

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 582 (Senator Henson)
Budget and Taxation and Judicial Proceedings

**Sale of Residential Property - Taxes and Offers to Purchase (End Hedge Fund
Control of Maryland Homes Act of 2025)**

This bill imposes several measures to limit the purchase of single-family residential real property by large real estate investment companies by (1) restricting the sale of single-family residences within a certain time period; (2) increasing the State transfer tax rate to 15% on the sale of single-family residences to specified real estate enterprises; and (3) establishing a 50% excise tax rate and \$10,000 per unit penalty based on the excess ownership of single-family residences. The bill also establishes the Down Payment and Settlement Expense Loan Program (DSELP) Fund. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: State revenues increase, potentially by a significant amount, beginning in FY 2026 to the extent the higher State transfer tax rate and excise taxes are applied to the purchase of single-family residential real properties. State expenditures for administrative costs at the Comptroller's Office increase by \$435,000 in FY 2026 and \$581,000 by FY 2030.

Local Effect: State funding for local land preservation programs increase to the extent State transfer tax revenues increase beginning in FY 2026, with local expenditures increasing by a commensurate amount.

Small Business Effect: Potential meaningful. Small businesses involved in real estate sales, mortgage lending, and real estate titling may incur increased costs to comply with the bill's requirements.

Analysis

Bill Summary: The bill imposes several measures to limit the purchase of single-family residential real property by large real estate investment companies.

Third Party Sales Limitation

A person who offers a single-family residential real property for sale to a third party, for the first 30 days, may only accept an offer to purchase the property from an individual, a community development organization, a nonprofit organization, or a real estate enterprise that owns an interest in less than 3.0% of all residential real property located within the county in which the property is located. This restriction does not apply to a sale in an action to foreclose a mortgage, a deed of trust, or any other lien.

Increased State Transfer Tax Rate

The State transfer tax rate is increased from 0.5% to 15% for the sale of a single-family residential real property to a real estate enterprise that has ownership interest in more than 120 single-family residential real properties or ownership interest in residential real property in the State with a total assessed value exceeding \$12.0 million.

Excess Ownership of Single-family Residence Excise Tax and Penalty

A 50% excise tax is imposed on the acquisition of a single-family residence by an applicable taxpayer, which is defined as an entity that manages funds pooled from investors and is a fiduciary of the investors. The tax rate is applied to the fair market value of the single-family residence.

In addition, a \$10,000 per unit penalty is imposed on the excess ownership of single-family residences. When the bill's provisions are fully phased-in, an applicable taxpayer can own up to 25 single-family residences before the tax penalty is imposed. For a taxpayer classified as a hedge fund, the tax penalty is imposed on the first property owned by the entity.

Revenues from both the excise tax and penalty must be deposited in the DSELP Fund.

Applicable taxpayers are required to file specified reports and tax returns with the Comptroller's Office. A person who is required to file an excess ownership of single-family residences excise tax return and who willfully fails to file a required return is guilty of a misdemeanor and, on conviction, is subject to a fine of up to \$5,000 and/or imprisonment of up to five years.

Down Payment and Settlement Expense Loan Program Fund

The bill establishes the program fund to be administered by the Department of Housing and Community Development (DHCD). The program fund consists of (1) excise tax revenue; (2) money appropriated in the State budget to the program fund; and (3) any other money from any other source accepted for the benefit of the program fund. The program fund may be used only to provide financing for down payment and settlement expenses to enable eligible homebuyers to purchase homes. Money expended from the program fund for DSELP is supplemental to and is not intended to take the place of funding that otherwise would be appropriated for the program.

Current Law: The State imposes a 0.5% transfer tax rate on the consideration payable for an instrument of writing. However, in the case of a first-time Maryland homebuyer purchasing a principal residence, the transfer tax rate is 0.25% (which is paid by the seller).

The statutory allocation of State transfer tax revenue is shown below:

- 75.15% to Program Open Space (POS) within the Department of Natural Resources (DNR) for purposes under the program, including land acquisition;
- 1.0% to POS only for land acquisition;
- 17.05% to the Maryland Agricultural Land Preservation Fund within the Maryland Department of Agriculture;
- 5.0% to the Rural Legacy Program within DNR; and
- 1.8% to the Heritage Conservation Fund within DNR.

The POS allocations are subject to further allocation among the State and local components of the program and other purposes. The funds allocated to local governments assist the local governments in acquisition and development of land for recreation and open space purposes. Statute also authorizes a specified portion of the POS allocation to be transferred to the Maryland Heritage Areas Authority within the Maryland Department of Planning.

Down Payment and Settlement Expense Loan Program

DSELP, a supplementary program to the Maryland Mortgage Program, provides financing for down payment and settlement expenses to enable eligible homebuyers to purchase homes. Settlement expenses include (1) fees and premiums for title examination, title insurance, and similar expenses; (2) fees for preparing deeds, settlement statements, and other documents; (3) payments owed at settlement for property taxes and hazard insurance coverage; (4) escrows for future payments of taxes and hazard insurance; (5) fees for notarizing deeds and other documents; (6) appraisal fees; (7) fees for credit reports; (8) transfer and recordation taxes and fees; (9) fees and premiums for

mortgage insurance; and (10) loan discount points and origination fees. Recipients of a program loan are required to complete homebuyer education that meets the requirements of DHCD. However, if the political subdivision in which a loan recipient will use the loan administers its own down payment or settlement expense loan program that also requires homebuyer education, then the loan recipient must complete the more stringent local homebuyer education requirement.

State Revenues: The bill is intended to limit the ability of large real estate investment companies from purchasing and owning single-family residential real property within the State. Two of the bill's provisions, the increase in the State transfer tax rate and the imposition of a new excise tax and penalty for the excess ownership of single-family residential residences have the potential to increase State revenues by a significant amount. At this time, the Department of Legislative Services is not able to develop a precise estimate of the potential revenue increase.

State Expenditures: The Comptroller's Office will need additional personnel to administer the new excise tax on the excess ownership of single-family residences, including two senior tax attorneys, two financial compliance officers, and two revenue examiners. The new staff will be tasked with identifying businesses subject to the excise tax on the excess ownership of single-family residences, processing tax returns and payments, auditing tax returns and payments, enforcing tax compliance, and handling possible litigation. The additional personnel costs are projected to total \$435,000 in fiscal 2026 and \$581,000 by fiscal 2030. These costs reflect a 90-day start-up delay due to the bill's July 1, 2025 effective date and include salaries, fringe benefits, and ongoing operating expenses. In addition, the Comptroller's Office will likely incur increased computer programming expenses in fiscal 2026 to add the new excise tax to the current tax system. However, the Comptroller's Office was unable to provide a precise estimate at this time. These costs will include discovery, design, development, testing, and system interfaces.

Positions	6
Salaries and Fringe Benefits	\$390,741
Computer Programming Expenses	n/a
Operating Expenses	<u>44,213</u>
Total FY 2026 State Expenditures	\$434,954

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 751 of 2024, HB 474 of 2023, and HB 1345 of 2022.

Designated Cross File: HB 1428 (Delegates Boafu and Amprey) - Environment and Transportation and Ways and Means.

Information Source(s): Maryland Association of Counties; Comptroller's Office; Judiciary (Administrative Office of the Courts); Office of the Public Defender; State Department of Assessments and Taxation; Department of Legislative Services

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