RESIDENTIAL
TITLE & ESCROW COMPANY

Testimony for SB476

To:	Senate Budget & Taxation Committee
From:	Howard Perlow
Date:	February 22, 2023
Position:	Support for 2023 SB 476 Recordation Tax – Indemnity Mortgage Exemption Threshold Amount

Chairman Guzzone and Members of the Senate Budget and Taxation Committee:

My name is Howard Perlow and I am the Executive Vice President of Residential Title & Escrow Company located in Owings Mills, MD, and I thank you for the opportunity to provide this testimony in support of Senate Bill 476.

I have been in the Real Estate industry in Maryland for almost 45 years, specifically in the settlement and title business for that time. Prior to my entry in this industry 45 years ago banks, small businesses, small home builders and real estate developers were allowed to use a type of mortgage to borrow from Savings & Loan, Banks and Private Investors using a mortgage known as an Indemnity Mortgage and this type of mortgage was not taxable by the State of Maryland with a Mortgage Recordation Tax.

During the first special session of 2012 Governor O'Malley, looking for a mechanism to raise revenue to help fund $37million additional revenue for our State and County's Teacher Pension funds, removed this exemption except for projects up to $1million. In 2013 the Legislature agreed to allow Indemnity Mortgages up to $3million.

We are here today to ask the Legislature to consider increasing the cap on this type of mortgage to a maximum of $15million. Of fifty states in the Union only 7 charge a mortgage tax, and along the East Coast of America – Florida, Georgia, North Carolina, South Carolina, Delaware, Pennsylvania, New Jersey, West Virginia and Ohio charge no tax to record a Mortgage or Deed of Trust. Our neighboring State of Virginia has a very low mortgage tax of 1/10th of 1%.

When the last increase for the use of Indemnity Mortgage was passed in 2013, the amount of revenue that all of the counties in Maryland received from the recordation tax was approximately $237million in FY2012. In fiscal 2019 through 2021 the revenue generated from all counties in Maryland was between $520million and $637million.

Many of the opponents of this legislation have said for many years that this is a tax avoidance scheme, which is far from the truth. In reality, this is a tax credit to avoid paying a tax to borrow money from a lending institution to purchase a business, build an office or warehouse for conducting one's business, to build and renovate affordable housing throughout the State of Maryland, to pay for equipment to operate a car repair shop, a restaurant…all of this to stimulate economic growth in Maryland.

If such a mortgage is used to construct housing, or any commercial type of real estate, the builder has already provided the county where the property is located with: permit fees, impact fees, plan review fees, ordering permits...and the ultimate very substantial increase of the assessed value of the property, which of course provides the county substantial property tax revenue. All loans over $15million will still be taxed at the current recordation tax rate for that county, for the entire loan amount, which will continue to provide substantial tax revenue for any product over the $15million threshold.

Montgomery County, in their previous testimony, stated that they researched the year 2022 and approximately 60 transactions which took place would cost the county approximately $4million in revenue. I would suggest that one new project almost completed in Montgomery County, the Ritz Carlton and 2 adjacent apartment buildings, generated over $4.75million in county recordation tax and approximately $4million in new property tax revenue. This legislation would not impact those larger projects.

This increase that we request is based on increased costs to operate small businesses, build and renovate buildings to operate these businesses, construct new elderly and affordable housing for the residents of the State of Maryland. Recently, the Baltimore Sun wrote an article that explained the huge shortage of affordable decent housing in our state due to increasing costs to rent or buy a home.

I would therefore suggest that the increase we are requesting to the current law to $15million is a reasonable request after a 10-year growth in the revenue to allow for inflation and increased costs to the business community. We ask you for your support in approving this request.