

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

FISCAL AND POLICY NOTE

House Bill 867 (Delegate Ross)  
 Ways and Means

Transfer Tax - Exemption for Former Rental Property

This bill establishes a State transfer tax exemption for property transfers of residential property that was held as rental property to an owner who will occupy the property as a principal residence. The bill also authorizes a county to provide the same exemption from the county transfer tax.

The bill takes effect July 1, 2006.

Fiscal Summary

**State Effect:** State transfer tax revenues could decrease by \$34.8 million in FY 2007 and by \$38.3 million in FY 2011. Future years reflect forecasted changes in transfer tax revenues. Expenditures would not be affected.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	(\$34.8)	(\$34.4)	(\$35.4)	(\$36.8)	(\$38.3)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$34.8)	(\$34.4)	(\$35.4)	(\$36.8)	(\$38.3)

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

**Local Effect:** Local transfer tax revenues could decrease by \$65.0 million in FY 2007 and by \$71.4 million in FY 2011, if each county that imposes a transfer tax grants the authorized exemption. Local expenditures would not be affected.

**Small Business Effect:** None.

## Analysis

**Current Law:** The State and 18 counties impose a transfer tax. The State transfer tax rate is 0.5% of the consideration payable for an instrument of writing conveying title to, or a leasehold interest in, real property (0.25% for first-time Maryland home buyers). In some jurisdictions a local property transfer tax may be imposed on instruments transferring title to real property. A distinction is made in the local codes between instruments transferring title such as a deed and certain leaseholds and instruments securing real property such as a mortgage. Except in Prince George's County, mortgages are not subject to the tax.

**Background:** The State transfer tax funds several programs in the Department of Natural Resources (DNR) and the Maryland Department of Agriculture. A portion of State transfer tax revenues (3%) is earmarked to defray administrative costs within DNR, the Department of General Services, and the Maryland Department of Planning. The remainder of the revenue is dedicated to various programs including Program Open Space (POS), the Maryland Agricultural Land Preservation Fund (MALPF), Rural Legacy, and the Heritage Conservation Fund. **Exhibit 1** shows the normal distribution of State transfer tax revenues after administrative costs are deducted.

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### Exhibit 1 Distribution of State Transfer Tax Revenues

POS	75.15%
POS Land Acquisition	1.00%
MALPF	17.05%
Rural Legacy	5.00%
Heritage Conservation Fund	<u>1.80%</u>
<b>Total</b>	<b>100.0%</b>

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Of the transfer tax revenues distributed to POS, \$3 million may be transferred by an appropriation in the State budget or by budget amendment to the Maryland Heritage Areas Authority Financing Fund within the Department of Housing and Community Development. Of the remaining funds, half is allocated for State acquisition and half is allocated to local governments for acquisition and development of land for recreation and open space purposes.

**State/Local Revenues:** State special fund revenues would decrease to the extent that properties are transferred from a rental property to an owner-occupied property. Based

on information provided by the State Department of Assessments and Taxation on the number of properties that transferred during fiscal 2005 designated as rental property and were purchased as a primary residence for the new owner, State transfer tax revenue would decrease by \$34.8 million in fiscal 2007 and by \$38.3 million in fiscal 2011. Out-year estimates are based on the Board of Revenue Estimates forecast of changes in transfer tax revenue. The actual decrease in transfer tax revenue depends on the numbers of properties transferred that are rental properties but are being purchased for primary residency and the amount of consideration paid for each property. The transfer tax revenue allowance in the proposed 2007 State budget is \$264.5 million.

In the same regard, if each county that imposes a transfer tax grants the authorized exemption, county transfer tax revenue would decrease by \$65.0 million in fiscal 2007 given the same assumptions as above. The estimate increases to \$71.4 million in fiscal 2011. County transfer tax revenue estimated for fiscal 2006 totals \$495 million.

**Exhibit 2** provides a summary of fiscal 2005 transactions eligible for the exemption by county and the resulting transfer tax revenue if each of the homes were sold for the median home price in the respective county.

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**Exhibit 2**  
**Transfer Tax Revenue for Prior Rental Property**  
**Based on Fiscal 2005 Transfers**

<u>County</u>	<u>Eligible Properties</u>	<u>Median Sale Price</u>	<u>State Transfer Tax</u>	<u>County Transfer Tax</u>
Allegany	167	\$76,750	\$64,086	\$64,086
Anne Arundel	1,949	289,900	2,825,076	5,650,151
Baltimore City	1,900	123,500	1,173,250	3,519,750
Baltimore	2,891	209,900	3,034,105	9,102,314
Calvert	352	288,900	508,464	0
Caroline	203	178,000	180,670	180,670
Carroll	665	295,000	980,875	0
Cecil	579	225,000	651,375	0
Charles	834	282,000	1,175,940	587,970
Dorchester	229	175,000	200,375	300,563
Frederick	1,216	282,000	1,714,560	0
Garrett	28	131,000	18,340	36,680

<u>County</u>	<u>Eligible Properties</u>	<u>Median Sale Price</u>	<u>State Transfer Tax</u>	<u>County Transfer Tax</u>
Harford	1,605	230,000	1,845,750	3,691,500
Howard	961	339,883	1,633,138	3,266,276
Kent	91	240,092	109,242	109,242
Montgomery	4,033	375,000	7,561,875	15,123,750
Prince George's	3,791	245,000	4,643,975	13,003,130
Queen Anne's	223	326,493	364,040	364,040
St. Mary's	458	250,000	572,500	1,145,000
Somerset	75	128,000	48,000	0
Talbot	374	298,400	558,008	1,116,016
Washington	725	205,000	743,125	743,125
Wicomico	439	172,000	377,540	0
Worcester	186	290,000	269,700	269,700
Statewide	<b>23,974</b>	<b>\$265,500</b>	<b>\$31,254,008</b>	<b>\$58,273,961</b>

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### Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** State Department of Assessments and Taxation, Montgomery County, Prince George's County, Caroline County, Calvert County, Howard County, Baltimore City, Department of Legislative Services

**Fiscal Note History:** First Reader - February 20, 2006  
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