SB 224

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 224 (Senator Kelley, et al.)
Budget and Taxation

Closing Costs Reduction - Divorced or Widowed Individuals

This bill expands the definition of "first-time home buyer" to include divorced or widowed individuals who have not owned a home in Maryland for at least five years before settlement. These individuals would therefore receive an exemption for their half of the State transfer tax (0.25%). Counties are also authorized to provide an exemption from the recordation tax or county transfer tax for these individuals.

This bill is effective July 1, 1996.

Fiscal Summary

State Effect: Indeterminate special fund revenue losses in FY 1997. Expenditures are not affected.

Local Effect: Potential indeterminate revenue loss in FY 1997. Expenditures are not affected.

Fiscal Analysis

State Revenues: Special fund revenues will decline by an indeterminate amount in fiscal 1997. The number of divorced or widowed individuals who have not owned a home for five years who will purchase a home in Maryland in fiscal 1997 cannot be reliably determined at this time. For each individual qualifying for the State transfer tax exemption under this bill, transfer tax revenues will decline by approximately $300 (assuming an average settlement price of $120,000).

As a point of information, there were an average of 16,650 divorces a year in Maryland from 1989 to 1993, so 33,300 individuals in Maryland are divorced annually. In 1992, slightly over 2,000 individuals filed their individual income taxes as qualifying widow(er)s, although the actual number of widowed individuals would have been somewhat higher. The number of individuals potentially affected by this bill is about 37,500. Not all of these individuals will purchase a home in Maryland, some will have owned a home within the last five years, and some would qualify under current law as first-time home buyers. The remainder will cause a revenue loss. If 1% of the 37,500 individuals qualify for the exemption under this bill, special fund revenues will decline by approximately $112,500 (375 x 300). Any revenue loss will affect Program Open Space (POS), the Agricultural Land Preservation Fund, and the Heritage Conservation Fund. As half of POS revenue is appropriated to local governments, local government revenues and expenditures will decline accordingly.

Local Revenues: Should counties authorize the exemptions under this bill, local revenues will decline accordingly. The original first-time home buyer exemptions from local transfer and recordation taxes for 21,800 individuals were estimated to result in a revenue loss of $33.8 million in fiscal 1996, if all counties authorized the exemptions. If 1% of the 37,500 individuals qualify for these exemptions local revenues could decline by about $580,000. This estimate assumes the geographical distribution of home sales to divorced and widowed individuals is the same as home sales to first-time home buyers and all local jurisdictions authorize the exemptions.

Information Source(s): Department of Assessments and Taxation, Department of Fiscal Services

Fiscal Note History: First Reader - February 1, 1996
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