Maryland

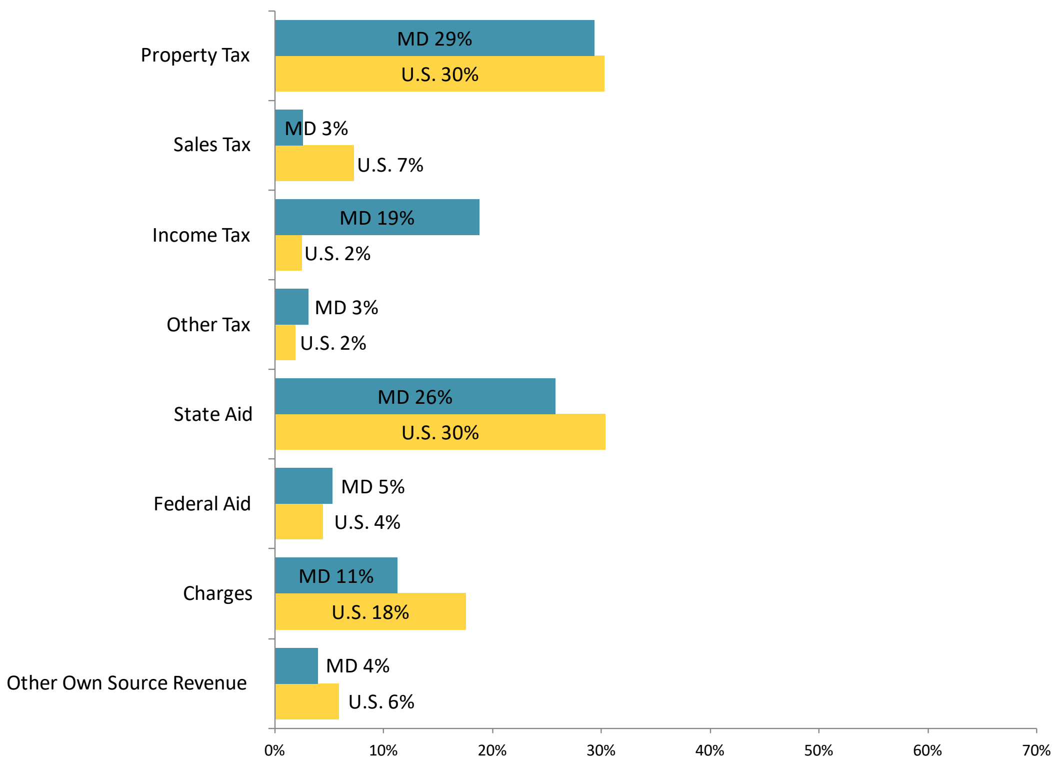
Highlights

Maryland relies less on property taxes than do many other states because county governments levy the highest local income tax per capita of any state in the nation (figure MD-1) (Significant Features of the Property Tax). Each of the state's 23 counties and the City of Baltimore collect an income tax that piggybacks on the state income tax, with rates ranging from 2.25 percent to 3.2 percent of taxable income (Comptroller of Maryland). In Maryland, counties are the dominant form of local government.

Maryland is one of only two states in which the state government is responsible for assessing all property values. The other state is Montana.

Another distinctive feature of Maryland property law is the presence of ground rent. This feature, which occurs mostly in Baltimore City and surrounding counties, involves the ownership of the land under a dwelling by a separate leaseholder. This ground rent leaseholder permits use and development of the land by the tenant in exchange for a regular rental payment.

Figure MD-1
Sources of Local General Revenue, Maryland and U.S., 2020



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

Maryland is near the national average on measures of effective property tax rate on a median value owner-occupied home and property tax as a percentage of state and local revenue, and below the national average for property tax as a percent of personal income (table MD-1).

Table MD-1
Selected Maryland Property Tax Statistics, 2020[1]

	Maryland	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$1,744	$1,810	*21*
Property tax percentage of personal income	2.7%	3.1%	*32*
Total property tax as percentage of state-local revenue	15.1%	16.6%	*22*
Median owner-occupied home value[2]	$325,400	$229,800	*9*
Median real estate taxes paid for owner-occupied home[2]	$3,508	$2,551	*12*
Effective tax rate, median owner-occupied home[3]	1.1%	1.1%	*21*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2016–2020.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

Property taxes in Maryland are collected principally by local governments (counties, municipalities, and municipal subunits), with 2022–2023 county real property rates ranging from 0.682 percent to 2.248 percent. Municipal property tax rates range from 0 to 1.44 percent. School districts in Maryland are dependent on parent governments (mostly counties) and do not directly levy property taxes.

Assessments are conducted by the state on a rotating three-year cycle. The City of Baltimore and each county reimburse the state for the cost of real property valuations. Increases in assessed values are then phased in over the subsequent three-year cycle (Significant Features of the Property Tax).

Limits on Property Taxation

Maryland places no limit on property tax rates or levies. It does, however, limit growth in assessments via the Homestead Property Tax Assessment Freeze (table MD-2). This program provides a tax credit that effectively limits the taxed assessed value to 110 percent of the previous year's assessment for qualified residential properties. The practice described above of phasing in changes in assessed values over three years after revaluation also constrains growth in assessed values.

Maryland's Truth in Taxation law requires counties and municipalities to publish information and hold public hearings on any increase in the property tax rate above the constant yield rate, before adopting the higher tax rate (Significant Features of the Property Tax).

Property Tax Relief and Incentives

Maryland has a Homeowners' Property Tax Credit program for applicants with income under $60,000 and net worth under $200,000, excluding the primary residence and retirement accounts. Only taxes paid on the first $300,000 of assessed valuation are eligible for relief. Property owners who qualify for the program have their property taxes reduced by up to 100 percent depending on their income (Maryland Department of Assessments and Taxation). Maryland also offers exemptions or credits for blind individuals, low income or elderly renters, and disabled veterans, and has various local option relief programs.

The state has a wide array of property tax credits and other programs to promote economic development, including tax increment financing districts and enterprise zones.

Table MD-2
Maryland Property Tax Features, 2021

Feature	Maryland	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	No	45
Limits on the rate of growth of assessed value	Yes	17
Circuit breaker property tax relief program	Yes	31

Sources: Significant Features of the Property Tax

Key Property Tax History

Property taxation in Maryland dates to the Lords Baltimore of the 17th century although the state briefly eliminated property taxes in the 1830s, relying instead on corporation tax revenue and dividends from investments. Maryland imposed a state property tax in 1841 after defaulting on its debt following the collapse of financial markets (Wallis 2001). Between 1914 and 1916, Maryland enacted major reforms to its property tax system, establishing a three-member State Tax Commission in place of a single commissioner with broad authority to oversee and standardize local assessments, and requiring regular reassessment every five years (Hare and Papenfuse 2002).

The Department of Assessments and Taxation, founded in 1959, made Maryland one of the first states to centralize property assessment at the state level. By 1973, assessment was fully centralized and counties no longer exercised assessment authority.

In July 2001, property assessment was changed to reflect 100 percent of the full market value of the property (Hare and Papenfuse 2002).

In 2007, the state legislature forbade establishment of future ground rents and required that all ground rents be registered with the state by a set deadline, or the property interest in the ground would be forfeited. However, in 2011, in *Charles Muskin v. State Department of Assessments and Taxation*, the Maryland Court of Appeals found that the forfeiture of ground rent rights was unconstitutional and overturned this portion of the law (People's Law Library of Maryland).

In 2012, Maryland introduced a controversial fee for property owners to pay for stormwater runoff pollution. This fee, which applies to property owners in the 10 most populous counties in the state, has been derided in popular media as a "rain tax." Some counties charge a flat rate to all homeowners, while others charge varying amounts based on the area of nonporous surfaces on the property (Cappiella 2014). Repeal of the "rain tax" was one of the key proposals of the campaign of Governor Larry Hogan. In 2015, the new administration repealed the state mandate for the fee, but most counties have chosen to keep the fee in place (Wood and Wheeler 2015).

Recent Developments

In 2022, The U.S. Supreme Court upheld the Second Circuit Court's dismissal of a case brought by Connecticut, Maryland, New York, and New Jersey challenging the constitutionality of the federal $10,000 cap on the deductibility of state and local taxes in the Tax Cuts and Jobs Act of 2017 (Muse 2022). The circuit court dismissed the lawsuit in September 2020, finding that "The States have cited no constitutional principle that would bar Congress from exercising its otherwise plenary power to impose an income tax without a limitless SALT deduction" (Reitmeyer 2019). The average SALT deduction claimed by Maryland residents who itemized in tax year 2016 was $13,089 (Tax Policy Center 2017). In May 2020, Maryland became the seventh state to enact an entity-level tax to shield owners of pass-through businesses from the effect of the cap by offering credits against personal income taxes for entity-level taxes paid (SB 523 of 2020) (Lundstedt 2023; Walczak 2020). Six months later, the IRS released regulations to permit an entity-level tax workaround like the one in Maryland (IRS Notice 2020-75).

Counties and municipalities in Maryland will receive notice from the state of any successful commercial property tax appeal resulting in a value decrease of 20 percent or more and will have 90 days to appeal the new valuation. House Bill 69 also removed the requirement that the taxpayers must use the assessed values of comparable properties to make their case (House Bill 69 of 2022) (Branham 2022).

The 2022 legislature increased the business personal property tax exemption eight fold from $2,500 to $20,000 effective fiscal year 2023. The fiscal note to HB 268 of 2022 estimated the measure would reduce local government revenues by $1.5 million and save small businesses $104 on average (Kinnally 2022).

Resources

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