A HOMEOWNER'S GUIDE TO PROPERTY TAXES AND ASSESSMENTS

I. THE PROPERTY TAX: WHO PAYS IT AND WHO RECEIVES IT

THE BILL

State law provides that all real property is subject to the property tax. A property owner will receive a property tax bill each year. Generally, properties that are owned and used by religious, charitable, or educational organizations or property owned by the Federal, State, or local governments are exempt from property tax.

Property tax bills are issued in July/August of each year by the 24 counties (including Baltimore City) and the 155 incorporated municipalities (cities) in Maryland. Tax bills are rendered for the upcoming fiscal year and are effective as of July 1st.

REVENUE

The property tax is primarily a local government revenue. Counties and cities depend on the property tax and a portion of the income tax to make up their budgets. The property tax makes up about 30% of the average county budget and over 35% of the average city budget. State government is primarily funded by the income tax and the sales tax. Less than 10% of the property tax goes to the State.

II. THE PROPERTY TAX BILL: ASSESSMENTS AND TAX RATES

ASSESSMENT X RATE = BILL

The amount of the tax bill is determined by two factors: (1) the assessment; (2) the property tax rate. Assessments are based on the fair market value of the property and are issued by the Department of Assessments and Taxation, an agency of State government. Property tax rates are set by each unit of government - the State, counties, and cities.

ASSESSMENTS

Properties are reassessed once every three years and property owners are notified of any change in their assessment. Assessments are certified by the Department to local governments where they are converted into property tax bills by applying the appropriate property tax rates.

TAX RATES

Property tax rates vary widely - **current county and municipal tax rates**. No restrictions or limitations on property taxes are imposed by the State, enabling cities and counties to set tax rates at the level required to fund governmental services. These rates can increase, decrease, or remain the same from year to year. If the proposed tax rate increases the total property tax revenues, the governing body must advertise that fact and hold a public hearing on the new tax rate. This is called the Constant Yield Tax Rate process.

The overall tax rate is a combination of State, county, and in some cases municipal tax rates. Property tax rates are expressed as a dollar amount per $100 of assessment. For example, for a property with a fair market value of $100,000 the property taxes would be calculated by dividing the assessment by 100 and multiplying the product by the property tax rate. Using an overall tax rate of $1.08 per $100 for this example ($1.00 local property tax plus $.08 state property tax), the amount of property taxes due would be calculated: $100,000 divided by 100 times $1.08 or $1,080.00.

III. THE ASSESSMENT PROCESS

FAIR MARKET VALUE

Article 15 of the Declaration of Rights of Maryland's Constitution requires that all property be assessed and taxed uniformly. State law specifically requires that all taxable property shall be assessed based on its fair market value. The courts have also interpreted this requirement to mean that assessments must be based on the fair market value of the property.

APPROACHES TO VALUE

An assessment is based on an appraisal of the fair market value of the property. An appraisal is an estimate of value. Assessors are the appraisers who estimate the value of the property for tax purposes. Assessors are trained to use standard appraisal approaches and techniques to determine the appraisal estimate. There are three accepted approaches to market value: (1) the sales approach; (2) the cost approach; (3) the income approach. While differing in the method of calculation, each approach is designed to indicate the property's fair market value.

PHASE-IN

For any increase in the full cash value of a property, State law requires that the increase in value over the old appraisal is to be "phased-in" over the next three years. For example, a new appraisal of $130,000 is compared to an old appraisal of $100,000. In this example, the new appraisal is $30,000 higher than the old appraisal. The $30,000 is "phased-in" equally over the next three years: 1st year, $110,000; 2nd year, $120,000; 3rd year, $130,000.

IV. THE RESIDENTIAL APPRAISAL (ASSESSMENT)

THE ASSESSOR

In Maryland, there are over 2 million property accounts. The Department of Assessments and Taxation must appraise each of these properties once every three years. To accomplish this task, the Department employs trained appraisers, knowledgeable in all facets of real estate. Appraisers are trained and educated in proper appraisal approaches and techniques, and must be familiar with local property characteristics which affect value.

The two appraisal approaches used by assessors to estimate fair market value for residential properties are: (1) the sales approach; and (2) the cost approach. The income approach mentioned in the preceding section is appropriate to properties which produce an income stream from rent or lease agreements.

THE SALES APPROACH

The premise of the sales approach is that the fair market value of a given property (called the subject property) may be determined by examining the sale prices of comparable properties. If similar properties sold for approximately $100,000, it could be assumed that other comparable properties would sell in the $100,000 range. The key to the sales approach is comparability and the availability of sufficient data.

COST APPROACH

The premise of the cost approach is that the fair market value of a given property equals the total of the cost to construct a similar improvement, less any depreciation for age and condition, and the price of the land. For example, if the cost to construct an 1,800 square foot rancher is $70,000, the cost approach assumes that a prospective purchaser would not pay more than $70,000, plus the cost of the land, for a home which is already built. If the existing house were not new, it may sell for less than $70,000. In general, the older the house, the greater the loss in value due to depreciation. A house which is 10 years old will usually sell for less than a comparable house which was recently built.

Assessors in Maryland use a blend of both the sales and cost approaches to appraise residential property. The value of the land is based on the sales approach, using the sale prices of similarly located and zoned parcels. The value of the dwelling is estimated using the cost approach with adjustments made if sales of similar properties indicate that a particular style of house is actually worth more or less than its construction cost.

V. UNDERSTANDING YOUR APPRAISAL (ASSESSMENT)

ASSESSMENT NOTICE

The assessment notice issued by the Department of Assessments and Taxation informs the property owners of the relationship between the old and new market value. Of all the figures on the notice, the single most important figure is the total new fair market value. This is the new appraisal estimate of both land and buildings (improvements).

LAND VALUE

The location of the land is a major factor in determining its value. For example, land located near the water is generally more valuable than land located inland. Likewise, land located near an urban center is usually more valuable than land located miles away. Land sales are reviewed and analyzed by assessors in order to determine location factors. In the absence of sufficient land sale information, assessors estimate the value of the land using an allocation or percentage method. This method employs the valuation of the total property, using property sales of similar houses, and then separating land and improvement values based on a percentage of the total for each component.

VI. THE ASSESSMENT WORKSHEET

A property owner may obtain a copy of the worksheet for their property at any time from the **local assessment office**. The worksheet is the property record maintained by the assessment office. The worksheet contains information including a description of the property, as well as calculations made to reach the appraisal estimate.

LAND RATES

The worksheet indicates the manner in which the land value was calculated, specifying the size of the parcel and the rates used. Typically, the same rate is used for the minimum building lot size for similar lots. Rates may vary depending on size, location, and zoning. A lot which is larger than the minimum building lot size required by the zoning will be valued using two rates: one for the minimum area needed to build a house; the other for any land area in excess of what is needed to build. The first rate is known as the "primary" rate and produces the basic homesite value. The second rate, called the "excess land" rate or similar term, is typically lower than the "primary" rate. A review of the market indicates that excess land does not reflect as high a sale price as the land required by zoning to build a house.

IMPROVEMENTS

The worksheet includes details of the dwelling, including information on year built, condition, size, and additional items such as decks, bathrooms, fireplaces, or air conditioning. Entered on the worksheet are the basic rates per square foot or any flat charges used for each component of the building (improvement) and the depreciation applied to each. The "cost index," noted on the worksheet, is a multiplier used in cost manuals to update construction cost to a current time and location. Finally, there may be an adjustment made to the cost approach to reflect current market conditions. This adjustment is known as the "MVI" or market value index.

MARKET VALUE INDEX (MVI)

The "MVI" represents the blend between the sales and cost approaches noted previously. For example, assume that the cost approach indicates a value for a dwelling of $70,000. However, an analysis of sales in the area reveals that this particular type of home has been attractive in the real estate market in recent years and is actually selling for $77,000, plus the value of the land. An "MVI" of +10% would be used to adjust the cost to the market of $77,000. The "MVI" is expressed as a decimal ($70,000 x 1.10 = $77,000). The "MVI" is also used to reduce the cost estimate if an analysis of sales indicates that the market is less than the cost estimate. If the market analysis indicated that the dwelling was selling for approximately $63,000, an "MVI" of .90 would be needed ($70,000 x .90 = $63,000).

VII. APPEALING YOUR ASSESSMENT

APPEAL DEADLINE

Every property owner has the right to appeal the notice of assessment of his or her property within 45 days of the date of the notice. Regular reassessment notices are issued once every three years and usually mailed in late December. In addition to the regular reassessment notice, the law requires a notice be issued when the assessment on a property changes for the following reasons: a change in use or character of the property; substantial improvement to the property; or rezoning of the property.

FOCUS OF APPEAL

The reassessment notice contains an appeal form which must be completed and filed with the local assessment office within the 45 day time limit for appeal. When considering an appeal, the property owner should focus on one figure - the Total New Market Value.

FIRST STEP - SUPERVISOR'S LEVEL

The first step in the appeal process is known as the Supervisor's level of appeal and allows the property owner a time to discuss the appraised value with an assessor - either in person, in writing, or by telephone. If the property owner wishes to discuss the proposed assessment with an assessor, and indicates this on the appeal form, a date, time, and location (if applicable) for the hearing will be scheduled. To assist in an appeal, a property owner may obtain, free of charge, a copy of a brochure explaining the assessment appeal process, a copy of the worksheet for the subject property, and a copy of the sales analysis for the area in which the property is located. For a reasonable fee, the property owner may also obtain copies of the worksheets of comparable properties. These worksheets must be identified by the property owner.

The intent of the Supervisor's level appeal is the exchange of information. This is the opportunity for the property owner to discover as much as possible about the manner in which the appraisal was made. In addition, the owner should note any factors which may affect the value of the property under appeal. The issue of the appeal is the fair market value of the property. After all the information presented at the hearing has been reviewed, the property owner will be sent a "final notice." The "final notice" indicates the result of the Supervisor's level appeal.

SECOND STEP -- PROPERTY TAX ASSESSMENT APPEAL BOARD

The final notice includes a statement that the property owner has the right to appeal the assessment to the local Property Tax Assessment Appeal Board within 30 days of the date of the notice. Appeal Boards are located in each of the 24 jurisdictions. These boards are comprised of local residents of the jurisdiction who are recommended by the local government and appointed by the Governor. They are a separate and independent body from the Department. An appeal filed with the Property Tax Assessment Appeal Board (PTAAB) will result in a hearing before the Board. The property owner and an assessor will each be given an opportunity to present their arguments with regard to the fair market value of the property under appeal. The appeal is informal and the property owner is not required to be represented by an attorney. After the Board reviews the information presented at the hearing, a written notice of decision will be issued to both parties. An appeal to the Board can also be made in writing, eliminating the need for a hearing.

THIRD STEP -- MARYLAND TAX COURT

The decision of the Property Tax Assessment Appeal Board may be appealed by either party to the Maryland Tax Court. This appeal must be filed, in writing, within 30 days of the date of the decision by the PTAAB. The Maryland Tax Court (MTC) is an independent body appointed by the Governor. Although the proceedings of the MTC are more formal than a PTAAB hearing, it is still considered to be an informal, administrative hearing. No filing fee is involved and an attorney is not required. The property owner and an assessor are given the opportunity to present their arguments concerning the fair market value of the property. A decision is rendered to both parties in the appeal. This is the last administrative step in the appeal process. Any further appeal must be taken to the Circuit Court. An appeal to the Circuit Court is formal and the Court examines the record made at the Maryland Tax Court to determine if the MTC made an error as a matter of law.

VIII. PROPERTY OWNER'S BILL OF RIGHTS

Property owners have various rights available to them throughout the assessment and appeals process. The **Property Owner's Bill of Rights** summarizes many sections of the Tax-Property Article which deal with appeals, assessment notification, and public information. To receive a brochure which lists these rights, contact your **local assessment office** or access our web site at www.dat.state.md.us under Real Property.

IX. PROPERTY TAX RELIEF MEASURES

The Department of Assessments and Taxation administers a number of property tax relief programs which are specifically designed to provide needed relief to certain groups of property owners. Additional information about these programs may be obtained by calling the Department's Taxpayer Services Office at (410) 767-4433 (Baltimore area) or 1-800-944-7403 (toll free).

HOMEOWNERS' PROPERTY TAX CREDIT PROGRAM

The Homeowners' Property Tax Credit Program (Circuit Breaker) is the largest and most important program in that it provides annual property tax credits to 1 out of every 17 homeowners who qualify by reason of income. This State funded program provides over $49 million in needed relief to homeowners who meet the eligibility criteria, regardless of age.

These tax credits are not given automatically. The homeowner must reapply each year and provide information regarding the total gross household income for the previous calendar year. The filing deadline is September 1st.

The tax credit is determined according to the relationship between the homeowner's income and actual property tax that is levied against the property owner's principal residence. The tax credit does not cover the full amount of the property tax. Rather, credits are computed according to a sliding scale, with the result that the tax credit diminishes as the gross household income increases.

HOMESTEAD TAX CREDIT PROGRAM

Another tax relief program is the Homestead Tax Credit. First enacted in 1977, the program has since been amended so that homeowners may be eligible for a State tax credit if the assessment of their owner-occupied principal residence increased more than 10% over the prior year. State law requires that county and municipal governments set a Homestead Credit Percentage between 0% and 10% for purposes of local property taxation. Beginning in 2008, homeowners are required to submit a one-time tax credit application that is included in that year’s Assessment Notice sent to one-third of the property owners.

PROPERTY TAX DEFERRAL

This program allows property owners, age 65 or older, to elect to defer the increase in their property tax bill. Each local government must first adopt the program. The local government then has the authority under State law to impose income restrictions and interest rate amounts. The deferred taxes become a lien on the property and must be repaid when the property is transferred. Montgomery County makes this deferral program available to homeowners of all ages who meet certain residency and income requirements.

X. GLOSSARY OF TERMS

- Homeowners' Property Tax Credit Program: A property tax relief program that allows a property tax credit to households whose total gross income is below a standard set by the legislature.
- Homestead Tax Credit Program: A property tax relief program that provides a property tax credit for the principal residence of a property owner. Upon qualification, this credit is automatically applied to the tax bill when the assessment increases more than 10% over the prior year. Counties and municipalities have the option to set a limit lower than 10% for local tax purposes.
- Income Approach: One of the three generally accepted approaches to fair market value. It rests on the premise that a purchaser of a commercial property will pay no more than the property is worth as an investment and the seller will accept no less than it is worth as an investment. This approach is only used for commercial rental or leased properties.
- Land Rate: A dollar rate which, when multiplied by the area of a parcel of land, will produce a land value. Rates are derived from an analysis of comparable land sales.
- Market Value Index: The multiplier used to link the cost and sales approaches to value. It is applied to the value indicated by the cost approach to adjust for market conditions.
- Maryland Tax Court: The third level of appeal. The Court is an independent body appointed by the Governor. The Court reviews and decides property tax issues brought before it.
- Phase-In Value: The increase in assessment from one reassessment to another is spread (phased-in) over the three year period between reassessments equally.
- Property Tax Assessment Appeal Board: The second level of appeal. A Board consists of three members appointed by the Governor from a list supplied by the local government. The Board reviews information supplied by the property owner and an assessor and makes a determination of the assessment issue brought before it.
- Sales Analysis: A document which summarizes the comparable sales for a specific area or group of properties.
- Sales Approach: One of the three generally accepted approaches to fair market value. Sales data is reviewed and applied to properties to determine the fair market value. The premise of the sales approach is that a purchaser would pay no more for a property than the amount of money needed to purchase a comparable property.
- Triennial Assessment Cycle: The three year reassessment cycle. Approximately one-third of the properties are reassessed in each jurisdiction each year.
- Uniformity: Properties in Maryland are required to be assessed and taxed in a like manner. The courts have held that the standard for uniformity is fair market value.
- Worksheet: The property record card for each parcel of real estate. It contains information on ownership, legal description, land and building valuation, and sales data for that parcel.

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