

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

FISCAL AND POLICY NOTE

House Bill 130 (Delegate Hixson, *et al.*)  
 Ways and Means

Recordation and County Transfer Taxes - Exemption for First-Time Home Buyers

This bill requires a county and Baltimore City to provide an exemption from recordation and transfer taxes imposed on instruments of writing for residentially improved owner-occupied real property purchased by a first-time Maryland home buyer. The buyer must provide a specified statement under oath stating that the grantee is a first-time Maryland home buyer.

The bill takes effect July 1, 2006.

Fiscal Summary

**State Effect:** General fund revenues would decrease by approximately 5% of the local decrease in recordation and transfer tax revenues. Based on the assumptions used below, State revenues could decrease by \$15.4 million beginning in FY 2007. No effect on expenditures.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$15,362,200)	(\$15,179,400)	(\$15,618,100)	(\$16,208,500)	(\$16,876,200)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$15,362,200)	(\$15,179,400)	(\$15,618,100)	(\$16,208,500)	(\$16,876,200)

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

**Local Effect:** Significant decrease in local recordation and transfer tax revenues. The amount of the decrease depends on the exemption provided by each county, the number of first-time home buyers, the tax rates, and the amount of the consideration for each transaction. Assuming 40% of residential home sales are to first-time Maryland home buyers, local government revenues could decrease by \$307.2 million beginning in FY 2007. No effect on expenditures. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

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## Analysis

**Current Law:** A county and Baltimore City are authorized to provide an exemption from recordation and transfer taxes for a residential property purchased by a first-time Maryland home buyer.

**Background:** Caroline and Washington counties provide for partial reductions from the county transfer tax for first-time home buyers. Caroline County exempts, for first-time home buyers, the first \$75,000 of the consideration in determining the amount of the tax. Other residentially-improved owner-occupied real property has \$25,000 of the consideration exempt. Washington County reduces the transfer tax rate from 0.5% to 0.25 % for first-time home buyers, specifically those who purchase a residence for under \$115,000. The transfer tax does not apply to the first \$50,000 of consideration. Currently, no county provides any exemption from the recordation tax for first-time home buyers.

**State Effect:** The Clerks of the Circuit Courts are entitled to keep 5% of all public money they receive, collect, and pay over. This revenue is deposited in the State's general fund. The clerks keep 5% of recordation tax collections in all counties except Anne Arundel (3%), Baltimore City (2.5%), Baltimore (3%), Charles (3%), Harford (3%), and Montgomery (3%). The clerks keep 5% of transfer tax collections except in St. Mary's and Washington counties; in these counties they keep no money when collecting both the recordation and transfer tax for a single instrument of writing. The proposed fiscal 2007 State budget includes \$52.8 million in general fund revenues collected by the clerks of the courts.

Due to the required exemption for first-time Maryland home buyers, general fund revenues would decrease by approximately 5% of the local recordation and transfer tax revenue decrease associated with the county exemptions. The actual amount of the general fund revenue decrease cannot be reliably estimated and depends on the number of qualified first-time home buyers each year and the exemption provided by each county. Based on the assumptions used below, State revenues could decrease by \$15.4 million beginning in fiscal 2007.

**Local Fiscal Effect:** Local recordation and transfer tax revenues would decrease by a significant amount annually, beginning in fiscal 2007. The amount of the decrease depends on the exemption provided by each county, the number of first-time home buyers in each county, the tax rates, and the amount of the consideration for each transaction.

**Exhibit 1** shows, *for illustrative purposes only*, the potential effect on fiscal 2005 tax collections of a 100% exemption from county recordation and transfer taxes granted to first-time home buyers in each county, assuming that 40% of residential home sales are to first-time Maryland home buyers.

Beginning in fiscal 2007, local government revenues could decrease by approximately \$307.2 million. This estimate is based on the following:

- 16.5% growth in transfer tax collections in fiscal 2006 and a 4.3% decline in fiscal 2007;
- 40% of residential home sales are to first-time Maryland home buyers;
- 100% of recordation and transfer taxes are exempt from taxation; and
- local recordation and transfer tax rates remain constant.

If local governments provide first-time home buyers with a partial exemption or if first-time home buyers comprise a lower share of residential home sales, the decrease in local government revenues could be lower than projected. Information on first-time home buyers was provided by the National Association of Realtors and the Maryland Association of Realtors.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** State Department of Assessments and Taxation, Judiciary (Administrative Office of the Courts), National Association of Realtors, Maryland Association of Realtors, Anne Arundel County, Garrett County, Montgomery County, Prince George's County, Department of Legislative Services

**Fiscal Note History:** First Reader - February 21, 2006  
mll/hlb

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**Exhibit 1**  
**Estimated Local Government Revenue Loss Based on Fiscal 2005 Tax Collections**

<b>County</b>	<b>Owner-Occupied Residential Sales</b>	<b>Estimated First-Time Home Buyers</b>	<b>FY 2006 Transfer Tax Rate</b>	<b>FY 2006 Recordation Tax Rate</b>	<b>Recordation and Transfer Tax Revenues</b>	<b>Estimated Decrease in Local Revenues</b>
Allegany	624	250	0.50%	\$3.00	\$1,330,000	(\$532,000)
Anne Arundel	10,648	4,259	1.00%	3.50	75,611,000	(30,244,400)
Baltimore City	6,130	2,452	1.50%	5.00	40,900,000	(16,360,000)
Baltimore	13,980	5,592	1.50%	2.50	68,850,000	(27,540,000)
Calvert	1,391	556	0.00%	5.00	7,300,000	(2,920,000)
Caroline	469	188	0.50%	5.00	1,872,000	(748,800)
Carroll	2,797	1,119	0.00%	5.00	20,000,000	(8,000,000)
Cecil	1,491	596	0.00%	4.10	6,000,000	(2,400,000)
Charles	3,164	1,266	0.00%	5.00	18,563,000	(7,425,200)
Dorchester	439	176	0.75%	5.00	3,260,119	(1,304,048)
Frederick	5,095	2,038	0.00%	5.00	11,607,145	(4,642,858)
Garrett	154	62	1.00%	3.50	5,150,000	(2,060,000)
Harford	5,109	2,044	1.00%	3.30	17,470,787	(6,988,315)
Howard	5,448	2,179	1.00%	2.50	49,694,034	(19,877,614)
Kent	188	75	0.50%	3.30	2,308,000	(923,200)
Montgomery	19,907	7,963	1.00%	3.45	213,150,000	(85,260,000)
Prince George's	15,578	6,231	1.40%	2.20	101,772,000	(40,708,800)
Queen Anne's	762	305	0.50%	3.30	3,916,833	(1,566,733)
St. Mary's	1,628	651	1.00%	4.00	11,300,000	(4,520,000)
Somerset	168	67	0.00%	3.30	590,000	(236,000)
Talbot	710	284	1.00%	3.30	6,600,000	(2,640,000)
Washington	2,181	872	0.50%	3.80	6,500,000	(2,600,000)
Wicomico	1,307	523	0.00%	3.50	3,300,000	(1,320,000)
Worcester	268	107	0.50%	3.30	12,000,000	(4,800,000)
<b>Total</b>	<b>99,636</b>	<b>39,854</b>			<b>\$689,044,918</b>	<b>(\$275,617,967)</b>