

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 342 (Delegate Ruth)
 Ways and Means

State Transfer Tax - Rates and Distribution of Revenue

This bill alters the State transfer tax by establishing a graduated tax rate structure for residential and nonresidential transactions. The bill also requires that 28% of State transfer tax revenue be distributed to the general fund after specified distributions. **The bill takes effect July 1, 2025, and applies to instruments of writing recorded on or after July 1, 2025.**

Fiscal Summary

State Effect: General fund revenues increase by \$65.2 million in FY 2026 and by \$109.7 million in FY 2030. Special fund revenues and expenditures increase by \$30.1 million in FY 2026 and by \$8.9 million in FY 2030. State expenditures for computer programming modifications increase by a minimal amount in FY 2026.

(\$ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF Revenue	\$65.2	\$92.6	\$100.1	\$104.7	\$109.7
SF Revenue	\$30.1	\$9.8	\$8.1	\$8.5	\$8.9
GF Expenditure	\$0.0	\$0	\$0	\$0	\$0
SF Expenditure	\$30.1	\$9.8	\$8.1	\$8.5	\$8.9
Net Effect	\$65.1	\$92.6	\$100.1	\$104.7	\$109.7

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

Local Effect: State funding for local land preservation programs increase beginning in FY 2026, with local expenditures increasing by a commensurate amount.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill establishes the following State transfer tax rates for residential property transactions:

<u>Value of Consideration</u>	<u>Transfer Tax Rate</u>
Less than \$300,000	0.25%
\$300,000-\$399,999	0.375%
\$400,000-\$499,999	0.5%
\$500,000-\$699,999	0.75%
\$700,000-\$999,999	1.0%
\$1,000,000-\$2,999,999	1.25%
\$3,000,000 and Over	1.5%

The bill establishes the following State transfer tax rates for nonresidential property transactions:

<u>Value of Consideration</u>	<u>Transfer Tax Rate</u>
Less than \$5,000,000	0.5%
\$5,000,000-\$9,999,999	0.75%
\$10,000,000-\$19,999,999	1.0%
\$20,000,000-\$39,999,999	1.25%
\$40,000,000 and Over	1.5%

Current Law: 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 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 revenue allocations to the programs are as follows:

- 75.15% to Program Open Space (POS) within the Department of Natural Resources (DNR) for purposes under the program, including land acquisition;
- 1.0% to POS only for land acquisition;

- 17.05% to the Maryland Agricultural Land Preservation Fund within the Maryland Department of Agriculture;
- 5.0% to the Rural Legacy Program within DNR; and
- 1.8% to the Heritage Conservation Fund within DNR.

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 establishes a graduated transfer tax rate structure, as described above, for residential and nonresidential real property transactions. The bill also requires, beginning in fiscal 2026, that 28% of transfer tax revenues be deposited to the general fund, after specified bond payments are made. However, if the remaining special fund revenues are less than the average amount deposited in the special fund for the immediately preceding five fiscal years, the amount of revenue directed to the general fund is reduced accordingly.

Based on the proposed transfer tax rate structure and the current revenue forecast, total State revenues from the transfer tax are projected to increase by \$95.3 million in fiscal 2026 and by \$118.6 million in fiscal 2030. Based on both the 28% revenue allocation to the general fund and the hold harmless provision for special funded programs, the actual distribution to the general fund will total \$65.2 million in fiscal 2026 and \$109.7 million in fiscal 2030. Special funded programs will receive an additional \$30.1 million in fiscal 2026 and \$8.9 million in fiscal 2030. The revenue increase for the various special funded programs will result in a commensurate increase in expenditures. **Exhibit 1** shows the projected revenue increase under the bill for both the general and special funds.

The revenue estimate is based on the following:

- an estimated 87,000 home sales in Maryland in fiscal 2024, which includes home sales with a mortgage (new and existing);
- first-time Maryland homebuyers make up 25% of home purchases of \$500,000 or less and then decrease as a percentage of total sales as home purchase prices increase;
- approximately 4,500 commercial real estate transactions in the period between November 1, 2022, and October 31, 2024;
- State transfer tax collections totaled \$198.7 million in fiscal 2024; and
- transfer tax revenues increase according to the December 2024 revenue forecast.

Exhibit 1
Impact of House Bill 342 on Transfer Tax Revenues
(\$ in Millions)

<u>Fiscal</u>	<u>Current Law</u>	<u>Proposal</u>	<u>Increased Revenues Under Legislation</u>		
			<u>Total Funds</u>	<u>General Funds</u>	<u>Special Funds</u>
2026	\$219.6	\$314.9	\$95.3	\$65.2	\$30.1
2027	236.0	338.5	102.4	92.6	9.8
2028	249.2	357.4	108.1	100.1	8.1
2029	260.7	373.8	113.1	104.7	8.5
2030	273.3	392.0	118.6	109.7	8.9

Source: Department of Legislative Services

It should be noted that transfer tax revenues are volatile and can vary significantly from year to year. **Exhibit 2** shows actual transfer tax collections for fiscal 2020 through 2024.

Exhibit 2
State Transfer Tax Revenues

<u>Fiscal Year</u>	<u>Revenue Collection</u>
2020	\$215,452,841
2021	269,339,777
2022	354,320,817
2023	226,960,934
2024	198,638,927

Source: Department of Legislative Services

Administrative Costs

The Administrative Office of the Courts advises that under the bill the agency will have to make programming changes to the Simpli File system to accommodate the revised calculations for the graduated State transfer tax structure and the modified distribution to the State Transfer Tax Fund and the general fund. It is estimated that these costs will total approximately \$14,000 in fiscal 2026.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 638 of 2024.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Judiciary (Administrative Office of the Courts); Maryland Department of Agriculture; Department of Budget and Management; Department of Natural Resources; State Department of Assessments and Taxation; Department of Legislative Services

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