

May 26, 1994

The Honorable Casper R. Taylor, Jr.  
Speaker of the House of Delegates  
State House  
Annapolis, Maryland 21401

Dear Mr. Speaker:

In accordance with Article II, Section 17 of the Maryland Constitution, I have today vetoed House Bill 525.

House Bill 525 would allow municipalities in the State to tax land at a different rate than improvements to land. The bill would authorize 155 cities and towns throughout the State to adopt this split-rate tax system, referred to as land value taxation (LVT).

If House Bill 525 were enacted, municipalities could elect to increase their municipal property tax rate on land and lower their tax rate on improvements to land. The theory behind this legislation is that property owners with vacant land or structures of little value will be taxed at a higher rate, and therefore will have an incentive to develop or improve their properties. This will encourage land to be put to its most efficient use.

While I support the goals of House Bill 525, I am not convinced that Maryland should adopt this tax policy alternative on a statewide basis. Even though this legislation is authorizing in nature, the State has the responsibility to ensure that it meets the needs of all of its residents.

Land value taxation has been tried in various cities in Pennsylvania since the 1970s, but does not appear to have gained widespread acceptance in the United States. The results in Pennsylvania in terms of economic development and the welfare of residents are inconclusive and no recent data has been offered to support conclusions that LVT is successful. As a result, I am hesitant to approve a statewide policy without additional study.

Another concern I have with split-rate taxation is its impact on individual residents. If the tax policy is to be revenue neutral, the taxes of many property owners will clearly increase. It is unclear what impact this will have on residential property owners in small towns. Additionally, some builders contend that municipalities will be forced to continuously adjust tax rates on land and improvements, adding confusion and uncertainty to the process of estimating tax burdens. I think these issues need to be studied further.

In summary, I do not oppose land value taxation in concept. However, I believe that this policy needs a considerable amount of study before statewide authorization should be granted. I encourage the tax committees of the General Assembly to analyze land value taxation further and determine if it is right for Maryland.

For these reasons, I have today vetoed House Bill 525.

Sincerely,  
William Donald Schaefer  
Governor