

Deadline Looming for Property Tax Appeals and Homestead Tax Credit Eligibility

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An important deadline is approaching for property owners in Maryland. December 31, 2012 represents the due date for filing an *optional* petition for review of commercial and residential property assessments. It is also the deadline for homeowners to file the *mandatory* application for homestead tax credit eligibility. Each of these topics is addressed in this article.

Petition for Review

Every three (3) years, each non-exempt commercial and residential property in Maryland is reassessed for tax purposes. The owners receive an assessment notice in the mail from the Maryland Department of Assessments and Taxation (SDAT) and have 45 days to challenge the assessment. If this 45-day deadline is missed or if new reasons arise during the three-year tax cycle to challenge the assessment, the property owner still has an opportunity to appeal the assessment for the remaining one or two years of the three-year tax cycle by filing a petition for review.¹

For commercial properties, a common reason for appealing the assessment might include recent tenant vacancies resulting in reduced net operating income to the owner. Similarly, a market recession or surplus of available rental properties could be driving down rental rates and,

¹ See Md. Code Ann., Tax-Property Article, Section 14-503.

hence, the value of the property. Or perhaps a portion of the property was damaged by fire or demolished as part of a redevelopment plan. Another basis could be a new purchase of property for a price that was less than the most recent assessment. For residential properties, housing values may have dropped during the course of the year as documented through comparable neighborhood sales. These are all reasons the value of the property may have decreased *after* the original assessment notice was issued at the beginning of the triennial cycle.

By filing a petition for review, the property owner is granted an opportunity to present evidence to the assessor supporting a mid-cycle assessment reduction. The objective of the presentation is to show that the fair market value of the property on the “date of finality” is less than the previously assessed value. The date of finality is January 1st of the year following the filing of the petition for review. For example, a petition for review filed on December 10, 2012, will establish a right to review the valuation of the subject property as of January 1, 2013.

If the petition for review is based on sales of comparable properties, the assessor will likely limit the comparables to sales occurring within the preceding 12 months only.² The assessor considers data older than 12 months to be unreliable for a current assessment valuation. If the petition is based on an income approach, the assessor will typically require three (3) years of income and expense data to be presented. This allows for a broader view of the property’s income potential since one-year of data is often not sufficiently demonstrative.

Homestead Tax Credit

In addition to filing the optional petition for review by December 31, residential property owners have a mandatory filing obligation on the same date. Under a statute passed by the Maryland General Assembly in 2007, every homeowner in Maryland must file a one-time

² Although the assessor may invoke this limitation, the Tax Court generally will not.

Application for Homestead Tax Credit Eligibility with SDAT.³ Although over 850,000 homeowners have filed this application, apparently the majority of Marylanders have not.⁴ In fact, on September 14, 2012, SDAT issued a press release in an effort to spread the word about the obligation to file the application. The press release warned the public that homeowners must file the application by December 31, 2012 in order “to continue to be qualified for this property tax credit that limits the amount of assessment on which a homeowner actually pays taxes on his or her principal residence.”

The State’s purpose in requiring the application is to distinguish homes that are occupied as a primary residence from those that are not, such as investment properties and second homes. SDAT wants to ensure the latter owners are not receiving homestead tax benefits. The application requires the owners to answer several questions about the home, including whether the home is used as a principal residence and whether it is the location from which the owner files tax returns, received a driver’s license and is registered to vote. The owner must then sign the application under penalties of perjury.

Where the homestead tax credit legitimately applies, the property owner will benefit financially because the law limits the increase in taxable assessments each year to a fixed percentage. Each county or municipality must cap the increases to 10% or less on an annual basis. For example, if a home originally assessed at \$300,000 is reassessed at \$350,000, a 10% cap will result in a taxable assessment of only \$330,000 for the first year. The annual tax bill will show a tax on the \$350,000, but then SDAT applies a credit back to the owner that is deducted from the tax due.

³ The tax credit is codified in the Md. Code Ann., Tax-Property Article, Section 9-105.

⁴ To check if you have already filed the application, go to the SDAT website (www.dat.state.md.us) and enter your address in the “Real Property Data Search.” Look at the very bottom of your property page for an application submittal date.

For specific questions regarding these issues or other matters relating to property taxes in Maryland, please contact Michael G. Campbell, Esq. or James L. Thompson, Esq. at Miller, Miller & Canby, 200-B Monroe Street, Rockville, MD 20850; (301) 762-5212; www.millermillercanby.com
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