

**Department of Legislative Services**  
Maryland General Assembly  
2006 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 1407  
Ways and Means

(Washington County Delegation)

Budget and Taxation

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**Washington County - Building Excise Tax**

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This bill provides that the building excise tax in Washington County, for nonresidential addition construction, does not apply to the first 50,000 square feet of nonresidential addition construction. The exemption may not apply more than once to the same building in any five-year period. The bill also adds certain reporting requirements pertaining to the exemptions.

The bill takes effect July 1, 2006.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Washington County building excise tax revenues from nonresidential construction could increase in future years by an indeterminate amount.

**Small Business Effect:** Minimal.

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**Analysis**

**Current Law:** County commissioners may impose different tax rates or waive the building excise tax for different types and uses of nonresidential buildings. Construction intended to be actively used for farm or agricultural purposes is exempt from the building excise tax. The county commissioners may provide for additional exemptions to the building excise tax.

According to the existing Washington County Building Excise Tax Ordinance, “the building excise tax shall be imposed on that portion of any nonresidential addition construction that exceeds the gross square footage of the nonresidential building prior to the commencement of construction for which a building permit has been issued”.

**Background:** Chapter 598 of 2005 increased the maximum building excise taxes that can be imposed in Washington County. The current building excise tax ordinance for Washington County became effective on July 12, 2005; it applies to all eligible construction in the county, including construction within the boundaries of a municipality. The excise tax is \$15,500 per unit for multi-family construction and \$13,000 per unit for single-family construction. In certain circumstances, the county has established a higher tax rate if an applicant applies for a building permit for more than 25 residential units for a single subdivision in one fiscal year.

Revenues obtained from residential buildings may only be used as follows: 70% for schools; 23% for roads; 2% for public libraries; and 5% for parks and recreational facilities, public safety, water and sewer infrastructure, and agricultural land preservation. Revenues for schools must be used to provide additional school capacity required to accommodate new construction or development. Revenues for public libraries, water and sewer infrastructure, and parks and recreation can only be used for capital costs of public works, improvements, and facilities.

For nonresidential construction, the building excise tax is set forth as shown in **Exhibit 1**. The tax must be paid by an applicant for a building permit before the issuance of the building permit. The county collected approximately \$3.5 million in building excise taxes in fiscal 2005. Most of this revenue came from residential construction.

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**Exhibit 1**  
**Building Excise Tax on Nonresidential Construction**  
**Per Square Foot**

	<u>Retail</u>	<u>Industrial</u>	<u>Warehouse</u>	<u>Office</u>	<u>Hotels</u>
< 25,000 sf	\$3.00	\$2.00	\$2.50	\$1.50	\$3.00
25,001 to 50,000 sf	4.00	1.50	2.00	1.50	3.00
50,001 to 100,000 sf	4.00	1.00	1.50	1.20	2.50
100,001 to 250,000 sf	4.00	0.60	1.10	1.00	2.50
250,001 to 500,000 sf	4.00	0.40	0.90	0.75	1.00
> 500,000 sf	3.50	0.20	0.70	0.50	1.00

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## *Impact Fees and Excise Taxes in Maryland*

Local governments in Maryland must obtain explicit authority from the General Assembly before imposing a development impact fee or excise tax. One exception to this restriction applies to code home rule counties, which have already received authority from the General Assembly to impose such charges. Fifteen counties currently impose either a development impact fee or excise tax which generated approximately \$101.4 million in revenues in fiscal 2005. The primary services funded by these charges include public school construction, transportation, parks and recreation, and water/sewer utilities. **Appendix 1** shows the counties that impose either a development impact fee or excise tax and the revenues generated by such charges. The rate per dwelling shown in the exhibit is for single-family detached dwellings, the rates may vary for other types of housing units.

**Local Fiscal Effect:** Washington County building excise tax revenues from nonresidential construction could increase in future years by an indeterminate amount. Under the current ordinance, a nonresidential building could double in size without being subject to the building excise tax. Furthermore, the current ordinance allows a nonresidential building to expand via phased construction without being subject to the tax. According to the Washington County Commissioners, the county could “only collect excise tax, for nonresidential structures, on new Greenfield construction.”

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Washington County, Maryland Department of Planning, Department of Labor, Licensing and Regulation, Department of Legislative Services

**Fiscal Note History:** First Reader - February 27, 2006  
ncs/hlb Revised - House Third Reader - March 29, 2006  
Revised - Enrolled Bill - May 8, 2006

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**Appendix 1**  
**Maryland Counties with Development Impact Fees and Excise Taxes**

<b>County</b>	<b>Legislative Reference</b>	<b>FY 2006 Rate Per Dwelling</b>	<b>FY 2005 Estimated Revenues</b>
Anne Arundel	Ch. 350 of 1986	\$4,617	\$10,508,900
Calvert	Ch. 232 of 2001	\$12,950	\$6,021,600
Caroline	Ch. 538 of 2004	\$4,486	\$398,300
Carroll	Ch. 108 of 1987	\$6,836	\$3,403,200
Charles	Ch. 586 of 2002	\$10,247	\$1,181,500
Dorchester	Ch. 401 of 2004	\$3,671	\$846,200
Frederick	Ch. 468 of 1990 Ch. 690 of 2001	\$10,487 \$0.10 - \$0.25/sq.ft	\$14,600,700
Harford	Ch. 389 of 2004	\$6,000	n/a
Howard	Ch. 285 of 1992 Ch. 420 of 2004	\$0.80/sq.ft. (Roads) \$1.03/sq.ft. (Schools)	\$12,807,800
Montgomery	Ch. 808 of 1963 Ch. 707 of 1990	\$8,000 (Schools) \$8,250 (Roads)	\$16,166,100
Prince George's	Ch. 597 of 1990 Ch. 431 of 2003 Ch. 594 of 2005	\$12,706	\$26,233,300
Queen Anne's	Ch. 410 of 1988	\$6,363	\$1,511,500
St. Mary's	Ch. 814 of 1974	\$4,500	\$3,417,900
Talbot	Ch. 48 of 2003	\$5,152	\$762,500
Washington	Ch. 598 of 2005	\$13,000	<u>\$3,546,200</u>
<b>Total</b>			<b>\$101,405,700</b>