

A Graduated Transfer Tax Would Increase Equity

Position Statement in Support of House Bill 638 with Amendment

Given before the Ways and Means Committee

An effective revenue system is an essential tool to enable Maryland to invest in the foundations of our economy, such as education, health care, and transportation. Collecting sufficient revenue is especially important as we work to rebuild hollowed-out state agencies and guarantee all students a world-class education. All Marylanders benefit when we have sufficient resources to invest in the basics, and these investments can be particularly important to break down the barriers—built through past and present policies—that hold back many Marylanders because of their race, gender, a disability, or another aspect of their identity. House Bill 638 would make Maryland’s state transfer tax more effective and more equitable by levying a higher rate on the largest real estate transactions, lowering the rate on smaller transactions, and using a portion of revenue to support the state’s general fund. However, applying a lower rate to transactions involving multifamily housing would help promote affordable, sustainable development. **For these reasons, the Maryland Center on Economic Policy supports House Bill 638 with amendment to apply a lower rate structure to transactions involving multifamily housing.**

Taxing built-up wealth is one of the most effective ways to advance racial equity through tax policy. Multiple intersecting areas of historical and continuing racist policy have made household wealth in the United States heavily lopsided. Analysis in recent years shows that the wealthiest 10 percent of white households nationwide (about 6 percent of all households) control nearly two-thirds of all built-up wealth.ⁱ Homeownership is a major source of generational wealth and one important contributor to the racial wealth gap. Levying a higher tax rate on sales of high-value homes and using the revenue to fund essential services would make Maryland’s economy more inclusive.

	% Homeowners	Average Home Value
White	74%	\$434,000
Black	48%	\$343,000
Latinx	53%	\$378,000
Asian	67%	\$528,000
American Indian/Alaska Native	48%	\$347,000
Multiracial	57%	\$439,000
All Others	62%	\$422,000

Source: MDCEP analysis of 2018–2022 IPUMS American Community Survey microdata.

However, applying the same tax rates to multifamily housing would be less beneficial, as a high-value multifamily property is may include a large number of modest, affordable units. As one possibility, lawmakers could amend House Bill 638 to maintain the 0.25% and 0.375% brackets on multifamily housing, but extend the 0.5% bracket to a consideration of less than \$1 million.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 638 with amendment.

Equity Impact Analysis: House Bill 638

Bill summary

House Bill 638 applies a graduated structure to the state transfer tax.

Background

Maryland currently applies a flat 0.5% transfer tax on all taxable sales.

Equity Implications

Applying a higher tax rate to high-value single-family housing would improve racial equity:

	% Homeowners	Average Home Value
White	74%	\$434,000
Black	48%	\$343,000
Latinx	53%	\$378,000
Asian	67%	\$528,000
American Indian/Alaska Native	48%	\$347,000
Multiracial	57%	\$439,000
All Others	62%	\$422,000

Source: MDCEP analysis of 2018–2022 IPUMS American Community Survey microdata.

Impact

If amended to apply a lower rate structure to multifamily housing, House Bill 638 would likely **improve racial and economic equity** in Maryland.

ⁱ Michael Leachman, Michael Mitchell, Nicholas Johnson, and Erica Williams, “Advancing Racial Equity with State Tax Policy,” Center on Budget and Policy Priorities, 2018, <https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy>