

Legislation: SB0457

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

Position: **Favorable**



Members of the Senate Budget and Taxation Committee,

As a group, BaltPOP wants local governments to have more tools at their disposal to achieve their goals. SB 0457 does exactly that for Baltimore City and Maryland's counties. BaltPOP strongly supports enabling jurisdictions to enact a land-value tax shift in order to discourage land speculation and encourage the productive use of land, which would be enabled by this bill.

The intent of this bill is simple - to **provide county-level jurisdictions increased policy flexibility by enabling the tax rate between land and improvements to be decoupled**. Jurisdictions could make local decisions about the best tax rates against the assessed value of land and property based on their local policy goals. It does not require any jurisdiction to change policy, it is enabling legislation.

For example, a jurisdiction may wish to spur development in areas with high infrastructure investment and maintenance by increasing the tax rate on land versus improvements. This is referred to as a "**land value tax shift**" and could be implemented in a revenue neutral manner to further policy goals. Increasing tax rates on land while decreasing tax rates on improvements **increases the carrying cost of vacant land while decreasing the "tax penalty" for current owners who improve their properties**. The owner of an underutilized property with very low carrying cost has no tangible incentive to improve or sell that property, so they figure they might as well hold onto it; just in case real estate values increase in the area. This amounts to a speculative profit from other private and public investment. Meanwhile, the city/county and surrounding community suffers.

The benefit of this change is overwhelmingly received by those who are invested and embedded in our community. Those who maintain homes and productive businesses win while land speculators and less productive businesses feel pressure to improve how efficiently they use their land.

A simplified example below illustrates how a split rate system could be constructed that would provide homeowners a tax benefit while shifting tax burden to those who benefit from public infrastructure (roads, schools, fire and emergency response) but currently provide less tax revenue to support infrastructure and services.



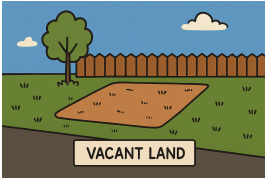
<p>Current Law for Counties & Baltimore City</p> <p>Total Revenue = \$3,800</p>	 <p>SINGLE-FAMILY HOME</p> <p>Residential Lot</p>	 <p>PARKING LOT</p> <p>Minimally Improved Commercial</p>	 <p>VACANT LAND</p> <p>Vacant Lot</p>
Improvement Value	\$70,000	\$30,000	\$0
Land Value	\$30,000	\$30,000	\$30,000
Assessed Value	\$100,000	\$60,000	\$30,000
Property Tax Due <ul style="list-style-type: none"> • 2% of Assessed Value 	\$2,000	\$1,200	\$600

Table 1 - A simple scenario with three types of property on substantially similar lots.

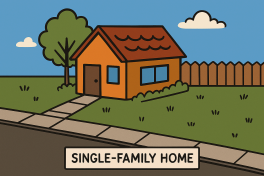

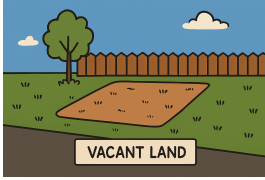
<p>Tax Revenue Neutral Split-Rate Scenario</p> <p>Total Revenue = \$3,800</p>	 <p>SINGLE-FAMILY HOME</p> <p>Residential Lot</p>	 <p>PARKING LOT</p> <p>Minimally Improved Commercial</p>	 <p>VACANT LAND</p> <p>Vacant Lot</p>
Improvement Value	\$70,000	\$30,000	\$0
Land Value	\$30,000	\$30,000	\$30,000
Total Assessed Value	\$100,000	\$60,000	\$30,000
Property Tax Due <ul style="list-style-type: none"> • 1% of Improvements, • 3.11% of Land 	\$1,633	\$1,233	\$933
Change from Baseline	-18%	3%	55%

Table 2 - Assuming the local jurisdiction implements a revenue neutral split rate property tax

This simplified scenario shows that a modest shift to tax rates between improvement value and land value can result in a tax reduction for homeowners, minimal change even to modestly improved lots, and a substantial increase in the carrying cost for an empty lot. If this policy has the desired effect, the owner of the vacant land will be spurred to either improve the land such

that it generates income to cover the tax increase or sell it to someone who will - resulting in "New Residential" in the table below.



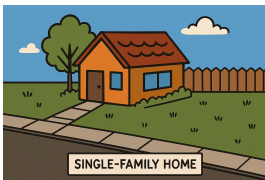
Split Rate Spurs Development on Underutilized Lots Total Revenue = \$4,500 (+18%)	 <p>SINGLE-FAMILY HOME</p> <p>Residential Lot</p>	 <p>PARKING LOT</p> <p>Minimally Improved Commercial</p>	 <p>SINGLE-FAMILY HOME</p> <p>New Residential</p>	
	Improvement Value	\$70,000	\$30,000	\$70,000
	Land Value	\$30,000	\$30,000	\$30,000
	Total Assessed Value	\$100,000	\$60,000	\$100,000
	Property Tax Due <ul style="list-style-type: none"> • 1% of Improvements • 3.11% of Land 	\$1,633	\$1,233	\$1,633

Table 3 - The resulting tax revenue if the vacant lot is development into a new home

With the Split Rate Taxation scenario above, we see the overall jurisdiction tax revenue has increased due to the development spurred on the vacant lot. Under the Split Rate Taxation, the owner of that lot sees an increased tax bill, but under our Split Rate example the increase is only \$700 (from \$933 to \$1,633) after constructing the improvements, rather than \$1,400 (from \$600 to \$2,000). This highlights another benefit of split rate taxation, the tax "penalty" for improvements/development is reduced.

Overall, Split Rate Taxation benefits existing homeowners through potential tax reduction on existing improvements while also reducing the need for tax incentives on new development. This stands in contrast to tax incentive programs to spur development, which often only benefit new development while leaving long-standing residents out in the cold.

This also benefits homeowners who might want to improve their property by building an addition or performing other renovations - who are currently discouraged from doing so by the prospect of a reassessment that will substantially increase their taxes.

We hope the committee finds these points helpful and convincing and we urge its members to **vote in favor of SB 0457**. Thank you for your efforts and the opportunity for us to testify on this legislation.