



January 22, 2021

The Honorable Guy Guzzone, Chair
 Senate Budget and Taxation Committee
 3 West Miller Senate Office Building
 Annapolis, MD 21401

Oppose: SB 133 - Local Tax Relief for Working Families Act

Dear Chair Guzzone and Committee Members:

The NAIOP Maryland Chapters represent more than 700 companies involved in all aspects of commercial, industrial, and mixed-use real estate. On behalf of our member companies, I am writing today in opposition to Senate Bill 133 which would increase the minimum and maximum local income tax rates and permit rates to be bracketed based on income.

Most real estate is owned and managed through partnerships and passthrough entities that would pay higher rates under the structure proposed in SB 133. The changes would exacerbate the already disproportionate share of local government services financed by commercial real estate taxes and fees.

Between 2010 and 2019, the commercial real estate tax base expanded by \$55 billion and comprised 25% of the state-wide tax base in 2019 up from 19% in 2010. The increase in commercial base offset steep declines in the residential and agricultural tax base and today commercial property owners are paying a larger percentage of the cost of local services than a decade ago.

2010-2019 The Commercial Real Property Tax Base Increased \$55B, Offsetting Declines in Other Classes

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10-19
<i>Residential</i>	598.7	577.4	530.0	501.0	489.6	502.2	531.1	536.7	554.2	571.1	-27.6
<i>Commercial</i>	135.4	140.0	145.9	143.5	160.9	169.0	169.0	177.1	185.2	190.8	55.4
<i>Agricultural</i>	13.6	13.5	12.7	12.1	11.8	11.9	12.0	12.2	12.3	12.4	-1.2

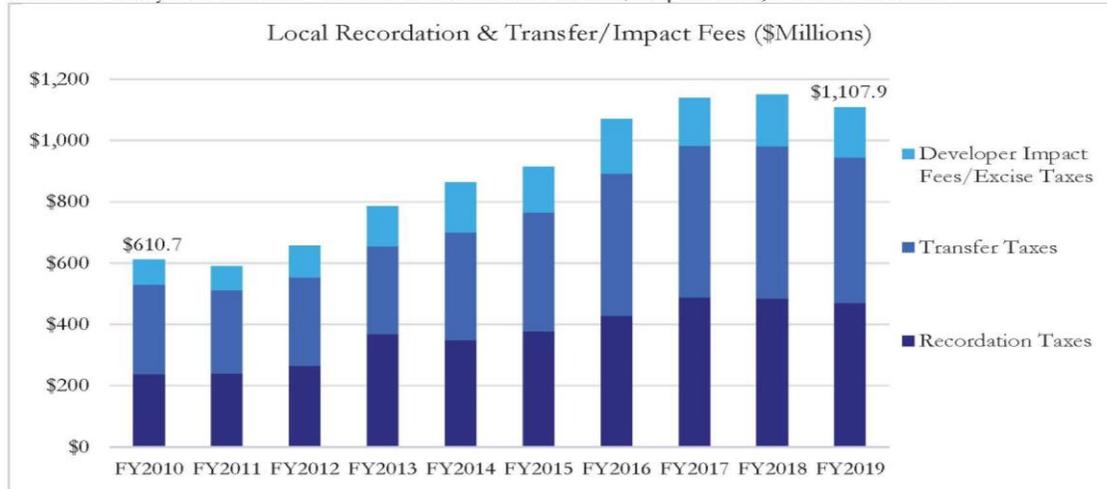
Values in Billions of Dollars, Source: SDAT Annual Reports

In 2018 the Tax Foundation reported Maryland was 5th in the nation in per capita collection of excise taxes. Commercial real estate companies pay these taxes and fees at disproportionately high rates compared to other industries and the general public.

According to a recent Sage Policy Group analysis, these taxes represent a growing percentage of general fund revenues, “FY2010, revenues from real estate-related taxes/fees such as recordation and transfer taxes, impact fees, and excise taxes represented about 5 percent of local governments’ total general fund revenues. That share reached 7.5 percent in FY2019. Real estate-related revenue has generally climbed faster than revenue from other sources.”

Some of this increase can be explained by higher transaction volume and valuations. But during this time local governments, reluctant to increase broader taxes, increased the recordation and transfer tax rates to fund public services including education. Another inflationary factor has been the influence of local governments converting to construction excise taxes. Unlike the development impact fees they replaced; the amount of an excise tax does not have to be closely related to the actual cost of providing public facilities.

Exhibit 4. Maryland Counties' Local Recordation & Transfer/Impact Fees, FY2010-FY2019



Source: Maryland Department of Legislative Services (DLS). "Overview of Maryland Local Governments, Finances and Demographic Information" reports.

After years of a tax code poorly aligned with economic activity, the cost of providing government services has increasingly been embedded in the land development entitlement process and in increased marginal costs for commercial real estate fees and taxes. This has hurt affordability in the multifamily sector increased debt in the commercial and industrial sectors and caused the state to fall short of its economic development potential.

Although NAIOP opposes the changes in SB 133 we do think the approach could be considered as part of a comprehensive review and reform of state and local tax structure that seeks to broaden the revenue base and rely less on real estate, transfer, recordation, and excise taxes.

For these reasons NAIOP respectfully recommends your unfavorable report on SB 133

Sincerely;

Tom Ballentine, Vice President for Policy
NAIOP Maryland Chapters -*The Association for Commercial Real Estate*

cc: Senate Budget and Tax Committee Members
Nick Manis – Manis, Canning Assoc.