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MARYLAND

Department of Assessments and Taxation



Real Property



A HOMEOWNER'S GUIDE TO PROPERTY TAXES AND ASSESSMENTS

I. THE PROPERTY TAX:

THE PROPERTY TAX 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. Upon qualification, properties that are owned and used by religious, charitable, or educational organizations; or property owned by federal, state, or local governments are exempt from property tax.

Property tax bills are issued in July/August of each year by Maryland's 23 counties and Baltimore City, as well as the 155 incorporated municipalities in Maryland. Tax bills are rendered for the upcoming fiscal year and are effective as of July 1st.

Contact your local jurisdiction's finance or treasurer's office for information related to the property tax billing and collection.

REVENUE

The property tax is primarily a local government revenue. Counties and municipalities depend on the property tax and a portion of the income tax to make up their budgets. State government is primarily funded by the income tax and the sales tax.

II. THE PROPERTY TAX BILL: ASSESSMENTS AND TAX RATES

ASSESSMENT multiplied by TAX RATES equals TAX BILL

The amount of the tax bill is determined by two factors: (1) the assessment and (2) the property tax rate for each jurisdiction (state, county, & municipal). 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 (state, counties, and municipalities).

ASSESSMENTS

Properties are reassessed once every three years and property owners are notified of any change in their assessment in late December. Counties contain 3 reassessment regions (cycles), which allows for approximately 1/3 of the property accounts to be reassessed each year.

Property assessment values are certified by the Department of Assessments and

TAX RATES

Property tax rates vary widely.. No restrictions or limitations on property taxes are imposed by the state, which gives cities and counties the discretion to set tax rates at the level they require 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 effective tax rate is a combination of state, county, and 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 effective 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 like this: \$100,000 divided by 100 times \$1.08, which equals \$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, and (3) the income approach. While differing in the method of calculation, each approach is designed to indicate the property's fair market value.

ASSESSMENT PHASE-IN

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

IV. THE RESIDENTIAL ASSESSMENT

THE ASSESSOR

In Maryland, there are over 2.3 million real 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 and trains assessors to inspect, analyze markets, and value real estate. Assessors 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

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, you can assume 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. However, when limited land sales data is available an allocation, or percentage, method may be used. The value of the dwelling is estimated using the cost approach applied with a neighborhood adjustment factor. The neighborhood adjustment factor is created by analyzing sales of similar modeled dwellings in similar market areas.

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). The new fair market value shown on the notice may be appealed. Appeal deadlines and instructions are provided with the notice.

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. Depending on the size and/or type of parcel, the land is reflected as square feet, acres, or number of building sites.

VI. THE ASSESSMENT WORKSHEET

A customer may obtain a copy of their property worksheet at any time from their [local assessment office](#). The property worksheet details the improvements and land maintained on the account by the assessment office. The property worksheet

LAND RATES

The property 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 at more than one rate. One rate will be for the minimum area needed to build a house and the other rate(s) will be for the land area in excess of what is needed to build. The first rate is known as the "primary" rate and produces the basic home site value. Additional rates for the "excess land" are typically lower than the "primary" rate and will sometimes reduce as the size of the parcel increases.

IMPROVEMENTS

The property worksheet includes administrative data and details of the dwelling; including information as to the year built, quality, condition, size, and additional items such as decks, bathrooms, fireplaces, or air conditioning. Listed on the property worksheet are the basic rates per square foot or any flat charges used for each component of the building (improvement). Multipliers, factors, depreciation, and other adjustments are also enumerated.

Common factors listed on the worksheet are described below:

The "County Multiplier" noted on the worksheet is a regional multiplier that is applied to the cost. This accounts for regional differences in cost and market throughout Maryland.

The "Quality Factor" noted on the worksheet **is an index applied based on the quality selection of the dwelling. The quality selections are based on a numerical scale of 1-9. The amount of customizations and features within a dwelling; the dwelling's design and architecture; and the construction materials and methods used in construction of the dwelling are a few of the considerations that aid in determination of the quality selection.**

The "Neighborhood Adjustment" noted on the worksheet (formerly known as Market Value Index or MVI) represents the blend between the sales and cost approaches noted previously. The "Neighborhood Adjustment" allows for market factors to be applied and influence the value of the dwelling. This adjustment factor provides for adjustments based on elements such as the market location of the dwelling within the jurisdiction, the demand for the model type of home, and the overall housing market.

A sales analysis of the neighborhood(s) and dwelling model(s) is completed at each reassessment cycle in order to determine the Neighborhood Adjustment.

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 model of dwelling has been attractive in the real estate market in recent years and is actually selling for \$77,000, plus the value of the land. A "Neighborhood Adjustment" of +10% would be used to adjust the cost to the market of \$77,000. The "Neighborhood Adjustment" is expressed as a decimal ($\$70,000 \times 1.10 = \$77,000$). The "Neighborhood Adjustment" 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 ($\$70,000 \times .90 = \$63,000$).

VII. APPEALING YOUR ASSESSMENT

(See also [Appeal process](#))

FOCUS OF APPEAL

whether to appeal an assessment, the focus should be on the total new fair market value and whether any errors have been made in the improvement characteristics on the property.

FIRST STEP - SUPERVISOR'S LEVEL

Every customer has the right to appeal the notice of assessment of their property within 45 days of the date of the notice.

The first step in the appeal process is known as the Supervisor's level of appeal and provides the customer a time to discuss the assessed value with an assessor - either in person, in writing, or by telephone. The local office will then notify the customer of the scheduled hearing date, time, and location (if applicable). To assist in an appeal, a complementary property worksheet and area sales listing is provided at no cost prior to the scheduled appeal date. For a reasonable fee, the customer may also obtain copies of the property worksheets for requested comparable properties. These property worksheets must be identified by the customer.

The intent of the Supervisor's level appeal is the exchange of information. This is the opportunity for the customer to discover as much as possible about the manner in which the appraisal was made. In addition, the customer 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 customer 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 customer 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 Appeals Board (PTAAB) will result in a hearing before the Board. The customer 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 customer 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 to attend the 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 and 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 customer 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

Customers 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

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) within Maryland.

[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 homeowners who qualify by reason of

income. This state-funded program provides over \$58 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. Tax credits are computed according to a sliding scale, which results in the tax credit diminishing as 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.

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

- **Land Rate:** A dollar rate that, 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 or an allocation method.
- **Neighborhood Adjustment:** 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.
- **County Multiplier:** The multiplier that is used specific for a region of the state in order to update its cost and market factors to current time.
- **Quality Factor:** The index **applied to the dwelling based on its quality of construction.**
- **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) equally over the three year period between reassessments.
- **Property Tax Assessment Appeals Board:** The second level of appeal. Each Board consists of three members appointed by the Governor and selected from a list compiled 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.
- **Property 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.
- **Area Sales Listing:** A document that summarizes the comparable sales for a specific area or group of properties that was used in the analysis of sales.
- **Sales Approach:** One of the three generally accepted approaches to determining 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.



Larry Hogan
Governor

Boyd K. Rutherford
Lt. Governor

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Customer Service Promise

The State of Maryland pledges to provide constituents, businesses, customers, and stakeholders with friendly and courteous, timely and responsive, accurate and consistent, accessible and convenient, and truthful and transparent services.

Help Stop Fraud in State Government

The Maryland General Assembly's Office of Legislative Audits operates a toll-free fraud hotline to receive allegations of fraud and/or abuse of State government resources. Information reported to the hotline in the past has helped to eliminate certain fraudulent activities and protect State resources.

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301 W. Preston St., Baltimore, MD 21201-2395