property. Municipalities may impose property taxes on those classes of property that it selects to be subject to the municipal property tax. In addition, municipalities retain the authority to classify property for local purposes and to impose different tax treatment on those classes. Furthermore, municipalities have the express power to exempt classes of property from taxation. Moreover, because municipalities may select the classes of property to be taxed and may set special rates for any class of property that is subject to the municipal property tax; municipalities retain the authority to levy different tax rates on selected classes of property.

Background: Property taxes are the largest revenue source for most municipalities, accounting for 36.3% of total revenues, excluding debt proceeds. The dependence on property taxes ranges from 11.3% for the municipality in St. Mary's County to 56.9% for municipalities in Prince George's County. For municipalities in nine counties (Allegany, Carroll, Cecil, Charles, Dorchester, Garrett, St. Mary's, Talbot, and Washington), service charges generate a larger share of municipal revenues than the property tax. Municipal revenues from property taxes totaled \$495.2 million in fiscal 2012.

Municipal real property tax rates range from \$0.02 in Chevy Chase, Section 3 (Montgomery County) to \$1.49 in Colmar Manor (Prince George's County). Only Chevy Chase and Chevy Chase, Section 5 (Montgomery County) did not impose a local property tax in fiscal 2014. While only 15% of the State's population resides in incorporated areas (excluding Baltimore City), there are nine counties where over 30% of residents live in municipalities.

The [Overview of Maryland Local Governments](http://dls.state.md.us/data/polanasubare/polanasubare_intmatnpubadm/polanasubare_intmatnpubadm_annrep/2014-Overview-of-Maryland-Local-Governments.pdf#page=164) report shows the real property tax rates for each county and municipality in Maryland. The report can be found at http://dls.state.md.us/data/polanasubare/polanasubare_intmatnpubadm/polanasubare_intmatnpubadm_annrep/2014-Overview-of-Maryland-Local-Governments.pdf#page=164.

Local Fiscal Effect: Municipalities currently have the authority to establish reasonable classifications of property and to treat those classes differently for property tax purposes, as opined by the Attorney General in 1995. This authority is not granted to county governments.

The bill repeals a municipality's authority to create classes of property for tax purposes that are not currently defined in the Tax Property Article (Title 8). This restriction may limit the number and type of property classes that may be established by a municipality. The Maryland Municipal League advises that only four municipalities – Berwyn Heights, Colmar Manor, and North Brentwood in Prince George's County and Pocomoke City in Worcester County – will be affected by the requirements of the bill. The municipalities in Prince George's County impose different real property tax rates for residential and commercial property. Pocomoke City imposes different real property tax rates for owner-occupied property and nonowner-occupied property.

Additional Information

Prior Introductions: HB 820 of 2013, a similar bill, received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file (SB 893 of 2013) received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Maryland Municipal League, Department of Legislative Services

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mm/hlb

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Exhibit 1
Classification of Property – Title 8 of Tax Property Article

Real Property Class

1. farm or agricultural use
2. marshland
3. woodland
4. country club or golf course
5. planned development use
6. rezoned real property – residential use
7. operating real property of a railroad
8. operating real property of a public utility
9. commercial real property – Internal Revenue Code
10. conservation property
11. all other real property

Personal Property Class

1. stock in business
 2. distilled spirits
 3. operating personal property of a railroad
 4. operating personal property of a public utility that is machinery or equipment used to generate electricity or steam for sale
 5. all other operating personal property of a public utility
 6. machinery and equipment, other than operating personal property of a public utility
 7. all other personal property
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