MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Greater Property Tax Flexibility Will Support Vital Transportation and Education Investments

Position Statement in Support of House Bill 23

Given before the Ways and Means Committee

All Marylanders depend on effective local revenue systems that can support bedrock investments such as education and transportation. **The Maryland Center on Economic Policy supports House Bill 23** because it would expand the range of options available to local policymakers to maintain effective and equitable revenue systems.

Because the state and local governments work together to provide many foundational services, local governments face many of the same costs that drive the state's mounting revenue needs. Counties' education and transportation costs in particular are expected to rise in coming years. Yet local jurisdictions have much less latitude to set fiscal policy that fits their individual context and needs. House Bill 23 would strengthen county governments' fiscal autonomy by authorizing them to levy a small special property tax rate on commercial and industrial properties for the purpose of funding public schools and transportation improvements.

Property taxes are county governments' single most important stream of own-source revenue, bringing in $9.7 billion in FY 2023.[i] However, as currently structured, property taxes are not as equitable as they could be. Because landlords are able to pass property taxes through to tenants in the form of higher rent, residential property taxes can place disproportionate tax responsibilities on families with low incomes.[ii] Levying a modest special rate on commercial and industrial properties would raise much-needed revenue and bring greater balance to the property tax.

House Bill 23 is an intentionally narrow bill:

- Special rates are capped at $0.125 per $100 assessed value (or 0.125%).
- Special rates may only be used to fund public schools or transportation improvements.
- Counties are required to exempt the residential portion of mixed-use properties from the special rate, with minimal administrative burden for mixed-use property owners.
- The bill does not require counties to take any action. Counties that wish to maintain the current system are free to do so.

House Bill 23 grants counties a narrower variant of the authority Maryland municipalities already enjoy. As the Department of Legislative Services noted in 2022:[iii]

> Unlike the State 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.

Today, seven municipalities in Prince George's County – home to 49,000 Marylanders – levy higher tax rates on commercial property. In four of these municipalities, the difference between the residential and commercial rate is wider than the maximum special rate allowed under House Bill 23.[iv]

Strong evidence tells us that raising sufficient revenue to support the services we all rely on is consistent with a vibrant economy. The bulk of empirical research finds little link between state tax policy and where people want to live.[v] This is consistent with common sense: For most of us, factors like good jobs, affordable housing, great schools, pleasant weather, and being close to relatives are far more important than tax rates.

As local governments across Maryland face rising costs, we should ensure that local policymakers have sufficient flexibility to raise the revenue needed to support high-quality services. House Bill 23 would strengthen local governments' ability to invest in essential services while making their property tax systems more equitable.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 23.

Equity Impact Analysis: House Bill 23

Bill summary

House Bill 23 would authorize the county governments to levy a special property tax rate on commercial and industrial properties. The rate may not exceed 0.125%. Revenue from the special rate may be used only to fund public schools or transportation improvements. Counties are required to exempt the residential portion of mixed-use properties from the special rate.

Background

- Maryland counties raised $9.7 billion from property taxes (real and personal) in FY 2023.
- Maryland municipalities currently have broad discretion to apply different tax rates to different classes of property. Seven municipalities in Prince George's County levy higher tax rates on commercial property than residential property, including four in which the difference in rates is wider than the maximum special rate allowed under House Bill 23.
- Chapter 277 of 2024 authorizes counties to levy a special tax rate on vacant and abandoned properties.

Equity Implications

House Bill 23 would bring significant equity benefits:

- Expanding local revenue policy options would strengthen local governments' ability to invest in world-class schools and reliable transportation infrastructure. Investing in these basics strengthens our economy and can dismantle the economic barriers that back Marylanders of color.
- Primarily due to residential property taxes, Maryland families with income below $30,000 currently pay a

larger share of their income in property taxes than any other income group. Meanwhile, the wealthiest 1% of households (with annual income over $700,000) pay a smaller share of their income in property taxes than any other income group.vi

Impact

House Bill 23 would likely **improve racial and economic equity** in Maryland.

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i Valerie Munroe and Trevor Owen, "Local Government Finances in Maryland: Fiscal Year Ending June 30, 2023," Department of Legislative Services, 2025, https://dls.maryland.gov/pubs/prod/InterGovMatters/LocFinTaxRte/Local_Government_Finances_FY_2023.pdf

ii "Maryland: Who Pays? 7th Edition," Institute on Taxation and Economic Policy, 2024, https://itep.org/whopays/maryland-who-pays-7th-edition/

iii Michael Sanelli, "Fiscal and Policy Note: HB 310 of 2022," Department of Legislative Services, 2022, https://mgaleg.maryland.gov/2022RS/fnotes/bil_0000/hb0310.pdf

iv "2024–2025 Tax Rates," State Department of Assessments and Taxation, 2024, https://dat.maryland.gov/Pages/Tax-Rates.aspx
Cottage City, North Brentwood, Upper Marlboro, and Forest Heights currently levy commercial property tax rates that exceed the residential rates by more than $0.125 per $100 assessed value. College Park, Colmar Manor, and Mount Rainier also levy a higher rate on commercial property than residential property.

v Michael Mazerov, "State Taxes Have a Negligible Impact on Americans' Interstate Moves," Center on Budget and Policy Priorities, 2023, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-have-a-minimal-impact-on-peoples-interstate-moves

vi "Maryland: Who Pays? 7th Edition," 2024