Property Tax Revenue Options

Task Force to Modernize County and Municipal Revenue Structures

DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Recordation and Transfer Taxes: Progressive Tax Rates

- The Attorney General has advised that under current law, counties have the authority to establish progressive recordation and transfer tax rates, with progressively higher rates applying to transactions involving greater amounts of consideration.

- Connecticut, Hawaii, New Jersey, New York, Rhode Island, Vermont, and Washington currently have progressive transfer taxes statewide.

- At least 17 localities nationwide have progressive transfer taxes, including San Francisco, New York, Los Angeles, and the District of Columbia.

- In Maryland, Anne Arundel County, Baltimore City, and Montgomery County have established progressive recordation or transfer tax rates.

Recordation and Transfer Taxes: Municipal Authority

- Municipalities currently do not have the authority to impose a recordation or transfer tax.

- Eight states, including neighboring Pennsylvania, Delaware, and Virginia, allow their municipalities to impose a local recordation or transfer tax.

- HB 1424 of 2008 would have authorized municipalities to impose a transfer tax up to 0.5%. This was estimated to generate $37.5 million in revenue if all municipalities imposed the maximum rate.

- In 2025, Maryland’s real estate closing costs were the fourth highest in the nation, with 58% of the costs attributable to recordation and transfer taxes, according to Lodestar Software Solutions, a provider of nationwide mortgage closing cost data. Maryland’s closing costs were more than twice the national average.

Recordation and Transfer Taxes: Indemnity Mortgage Exemption

- Indemnity mortgages and indemnity deeds of trust allow businesses to avoid payment of recordation tax when obtaining loans secured by real property.
- The General Assembly imposed the recordation tax on indemnity mortgages over $1 million in 2012, which was expected to raise $35.7 million for counties.
- The General Assembly subsequently increased the exemption threshold to $3 million in 2013 and to $12.5 million in 2023.
- In fiscal 2025, the indemnity mortgage exemption resulted in at least $18.9 million in revenue losses for county governments. In fiscal 2026, the revenue loss was at least $12.5 million.
- Proponents of the exemption argue that it helps small- and medium-sized businesses and makes housing more affordable.
- Opponents of the exemption say it rewards tax avoidance, favors large, sophisticated commercial entities over homeowners, and reduces county revenue.

Property Taxes:
Land Value Taxation

- Land value taxation involves imposing a higher property tax rate on land than on buildings, for the primary purpose of encouraging the development of land.
- Land value taxation is not widely used in the United States. It is currently used in 12 cities and towns in Pennsylvania.
- Proponents of land value taxation argue that it promotes redevelopment and smart growth, and rewards property owners who invest in their properties.
- Opponents of land value taxation argue that it may inequitably increase the tax burden on some property owners while decreasing the burden on others, that it may encourage overdevelopment and gentrification, and that producing accurate separate assessments for land and buildings is difficult.
- Implementing land value taxation in Maryland would require major expenditures at SDAT for computer system modifications, data storage, and personnel. These costs are estimated at $39.1 million in the first year, with $24.3 million being paid by the State and $14.8 million being paid by counties.

Property Taxes: Commercial Property Special Rate

- HB 23 of 2025 and HB 90/SB 224 of 2026 would have authorized counties to establish a special property tax rate for commercial property.
- The special rate would have been limited to 12.5 cents per $100 of assessed value.
- Counties would have been required to use the revenue from the special rate for transportation improvements or education.
- The special rate would not have applied to the residential portion of a mixed-use property.
- Counties would have been authorized to provide a credit against the special rate for small businesses.
- If all counties imposed the maximum 12.5 cent rate, it was estimated that county revenues would increase collectively by $223.6 million annually.
- Virginia used a special property tax on commercial property to help fund WMATA’s Silver Line.

Property Taxes: Tax Set-Offs

- Property tax set-offs are designed to prevent double taxation of municipal residents for the cost of providing similar services at the county and municipal level.
- A property tax set-off can take the form of a tax differential or a tax rebate.
- A tax differential is a lower county property tax rate that applies within a municipality.
- A tax rebate is a direct payment by a county to a municipality for providing services that are similar to services provided by the county.
- State law requires all county governing bodies to meet with the governing bodies of municipalities annually to discuss tax set-offs.
- In Allegany, Anne Arundel, Frederick, Garrett, Harford, Montgomery, and Prince George's counties, the county is required to provide a tax set-off. In the other counties, the county is authorized, but not required, to provide a set-off.

Property Taxes: Tax Set-Offs

- Except in Frederick County, the county determines the amount of the set-off and the method used to calculate the set-off.
- In Frederick County, the county and each municipality must agree on the formula used to calculate the set-off.
- Each county calculates the set-offs differently.
- 18 counties provided set-offs totaling $142.7 million in fiscal 2025.
- Kent, Wicomico, and Worcester counties did not provide any set-offs.
- The General Assembly could require all counties to provide set-offs.
- The General Assembly could also either: (1) require that counties and municipalities agree on the method for calculating the set-offs; or (2) mandate a method for calculating the set-offs in State law.