MDCEP
MARYLAND CENTER ON ECONOMIC POLICY
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Maryland Communities Need Stronger Housing Investments; Tax Reform Would Make it Possible

Position Statement in Support of House Bill 211

Given before the House Ways and Means Committee

Housing is among the most essential building blocks for individuals, families, and communities. But today, one in three Maryland households spends more on housing than they can afford, including nearly half of renters. Maryland's public investments in rental housing are essential to strengthen the supply of affordable housing, but we are not doing enough to meet communities' needs. **The Maryland Center on Economic Policy supports House Bill 211** because it would enable greater investments in affordable housing, paid for with improvements to our tax code.

There is a housing affordability crisis in Maryland. Nearly one-third of all Maryland households are experiencing unaffordable housing costs, according to research by the National Center for Smart Growth and Enterprise Community Partners.[i] Of these, 67% are homeowners while 33% are renters. Among renters, 48% of households are cost burdened, and among low-income households, 76% are severely cost-burdened. The National Low Income Housing Coalition lists Maryland as the ninth least affordable state for renters. To afford a modest two-bedroom apartment in the state, a family must earn $28.93 an hour or $60,183 annually.[ii] A minimum wage worker in Maryland would have to work 78 hours per week year-round.

When families struggle to pay rent, they face greater risks of instability, eviction, and even homelessness, which research links to food insecurity, poor health, lower cognitive scores and academic achievement, and more frequent foster care placement among children. Unaffordable and unstable housing also perpetuates racial, economic and health disparities in our state. Black Marylanders are more likely to face unaffordable housing costs than their white neighbors. Black Marylanders are also considerably more likely to rent their homes than their white counterparts.[iii]

House Bill 211 would make progress on Marylanders' housing needs by requiring a $20 million annual appropriation to the state's Rental Housing Fund. This fund supports the creation of new affordable rental housing and rehabilitation and improvement of existing housing through low-interest loans. The program prioritizes projects that create deeply affordable homes within reach of low-income families, housing that is guaranteed to remain affordable for several decades, and projects in locations with good amenities, among other criteria. House Bill 211 would strengthen the state's ability to invest in healthy, safe, and affordable housing across Maryland.

House Bill 211 pays for these investments with several reforms to ensure we are taxing real estate fairly:

- The bill decouples Maryland from a giveaway in former President Trump's signature 2017 tax law, which became part of our tax code without any say by Maryland lawmakers. So-called "opportunity zones" offer lucrative tax breaks on capital gains for investors that develop properties in specified areas. While the program ostensibly aims to promote economic opportunity in struggling communities, its structure virtually guarantees that it will primarily benefit wealthy investors and do little to help the communities our economy leaves behind. As of tax year 2020, 70% of household capital gains income in Maryland went to the 1.1% of households with $500,000 or more in federal adjusted gross income.[iv] The House of Delegates passed legislation to decouple Maryland from this tax break in 2021.

- The bill reduces the transfer tax subsidy for first-time homebuyers whose first home purchase is a mansion. For the first $1 million paid for a home, the transfer tax rate would remain 0.25%, half the rate for other real estate transactions. The bill increases the rate from 0.25% to 0.50% only on the excess of the price over $1 million.

- The bill disallows the tax deduction for mortgage interest only for second homes (non-principal residences) located outside Maryland.

Impact of HB 211 Transfer Tax Reform		
Price	**Transfer Tax Change**	**Effective Tax Rate Change**
$500,000	$0	N/A
$1 million	$0	N/A
$1.25 million	$625	+0.050%
$1.5 million	$1,250	+0.083%
$2 million	$2,500	+0.125%

Using fair tax reforms to ensure everyone has a decent place to live would pay major dividends for all Marylanders. Well-located affordable housing can connect families to communities with good-paying jobs, good public schools, and transit – increasing family incomes and providing long-term benefits for children who grow up with greater economic stability.[v] High-quality, well-located affordable housing is a key step to address the ongoing harm from Maryland's history of housing segregation.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on House Bill 211.

Equity Impact Analysis: House Bill 211

Bill summary

House Bill 211 mandates an annual appropriation of $20 million to the state's Rental Housing Fund. The bill also includes three tax reforms relating to real estate:

- The bill decouples Maryland from "opportunity zones" capital gains tax breaks under the 2017 federal tax overhaul.

- The bill increases from 0.25% to 0.50% the transfer tax rate on the consideration in excess of $1 million paid by a first-time homebuyer. This equals the transfer tax rate on the full taxable consideration of all other real estate transactions.

- The bill disallows the mortgage interest tax deduction for homes other than principal residences that are located outside Maryland.

Background

The Rental Housing Fund is a special fund of the state whose purpose is to support the state's Rental Housing Program. The program supports the rehabilitation and creation of affordable rental housing for low income and moderate income families, primarily through lending.

- Nearly one-third of all Maryland households are experiencing unaffordable housing costs, including nearly half of renters, according to research by the National Center for Smart Growth and Enterprise Community Partners.[vi]

- The National Low Income Housing Coalition lists Maryland as the ninth least affordable state for renters. To afford a modest two-bedroom apartment in the state, a family must earn $28.93 an hour or $60,183 annually.[vii] A minimum wage worker in Maryland would have to work 78 hours per week year-round.

The Opportunity Zones program was created by the 2017 federal tax overhaul. The program offers several capital gains tax breaks with the stated goal of promoting investment in struggling communities. Because of the ways Maryland's tax code borrows definitions from federal law, Opportunity Zones tax breaks automatically became part of Maryland law without any action by the General Assembly. The House of Delegates in 2021 passed legislation to decouple the state from these tax breaks.

Equity Implications

Maryland's current high housing costs pose significant equity concerns, which would be mitigated by greater public investments in affordable rental housing:

- Three-quarters of low-income households in Maryland face a severe housing cost burden, according to research by the National Center for Smart Growth and Enterprise Community Partners, meaning that more than half their income goes toward housing.

- Black Marylanders are more likely to face unaffordable housing costs than their white neighbors. Black Marylanders are also considerably more likely to rent their homes than their white counterparts.[viii]

- When families struggle to pay rent, they face greater risks of instability, eviction, and even homelessness, which research links to food insecurity, poor health, lower cognitive scores and academic achievement, and more frequent foster care placement among children.

Several provisions of Maryland's tax code reinforce inequity or leave achievable improvements unrealized:

- The wealthiest 1% of Maryland households pay a smaller share of their income in state and local taxes than any other income group.[ix] The Opportunity Zones tax break worsens this imbalance by targeting capital gains. Only 1.1% of Maryland households have federal adjusted gross income of at least $500,000, yet these households accounted for 70% of all capital gains income in tax year 2020.[x]

- While well-designed policies to support homeownership can advance equity, untargeted subsidies like the mortgage interest tax deduction reinforce inequity because they provide little benefit to lower-income households that typically claim the standard deduction and leave out renters altogether, who are more likely than homeowners to be Marylanders of color. This is doubly true when households claim the deduction for homes they do not use as their principal residence.

- Tax breaks that favor accumulated wealth such as high-end real estate and financial assets worsen racial inequity because of structural barriers in our economy last have long held back Black Marylanders and other Marylanders of color from building familial wealth. Nationwide, the wealthiest 10% of white households (about 6% of all households) control nearly two-thirds of all household wealth.[xi]

Impact

House Bill 211 would likely **improve racial and economic equity** in Maryland.

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i Nick Finio, Jinyhup Kim, Andrew McMillan, Melissa Bondi, Amy Brisson, Amanda Davis, Mikaela Fenton, David Huaman, Anne Jordan, Chris Kizzie, Radhika Mohan, Claire Morehouse, Tania O'Connor, Eva Phillips, Erika Rivera, Laura Searfoss, Jerah Smith, Sam Speicher, Girma Syoume, Orlando Velez, Michael Spotts, and Margaret Curran, "Maryland Housing Needs Assessment and 10-Year Strategic Plan," National Center for Smart Growth, 2020, https://dhcd.maryland.gov/Documents/Other%20Publications/Report.pdf

ii "2022 Maryland Housing Profile," National Low Income Housing Coalition, 2022, https://nlihc.org/sites/default/files/SHP_MD.pdf

iii Finio, et al., 2020.

iv MDCEP analysis of IRS Historic Table 2, TY 2020.

v "Opportunities to End Homelessness and Housing Poverty in the 116th Congress," National Low-Income Housing Coalition, 2019, https://nlihc.org/sites/default/files/NLIHC_New-Congress-Memo_2019.pdf

vi Finio, et al., 2020.

vii "2022 Maryland Housing Profile," 2022.

viii Finio, et al., 2020.

ix Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, and Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Institute on Taxation and Economic Policy, 2018, https://itep.org/wp-content/uploads/whopays-ITEP-2018.pdf

x MDCEP analysis of IRS Historic Table 2, TY 2020.

xi Michael Leachman, Michael Mitchell, Nicholas Johnson, and Erica Williams, "Advancing Racial Equity with State Tax Policy," Center on Budget and Policy Priorities, 2018, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy