

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 638 (Delegate Ruth)
 Ways and Means

State Transfer Tax – Rates and Distribution of Revenue – Alterations

This bill alters the State transfer tax rate for specified residential and nonresidential transactions. The bill requires 33% of specified State transfer tax revenue to be distributed to the general fund. **The bill takes effect July 1, 2024, and applies to instruments of writing recorded on or after July 1, 2024.**

Fiscal Summary

State Effect: General fund revenues increase by approximately \$104.8 million in FY 2025 and by approximately \$159.0 million in FY 2029. Special fund revenues decrease by approximately \$13.4 million in FY 2025 and by approximately \$23.3 million in FY 2029. Special fund expenditures decrease by commensurate amounts. General fund expenditures for computer programming changes increase by \$4,600 in FY 2025.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	\$104.8	\$116.4	\$129.8	\$145.3	\$159.0
SF Revenue	(\$13.4)	(\$16.6)	(\$19.0)	(\$21.3)	(\$23.3)
GF Expenditure	\$0.0	\$0	\$0	\$0	\$0
SF Expenditure	(\$13.4)	(\$16.6)	(\$19.0)	(\$21.3)	(\$23.3)
Net Effect	\$104.8	\$116.4	\$129.8	\$145.3	\$159.0

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

Local Effect: State funding for local land preservation programs decrease beginning in FY 2025. Local expenditures for these programs decrease by a commensurate amount.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill establishes the following State transfer tax rates for residential property transactions:

<u>Value of Consideration</u>	<u>Transfer Tax Rate</u>
Less Than \$300,000	0.25%
\$300,000-\$399,999	0.375%
\$400,000-\$499,999	0.5%
\$500,000-\$699,999	0.75%
\$700,000-\$999,999	1.0%
\$1,000,000-\$2,999,999	1.25%
\$3,000,000 and Over	1.5%

The bill establishes the following State transfer tax rates for nonresidential property transactions:

<u>Value of Consideration</u>	<u>Transfer Tax Rate</u>
Less Than \$5,000,000	0.5%
\$5,000,000-\$9,999,999	0.75%
\$10,000,000-\$19,999,999	1.0%
\$20,000,000-\$39,999,999	1.25%
\$40,000,000 and Over	1.5%

Current Law: Any person or business conveying title to real property by means of an instrument of writing recorded with the clerk of a circuit court (for any county) or filed with the State Department of Assessments and Taxation is required to pay the transfer tax. The tax base is the amount of consideration payable for the instrument of writing. The consideration includes the amount of any mortgage or deed of trust assumed by the grantee. The State transfer tax rate is 0.5% of the consideration payable for an instrument of writing. However, in the case of a first-time Maryland homebuyer purchasing a principal residence, the transfer tax rate is 0.25% (which is paid by the seller).

The statutory allocations of State transfer tax revenue allocations to the programs are as follows:

- 75.15% to Program Open Space (POS) within the Department of Natural Resources (DNR) for purposes under the program, including land acquisition;
- 1.0% to POS only for land acquisition;

- 17.05% to the Maryland Agricultural Land Preservation Fund within the Maryland Department of Agriculture;
- 5.0% to the Rural Legacy Program within DNR; and
- 1.8% to the Heritage Conservation Fund within DNR.

The POS allocations are subject to further allocation among the State and local components of the program and other purposes. The funds allocated to local governments assist the local governments in acquisition and development of land for recreation and open space purposes. Statute also authorizes a specified portion of the POS allocation to be transferred to the Maryland Heritage Areas Authority within the Maryland Department of Planning.

State Fiscal Effect: The bill establishes a graduated transfer tax rate structure, as described above, for residential and nonresidential real property transactions. The bill also requires 33% of total transfer tax revenues to be distributed to the general fund, after specified bond payments are made, beginning in fiscal 2025. As a result, general fund revenues increase by approximately \$104.8 million in fiscal 2025 and by approximately \$159.0 million in fiscal 2029 and special fund revenues decrease by approximately \$13.4 million in fiscal 2025 and by approximately \$23.3 million in fiscal 2029, as shown in **Exhibit 1**. Special fund expenditures for the various land preservation programs would decrease by commensurate amounts. The estimate is based on the following:

- there were 80,800 home sales in Maryland in 2022, which includes home sales with a mortgage (new and existing); however, any homes purchased outright without financing are not included;
- the estimate assumes that first time Maryland homebuyers make up 25% of home purchases of \$500,000 or less and then decrease as a percentage of total sales as home purchase prices increase;
- State transfer tax collections totaled \$227.0 million in fiscal 2023;
- transfer tax revenues increase according to the December 2023 revenue forecast; and
- transfer tax revenues from commercial sales are estimated to increase by a similar proportion as revenue from residential sales.

Exhibit 1
Impact of HB 638 on Transfer Tax Revenues
(\$ in Millions)

Fiscal Year	Current Estimate	New Revenue	Bond Payments	Net Revenue	General Fund	Special Fund	Special Fund Change
2025	\$233.1	\$91.4	(\$7.0)	\$317.5	\$104.8	\$212.7	(\$13.4)
2026	254.6	99.9	(1.7)	352.9	116.4	236.4	(16.6)
2027	282.4	110.8	0.0	393.2	129.8	263.4	(19.0)
2028	316.3	124.1	0.0	440.3	145.3	295.0	(21.3)
2029	346.0	135.7	0.0	481.7	159.0	322.8	(23.3)

Source: Department of Legislative Services

It should be noted that transfer tax revenues are volatile and can vary significantly from year to year. For example, fiscal 2023 transfer tax collections totaled \$227.0 million, while collections in fiscal 2022 totaled \$354.3 million.

Administrative Costs

The Administrative Office of the Courts advises that under the bill the agency will have to program and implement the revised calculations for the graduated State transfer tax and the modified distribution to the State Transfer Tax Fund and the general fund. It is estimated that these costs will total approximately \$4,600 in fiscal 2025.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Comptroller’s Office; Judiciary (Administrative Office of the Courts); Maryland Department of Agriculture; Department of Natural Resources; Department of Housing and Community Development; CoreLogic Marketrac; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - February 11, 2024
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