

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 1371
 Ways and Means

(Delegate M. Washington, *et al.*)

Budget and Taxation

Recordation Tax - Collection by State Department of Assessments and Taxation - Distribution

This bill alters the procedures for distributing specified recordation tax revenues by the State Department of Assessments and Taxation (SDAT) and the Comptroller so that the revenues will be distributed to the counties where the real property that is transferred is located rather than based on the previous year’s distributions. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund expenditures increase by \$284,800 in FY 2019. Future year expenditures reflect elimination of one-time cost, annualization, and inflation. Revenues are not affected.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	284,800	101,200	104,000	107,900	111,800
Net Effect	(\$284,800)	(\$101,200)	(\$104,000)	(\$107,900)	(\$111,800)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: The bill alters the manner in which specified recordation taxes are distributed but does not alter the amount of recordation taxes that are collected. Some counties may see an increase in revenues resulting from the new method for distribution, while other counties may see a reduction in revenues. However, the overall change is not expected to be significant. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: SDAT must remit specified recordation tax revenues to the Comptroller. From this revenue and after deducting for administrative cost, the Comptroller must distribute the remaining revenue to the county in which (1) any entity that is party to the articles of transfer, articles of merger, or articles of consolidation has a physical presence or (2) the real property that is directly or beneficially owned by a real property entity is located. If there is more than one county eligible to receive a distribution, the Comptroller must divide the revenue equally among the eligible counties. The Comptroller must distribute any revenue for which there is no county eligible to receive the distribution to a specified special fund.

Current Law: When real property is sold or transferred, the majority of these transactions occur with a deed being recorded by a clerk of the court or a county land records office in the county where the property is located. Payments are submitted for the State transfer tax and county transfer and recordation tax. When real property is transferred as a result of a merger or consolidation of business entities, payment of these taxes is made at SDAT headquarters in Baltimore.

SDAT remits the local transfer tax to each county finance office but remits the county recordation tax to the Comptroller. The Comptroller then remits those revenues to the counties based upon the information reported for total amount of recordation taxes collected, as provided by the clerk of the court or county finance office, as applicable.

For recordation taxes that are collected by the clerk of the court, the Administrative Office of the Court reports all transactions and amounts of tax collected to the Comptroller. County finance offices report this same information to the Comptroller. The Comptroller uses this information to calculate the percentage of recordation tax collections attributable to each county, which is then used by SDAT to allocate the percentage of recordation tax revenues that are to be distributed to each county from the recordation taxes that are collected by the department. The distribution of these revenues is then made by the Comptroller.

As noted, the clerks of the circuit court in several jurisdictions collect a number of different taxes and fees, including local recordation taxes. The Administrative Office of the Courts reports that the clerk of the circuit court collects local recordation taxes in the following 12 jurisdictions: Allegany, Calvert, Dorchester, Garrett, Harford, Kent, Queen Anne's, St. Mary's, Somerset, Washington, Wicomico, and Worcester. In the remaining jurisdictions, local finance offices are responsible for the collection of these taxes.

Background: SDAT advises that for fiscal years 2010 through 2015, some counties did not receive any recordation tax revenues from transactions that were filed at SDAT. It is

likely that when counties began collecting recordation and transfer taxes they were unaware of the various reporting requirements necessary to receive a distribution of the taxes collected by SDAT.

According to SDAT, in fiscal 2010, Anne Arundel and Howard counties received no revenues from these transactions; in fiscal 2011, Baltimore City and Anne Arundel, Baltimore, Cecil, Charles, and Montgomery counties received no revenues; in fiscal 2012, 2013, and 2014, Baltimore City and Anne Arundel, Caroline, Cecil, and Howard counties received no revenues; and in fiscal 2015, Baltimore City and Cecil and Howard counties received no revenues.

State Fiscal Effect: General fund expenditures for the Comptroller’s Office increase by \$284,800 in fiscal 2019 to comply with the requirements of the bill. The estimate accounts for a 90-day start-up delay based on the bill’s July 1, 2018 effective date and reflects the cost for computer system upgrades and hiring two revenue examiners for accounting and processing duties in the Comptroller’s Office. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2
Salaries and Fringe Benefits	\$74,100
Computer System Upgrades	200,000
Operating Expenses	<u>10,718</u>
Total FY 2019 State Expenditures	\$284,818

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Local Fiscal Effect: The bill alters the manner in which specified recordation taxes are distributed but does not alter the amount of recordation taxes that are collected. Some counties may see an increase in revenues resulting from the new method for distribution, while other counties may see a reduction in revenues. However, the overall change is not expected to be significant.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Counties; Comptroller’s Office; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History:
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