

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 766
Ways and Means

(Delegate Chisholm, *et al.*)

State Transfer Tax - Exemption for Real Property Used as Principal Residence

This bill exempts an instrument of writing from the State transfer tax if (1) the consideration payable for the instrument is \$350,000 or less and (2) the instrument of writing transfers residential real property to an individual who will use the property as the individual's principal residence. **The bill takes effect July 1, 2023, and applies to instruments of writing recorded on or after July 1, 2023.**

Fiscal Summary

State Effect: Special fund revenues decrease by a significant amount beginning in FY 2024 as a result of the State transfer tax exemption. Under one set of assumptions, State revenues may decrease by approximately \$28.0 million annually. State expenditures are not directly affected. However, as a result of the transfer tax revenue decrease, less funding will be available for the programs within the Department of Natural Resources (DNR) and the Maryland Department of Agriculture (MDA).

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law:

Transfer Taxes and Allocation of Transfer Tax Revenue

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 (SDAT) 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 revenues and the estimated fiscal 2024 allocations to the programs are as follows:

- 75.15% to Program Open Space (POS) within DNR for purposes under the program, including land acquisition (\$300.3 million in fiscal 2024);
- 1.0% to POS only for land acquisition (\$4.0 million in fiscal 2024);
- 17.05% to the Maryland Agricultural Land Preservation Fund within MDA (\$68.1 million in fiscal 2024);
- 5.0% to the Rural Legacy Program within DNR (\$20.0 million in fiscal 2024); and
- 1.8% to the Heritage Conservation Fund within DNR (\$7.2 million in fiscal 2024).

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 provides a State transfer tax exemption for residential home purchases of \$350,000 or less that will be used as the purchaser's principal residence. As a result, special fund revenues decrease by a significant amount beginning in fiscal 2024. The actual amount of the decrease depends on the number of homebuyers who purchase homes as their principal residence that cost \$350,000 or less. Under one set of assumptions, State revenues may decrease by approximately \$28.0 million annually. This estimate is based on the following facts and assumptions.

- Data from SDAT indicates that there were 92,241 sales of owner-occupied residential properties in fiscal 2022. The statewide median residential sales price of these owner-occupied properties was \$399,000 in fiscal 2022. Median sales prices ranged from \$160,000 in Allegany County to \$565,000 in Montgomery County.
- Data from the Maryland Realtors Association indicates that there were approximately 100,000 closed home sales in Maryland in 2021 and 85,000 in 2022. Approximately 45% of these sales were for homes with a sale price of \$350,000 or less.
- Data from SDAT indicates that approximately 75% of residential properties are owner-occupied.

Additional Information

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

Designated Cross File: None.

Information Source(s): Judiciary (Administrative Office of the Courts); State Department of Assessments and Taxation; Maryland Realtors Association; Department of Legislative Services

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km/hlb

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