

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 457
(Senator Rosapepe)
Budget and Taxation

Property Taxes - Authority of Counties to Establish Subclasses and Set Separate Rates for Land and Improvements to Land

This bill authorizes Baltimore City and county governments to establish, by law, separate subclasses of real property consisting of land and improvements to land and to set a separate real property tax rate for each. If Baltimore City or a county government establishes separate real property tax rates for land and improvements to land: (1) the tax rates for land and improvements to land do not have to be equal; and (2) each of the separate tax rates must apply uniformly throughout the taxing jurisdiction to all real property within the subclass to which the tax rate applies. **The bill takes effect June 1, 2026, and applies to taxable years beginning after June 30, 2027.**

Fiscal Summary

State Effect: Significant increase in expenditures at the State Department of Assessments and Taxation (SDAT) for computer system modifications, data storage, and personnel beginning in FY 2027. Under one set of assumptions, State expenditures increase by approximately \$39.1 million in FY 2027 and by \$8.1 million in FY 2031. Of this amount, general fund expenditures increase by approximately \$24.3 million in FY 2027 and by \$0.8 million in FY 2031. Special fund expenditures and special fund revenues (county reimbursements) increase by approximately \$14.8 million in FY 2027 and by \$7.3 million in FY 3031.

Local Effect: Local property tax revenues (Baltimore City and county governments) may be affected depending on the assessed value of land and improvements in each county and the real property tax rates that may be set by each jurisdiction for land and improvements. Local government expenditures may increase by a significant amount to reimburse SDAT for computer system modifications, data storage, and personnel costs beginning in FY 2027. Under one set of assumptions, county expenditures increase by \$14.8 million in FY 2027 and by \$7.3 million in FY 2031.

Small Business Effect: Potential meaningful. Small businesses may be affected depending on the real property tax rates that may be set by Baltimore City or county governments.

Analysis

Current Law: Local property tax rates are set annually by local governments and are applied to the county and municipal assessable bases. Generally, State law does not restrict the setting of property tax rates, enabling local governments to set rates at the level required to fund governmental services. Under the Maryland Constitution, the General Assembly retains the authority to set maximum limits on the rate of property taxes in municipalities (subject to approval at a local referendum) and in code home rule counties. However, the Department of Legislative Services is unaware of any instances in which this authority has ever been exercised. Furthermore, local government statutes may limit the tax rates that may be set.

The local property tax rate is established by each county, Baltimore City, or municipality expressed as an amount per \$100 of assessed value. The county property tax rate may be supplemented by special property tax levies for special districts. Thus, local governments have the final authority for determining how much property tax revenue is generated.

Property Classification for Assessment Purposes

Title 8 of the Tax Property Article establishes the methods of property valuation and assessments and lists those classifications of property created by the General Assembly. For assessment purposes, property is divided into two classes – real property and personal property. Real property is divided into 11 subclasses, and personal property is divided into 7 subclasses. The State only imposes a property tax on real property, whereas county governments impose separate tax rates for real and personal property. Several county governments do not impose a personal property tax on business property.

Prior to fiscal 2025, Baltimore City and county governments were not authorized to set separate property tax rates among different subclasses of property. However, Chapter 277 of 2024 authorized Baltimore City and county governments, beginning July 1, 2024, to establish, by law, a subclass of real property consisting of vacant lots or improved property cited as vacant and unfit for habitation or other authorized use on a housing or building violation notice. Baltimore City and county governments are authorized to set a special property tax rate for properties within this subclass. An annual reporting requirement was included for jurisdictions that enact a special property tax rate. In addition, Chapter 170 of 2025 authorizes Baltimore City to impose the city's regular property tax rate and a special tax rate for specified vacant property on real property that would otherwise be

exempt from taxation, if the real property is (1) a vacant lot or (2) improved property cited as vacant and unfit for habitation or other authorized use on a housing or building violation notice.

Unlike Baltimore City and county governments, municipalities have broader discretion to impose property tax rates on different classes of property. Municipalities may impose property taxes on those classes of property that it selects to be subject to the municipal property tax. In addition, municipalities retain the authority to classify property for local purposes and to impose different tax treatment on those classes. Furthermore, municipalities have the express power to exempt classes of property from taxation. Moreover, because municipalities may select the classes of property to be taxed and may set special rates for any class of property that is subject to the municipal property tax, municipalities retain the authority to levy different tax rates on selected classes of property.

Assessment of Real Property

Each year, SDAT is required to value one-third of all real property based on an inspection prior to the date of finality. Real property is valued and assessed once every three years. Prior to June 1, 2018, statute required that the assessments be based on a physical inspection; however, Chapter 651 of 2018 repealed the requirement that the department value all real property based on an exterior physical inspection of the real property. Instead, the department must value real property based on a review of each property in each three-year cycle. The review by the department must include a physical inspection of a property if (1) the value of improvements to the property is being initially established; (2) the value of substantially completed improvements is being established; (3) the property is the subject of a recent sale, and the inspection is deemed necessary by the department for purposes of market analysis; (4) the property owner requests a physical inspection as part of an active appeal; (5) the department is notified by a county finance officer that a substantially completed improvement has been made that adds at least \$1.0 million in value to the property; or (6) the department determines that a physical inspection is appropriate.

In any year of a three-year cycle, real property must be revalued if any of the following factors causes a change in the value of the real property: (1) the zoning classification is changed at the initiative of the owner or anyone having an interest in the property; (2) a change in use or character occurs; (3) substantially completed improvements are made that add at least \$100,000 in value to the property; (4) an error in calculation or measurement of the real property caused the value to be erroneous; (5) a residential use assessment is terminated; or (6) a subdivision occurs.

Any increase in full cash value (market value) is phased in equally over the next three years. All property is assessed at 100% of full cash value.

SDAT must prepare, install, and maintain a complete record of properties, with appropriate indexes and cross indexes, and a system of appraisal aids for each county that consist of (1) property location maps and (2) records of new construction, sales, building costs and private appraisals.

Background:

Land Value Taxation

Land value taxation is not widely used in the United States. However, several U.S. jurisdictions and some foreign countries do have experience with land value taxation. Land value taxation is currently used in 12 cities and towns in Pennsylvania. The largest of these is Allentown, which has a population of approximately 125,000. Other major cities in Pennsylvania that use land value taxation are Scranton (population 76,000) and Harrisburg (population 50,000). The other 9 cities or towns in Pennsylvania that use land value taxation all have populations of 22,000 or less, with most having populations of less than 10,000. All of these cities and towns tax land at a higher rate than structures, rather than exempting structures completely.

Four cities in Virginia are authorized by state statute to implement a land value tax, but none has enacted the tax at the local level. The Virginia cities authorized to implement a land value tax are Richmond (population 229,000), Roanoke (population 98,000), Fairfax (population 25,000), and Poquoson (population 13,000).

Connecticut authorized up to three municipalities to implement a land value tax on a pilot basis. Two municipalities submitted land value tax plans to the state, but neither city ultimately enacted the tax at the local level. The pilot program ended in 2020 without implementation of the tax.

Land value taxation has been proposed previously in Maryland. In 1994, legislation authorizing municipalities to implement land value taxation passed the General Assembly but was vetoed by Governor William D. Schaefer. A subsequent opinion by the Attorney General concluded that municipalities already have the power to implement land value taxation, but none have done so to date. Legislation related to land value taxation was also introduced in the 1996, 1997, 2004, and 2005 sessions of the General Assembly. All the bills received an unfavorable report by the committee of jurisdiction, except in 2004, when no action was taken.

The largest U.S. jurisdictions to have adopted the land value tax, the state of Hawaii and the city of Pittsburgh, subsequently repealed it. In addition, eight cities and towns in Pennsylvania that adopted land value taxation after it was first authorized by the state in 1913 later repealed it.

Potential Advantages of Land Value Taxation

The following are cited as potential advantages of land value taxation:

- *Increased Development:* Some studies suggest that land value taxation may increase construction of new buildings.
- *Fairness:* In theory, the land value tax is fairer than the traditional property tax. This is because only the value of the land is taxed, and land value is generated primarily by public investments in infrastructure and other services that are not due to the efforts of the property owner. Land value taxation therefore recaptures for public use some of the value of property that is created by the public. Improvements, on the other hand, which are constructed through investment by the property owner, are not taxed under a land value tax. The land value tax therefore rewards private property owners who invest in their properties, which is socially beneficial. Land value taxation promotes the productive use of land.
- *Economic Efficiency:* Because the supply of land is fixed, taxing land does not reduce the amount of land and alter economic behavior. This is different from most other taxes, such as those on income or sales, which tend to reduce the amount of whatever is taxed and affect economic decisions.
- *Promoting Smart Growth:* Because improvements are not taxed, land value taxation incentivizes construction of new buildings and dense development in urban centers. Land value taxation discourages holding on to vacant or underutilized land for purposes of speculation and not doing anything with it, which is a problem especially in some economically distressed areas. Increased development in urban areas reduces the demand for development in outlying areas and helps preserve open space.

Potential Disadvantages of Land Value Taxation

- *Winners and Losers:* Land value taxation will produce “winners” who will pay less taxes and “losers” who will pay more. Owners of property for which the land makes up a larger portion of total value will pay more under a land value tax. For example, owners of land intensive businesses such as auto dealers and surface parking lots and owners of modest homes on large lots would pay more. Owners of property with expensive improvements, such as high-rise buildings, would pay less. One study of a potential land value tax in three Virginia communities found that the tax burden on residential property would decrease and the tax burden on business would increase, but much depends on land use patterns and property characteristics in a particular community.
- *Volatility:* Land values rise and fall much faster than the value of improvements. This means that during a real estate boom, property owners’ tax bills will rise more

quickly if the tax is based primarily or exclusively on the value of the land. During a real estate downturn, government revenue would drop more dramatically under a land value tax, creating budget problems.

- *Difficulty Producing Accurate Separate Assessments for Land and Improvements:* Accurately determining separate values for land and improvements for individual properties is difficult. There is no one widely accepted method for doing this. In Maryland, SDAT is already required by law to separately assess land and improvements.
- *Overdevelopment and Gentrification:* Land value taxation encourages larger, newer, more expensive buildings. This could lead to displacement of people of limited income, elderly, and longtime residents who occupy older, less expensive housing. Land value taxation could encourage unwanted redevelopment of historic buildings and neighborhoods. In suburban and rural areas, land value taxation may lead to unwanted development of agricultural land or other open space.
- *Difficulty Maintaining Revenue Neutrality:* Maintaining revenue neutrality when adopting land value taxation requires a tax rate on land that is much higher than it is currently. According to SDAT, land typically makes up 20% to 40% of the total value of real property.

State Fiscal Effect: SDAT reports that while the department is currently required to value land and improvements separately, the department only reports one combined value to county governments for billing purposes. Because county governments are not authorized to set separate property tax rates for land and improvements, SDAT does not maintain and provide separate databases that can be used for property tax billing purposes. Except for specified vacant property, county governments are not authorized to set different property tax rates for different subclasses of real property. As a result, the bill could result in significant expenditure increases for the department so that counties can designate new subclasses of real property for land and improvements and potentially impose separate tax rates for each. Based on current projections, total State expenditures could increase by approximately \$39.1 million in fiscal 2027, as follows:

Positions	48.0
Salaries and Fringe Benefits	\$3,395,006
Computer Programming and Modification	35,256,268
Operating Expenses	<u>473,756</u>
Total FY 2027 State Expenditures	\$39,125,030

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Chapter 604 of 2025 increased the local cost share amount, from 50% to 90%, that Baltimore City and county governments are required to pay SDAT for costs associated
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with real property valuation, business personal property valuation, and information technology beginning in fiscal 2026. As a result, based on the above estimate, total State expenditures could increase by \$39.1 million in fiscal 2027 and by \$8.1 million in fiscal 2031. Of this amount, general fund expenditures (for non-county reimbursable costs) increase by approximately \$24.3 million in fiscal 2027 and by \$0.8 million in fiscal 2031. Special fund expenditures increase by approximately \$14.8 million in fiscal 2027 and by \$7.3 million in fiscal 2031. Special fund revenues (from county reimbursements) increase by a similar amount.

Computer-related expenditures discussed below are based on the costs associated with current SDAT computer hardware and software projects. The actual costs associated with the bill could vary accordingly.

Computer Modification Costs

The bill requires significant modifications to the department's computer systems to allow for dual rate taxation system for land and improvements. These costs include modifying the systems needed to convey tax information to counties, calculating property tax credits, and storing property data, which include the following:

- creating a three-year phase in for land and improvement that is separate from the current total phase in value;
- creating a separate land and improvement taxable portion for partially exempt property;
- calculating homestead property tax credits for land and improvements;
- updating reports so that tax base reports include land and improvement totals separately;
- altering the enterprise zone tax credit calculation program to separate land from improvements; and
- increasing the data storage system to account for a doubling of the annual file sizes.

In addition, altering Maryland's property taxation system to a dual tax rate system would also affect SDAT's real property division, including the need to hire additional assessors to assist in assessing real property and to handle appeals. If the department were to hire one additional residential assessor and one commercial assessor for each county assessment office, total expenditures could increase by approximately \$3.9 million annually beginning in fiscal 2027.

SDAT also reports that the department is in the process of converting its property assessment AAVS property assessment system to the MAAVS system, which is a computer assessed mass appraisal system specifically tailored to meet the requirements specified in

the Tax-Property Article, including: (1) property valuation; (2) property classifications; (3) property transfers; (4) various notices; (5) appeals; (6) valuation changes out of cycle; (7) exemptions; (8) agricultural use assessments; (9) agricultural transfer tax calculation; and (10) damaged property. The department reports that this conversion project is budgeted for \$10.0 million. It is assumed that the changes required under the bill could cost at least that much.

Tax Credit System Modification

The department's tax credit software will also require adjustments to incorporate multiple tax rates on the same property. The tax credit software that is currently managed by vendor Ernst and Young (EY) will have to be adjusted to calculate both the homestead and homeowners' property tax credits on properties with separate rates for the land and the improvements, whereas previously credits were only calculated on the total assessed value of the property. It is estimated that new software would have to store both tax rates for each property, calculate credits on the land and the improvements separately, and generate tax rolls based on these calculations. It is assumed that each jurisdiction's software that interacts with the SDAT systems will need to be upgraded as well. SDAT advises that the EY procurement has cost more than \$20 million over several fiscal years. It is assumed that the changes required by the bill could be about the same.

SDAT advises that the department could incur additional costs associated with the computer hardware and software changes including the following, which are based on existing projects:

- Program Manager contract - \$1,347,205
- Mainframe Developer contract - \$1,036,368
- Technical Writer contract - \$191,360
- Tax Administration Software (Manatron) - \$2,722,695

In addition, the department advises that current operations and maintenance costs are determined by hours dedicated to maintaining the software. However, it is unclear if doubling the size of the program would also double the number of hours billed for maintaining it. As a point of reference, SDAT is expected to pay \$7.2 million for maintenance and operations for their property tax credit system for fiscal 2026 and 2027.

Data Storage

Finally, SDAT advises that changing to a dual tax rate system for land and improvements will require increased data storage capabilities so that both land and improvement data can be stored separately. This will double the amount of storage capability needed by the

department. SDAT currently maintains 15 servers to store property tax files going back for five years. These files include tax rates, property values, other property information, homestead status, as well as other assessment information on millions of real property accounts in the State for multiple years. The department advises that if it is necessary to purchase an additional 15 servers to store additional property tax data, the cost will be approximately \$150,000, plus based on current costs, an additional \$3.0 million for maintenance costs.

Local Fiscal Effect: Local property tax revenues for Baltimore City and county governments may be affected depending on the assessed value of land and improvements as well as the real property tax rates that may be set by each jurisdiction for land and improvements, which cannot be determined at this time.

Based on the project's estimated cost increases at SDAT to allow for separate tax rates for land and improvements, county expenditures increase by \$14.8 million in fiscal 2027 and by \$7.3 million in fiscal 2031 to reimburse SDAT for the information technology and real property staffing costs needed to allow for new subclasses of real property and separate tax rates for land and improvements.

Additional Information

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

Designated Cross File: HB 78 (Delegate Stewart) - Ways and Means.

Information Source(s): Maryland Association of Counties; State Department of Assessments and Taxation; Department of Legislative Services

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