



Committee: GO
Committee Review: At a future date
Staff: Ludeen McCartney, Legislative Attorney
Purpose: To receive testimony – no vote expected
Keywords: #RecordationTax

AGENDA ITEM #13
April 11, 2023
Public Hearing

SUBJECT

Bill 17-23, Taxation – Recordation Tax Rates - Amendments

Lead Sponsor: Councilmember Mink
Co-sponsor: Councilmember Jawando

EXPECTED ATTENDEES

Members of the Public

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- N/A; to receive testimony

DESCRIPTION/ISSUE

Bill 17-23 would:

- (1) increase the rate of the recordation tax levied under state law for certain transactions;
- (2) allocate the revenue received from the recordation tax for certain uses; and
- (3) generally amend the law governing the recordation tax.

SUMMARY OF KEY DISCUSSION POINTS

- N/A

This report contains:

Staff Report
Bill 17-23

Pages 1-3
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MEMORANDUM

April 6, 2023

TO: County Council

FROM: Ludeen McCartney-Green, Legislative Attorney

SUBJECT: **Public Hearing:** Bill 17-23, Taxation – Recordation Tax Rates – Amendments

Bill 17-23, Taxation – Recordation Tax Rates – Amendments, sponsored by Lead Sponsor Councilmember Mink, and co-sponsor Councilmember Jawando was introduced on March 21, 2023. A public hearing is scheduled for April 11 at 1:30 p.m. A Government Operations and Fiscal Policy (GO) Committee worksession is tentatively scheduled for April 24, 2023.

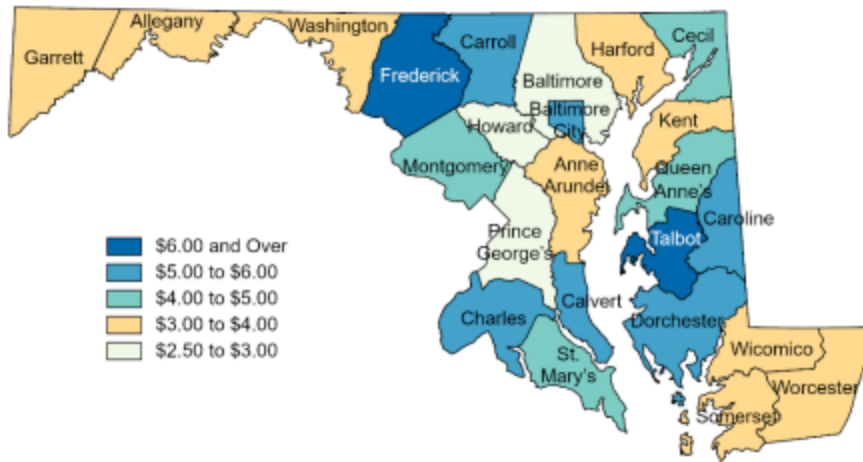
Bill 17-23 would increase the rate of the recordation tax levied under state law for certain transactions involving the transfer of property and allocate the revenue received from the recordation tax to capital improvements for schools and to the Montgomery Housing Initiative Fund (HIF).

BACKGROUND

Recordation tax is levied under Md. Tax- Property Code §§12-101 to 12-118, as amended. The tax applies to the principal amount of the debt secured by a mortgage or deed of trust (when a house or building is being purchased), or when a mortgage is refinanced, the tax applies to the amount of the principal debt that is greater than the principal remaining on the original debt.

Recordation tax rates range from \$2.50 per \$500 transaction in Baltimore and Howard counties to \$7.00 per \$500 of transaction in Frederick County. Most counties have tax rates set between \$3.00 and \$5.00. Recordation tax revenues, which declined because of decreased economic activity due to the pandemic are beginning to trend upward. See, [County Revenue Outlook Report - FY 2023](#), as published by the Department of Legislative Services.

Recordation Tax Revenue – County Tax Rates FY2023



Source: [County Revenue Outlook Report - FY 2023](#)

BILL SPECIFICS

There are three elements of recordation tax: 1) the “base” recordation rate; 2) the school increment rate; and 3) the recordation tax premium rate. County law establishes each rate,¹ as follows:

- The “base” recordation rate is \$2.08 for each \$500 on the sale price or, if refinancing, on the additional amount borrowed over the remaining principal (if acquiring a home as a first-time home buyer, the first \$100,000 of the sale cost is exempt.) **Bill 17-23 would not change the “base” rate** or how its revenue is allocated to the County’s general fund.
- The “school increment” went into effect in 2004. It is also based on the sale price or, if refinancing, on the additional amount borrowed over the remaining principal. **This Bill would raise the rate from \$2.37 to \$3.79 for each \$500**, effective July 1, and considered about a 60% tax increase. Currently, the proceeds can be used for any Montgomery County Public Schools (MCPS) capital project. The Bill would still dedicate all the proceeds to MCPS projects.
- The “Recordation Tax Premium” went into effect in 2008. Unlike the other two elements, the Premium applies only to the cost of a property or a refinancing that is in excess of \$500,000. The proceeds are split equally – half is allocated to County Government capital projects (i.e., capital projects of departments in the Executive Branch); the other half is for rent assistance. **This Bill would raise the rate from \$2.30 to \$3.45 for each \$500**, effective July 1, and would be approximately a 50%+ tax increase. The Recordation Tax Premium is an important revenue source for the Housing Initiative Fund. It has been used for traditional monthly rental assistance and to make many new units affordable for low-income seniors.

¹ County Code § 52-16B.

- **Bill 17-23 would also add a new premium rate of \$1.15 for each \$500** or fraction of \$500 of the amount over \$1,000,000 to be allocated for the Montgomery Housing Initiative, a 100% tax increase. The proceeds would be split equally – half allocated to County Government capital projects, and the other half is for rental assistance for low and moderate-income households.

Council staff² prepared the chart below to illustrate the preliminary fiscal impact of Bill 17-23 based on the Department of Finance’s latest recordation tax information. The chart covers FY 23-28 to match the Approved Capital Improvement Program’s six-year period. In addition, the chart includes an itemized line summarizing the total revenue increase that would be allocated to the CIP (Schools + County Government), of approximately \$260 million dollars.

Recordation Tax Increases by Fiscal Year
School Increment +60%; Increased Premium 500K-1M +50%; Increased Premium 1M+ +100%

| | FY23-28 | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 |
|--|--------------------|------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Recordation Tax | 201,581,253 | - | 37,524,451 | 39,281,628 | 39,510,609 | 41,579,571 | 43,684,994 |
| Recordation Tax - General Fund | - | - | - | - | - | - | - |
| Recordation Tax - School CIP | 201,581,253 | | 37,524,451 | 39,281,628 | 39,510,609 | 41,579,571 | 43,684,994 |
| Recordation Tax - Premium | 118,019,272 | - | 21,969,347 | 22,998,116 | 23,132,178 | 24,343,488 | 25,576,144 |
| MCPS CIP | - | - | - | - | - | - | - |
| County Govt CIP | 59,009,636 | | 10,984,673 | 11,499,058 | 11,566,089 | 12,171,744 | 12,788,072 |
| Rental Assistance | 59,009,636 | | 10,984,673 | 11,499,058 | 11,566,089 | 12,171,744 | 12,788,072 |
| Recordation Tax + Premium Total | 319,600,525 | - | 59,493,798 | 62,279,744 | 62,642,787 | 65,923,059 | 69,261,138 |
| CIP Revenue Increase (School CIP + County Govt CIP) | 260,590,889 | - | 48,509,124 | 50,780,686 | 51,076,698 | 53,751,315 | 56,473,066 |

This packet contains:
 Bill 17-23

Circle #
 1

² Chart prepared by Council Staff, Keith Levchenko, Senior Legislative Analyst

Bill No. 17-23
Concerning: Taxation - Recordation Tax
Rates – Amendments
Revised: 3/3/2023 Draft No. 1
Introduced: March 21, 2023
Expires: December 7, 2023
Enacted: _____
Executive: _____
Effective: _____
Sunset Date: None
Ch. _____, Laws of Mont. Co. _____

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Councilmember Mink
Co-sponsor: Councilmember Jawando

AN ACT to:

- (1) increase the rate of the recordation tax levied under state law for certain transactions;
- (2) allocate the revenue received from the recordation tax for certain uses; and
- (3) generally amend the law governing the recordation tax.

By amending
Montgomery County Code
Chapter 52, Taxation
Section 52-16B

| | |
|------------------------------|--|
| Boldface | <i>Heading or defined term.</i> |
| <u>Underlining</u> | <i>Added to existing law by original bill.</i> |
| [Single boldface brackets] | <i>Deleted from existing law by original bill.</i> |
| <u>Double underlining</u> | <i>Added by amendment.</i> |
| [[Double boldface brackets]] | <i>Deleted from existing law or the bill by amendment.</i> |
| * * * | <i>Existing law unaffected by bill.</i> |

The County Council for Montgomery County, Maryland approves the following Act:

Sec. 1. Section 52-16B is amended as follows:

52-16B. Recordation Tax.

(a) *Rates.* The rates and the allocations of the recordation tax, levied under Md. Tax- Property Code §§12-101 to 12-118, as amended, are:

(1) for each \$500 or fraction of \$500 of consideration payable or of the principal amount of the debt secured for an instrument of writing, including the amount of any mortgage or deed of trust assumed by a grantee;

(A) \$2.08, of which the net revenue must be reserved for and allocated to the County general fund; and

(B) [~~\$2.37~~] \$3.79, of which the net revenue must be reserved for and allocated to the cost of capital improvements to schools; and

(2) if the consideration payable or principal amount of debt secured exceeds \$500,000, an additional [~~\$2.30~~] \$3.45 for each \$500 or fraction of \$500 of the amount over \$500,000, of which the net revenue must be reserved for and allocated equally to:

(A) the cost of County government capital improvements; and

(B) rent assistance for low and moderate income households, which must not be used to supplant any otherwise available funds[.]; and

(3) if the consideration payable or principal amount of debt secured for a single-family dwelling unit exceeds \$1,000,000, an additional \$1.15 for each \$500 or fraction of \$500 of the amount over \$1,000,000, of which the net revenue must be reserved for and allocated equally to:

28 (A) the cost of County government capital
29 improvements; and

30 (B) rent assistance for low and moderate income
31 households, which must not be used to supplant any
32 otherwise available funds.

33 **Sec 2. Effective date.** This Act takes effect on July 1, 2023 and must apply to
34 any transaction which occurs on or after July 1, 2023.