

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 268 (Delegate Carr, *et al.*)
 Ways and Means

Personal Property Tax and Annual Report Filing Fee - Exemption

This bill exempts a business entity that has personal property with an assessed value of \$2,500 or less from (1) the personal property tax; (2) filing a specified personal property tax report; and (3) the fee that is paid with the filing of the annual report. A person must apply to the State Department of Assessments and Taxation (SDAT) for the personal property tax exemption. SDAT must specify procedures for application for, approval of, and monitoring of continuing eligibility for the personal property tax exemption.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund revenues decrease by approximately \$67.9 million annually beginning in FY 2018. Expenditures are not affected.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$67.9)	(\$67.9)	(\$67.9)	(\$67.9)	(\$67.9)
Expenditure	0	0	0	0	0
Net Effect	(\$67.9)	(\$67.9)	(\$67.9)	(\$67.9)	(\$67.9)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local government personal property tax revenues decrease by approximately \$1.2 million beginning in FY 2019. Local expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Minimal.

Analysis

Current Law: In Maryland, there is a tax on business-owned personal property that is imposed and collected by local governments. Personal property generally includes business property including furniture, fixtures, office and industrial equipment, machinery, tools, supplies, inventory, and any other property not classified as real property. To provide for uniform assessments, SDAT is responsible for assessing all personal property. Each county or municipal government is responsible for issuing the tax bills and collecting the tax. The tax year begins on July 1 and ends on June 30. The personal property tax has been a local tax exclusively since 1984 when the State tax rate on personal property was set at zero.

At the beginning of each calendar year SDAT mails a personal property tax return to most businesses on record. Businesses must file the return by April 15, reporting personal property located in Maryland on January 1, the date of finality. The “date of finality” is the date used to determine ownership, location, value, and liability for tax purposes. An annual report fee is required to be paid to SDAT with the personal property tax return. The annual report fee is for the privilege of maintaining the legal entity’s existence in the State. **Exhibit 1** identifies the amount of the report fee that each legal entity is required to pay.

Exhibit 1 Annual Reporting Fee Requirement

<u>Business Entity</u>	<u>Fee</u>	<u>Business Entity</u>	<u>Fee</u>
Stock Corp	\$300	Domestic Statutory Trust	\$300
NonStock Corp	0	Foreign Statutory Trust	300
Foreign Insurance Corp	300	Real Estate Investment Trust	300
Foreign Interstate Corp	0	Certified Family Farm	100
Limited Liability Company	300	Sole Proprietorship	0
Limited Liability Partnership	300	General Partnership	0
Limited Partnership	300	Amended Return	0

Personal property, except inventory, is assessed based on the original cost less an annual depreciation allowance. The depreciation rate is determined based on the category of property. Seven rate categories (A through G) each pertain to different types of personal property. Except for data processing equipment and canned software, property may not be depreciated below 25%. For example, an item that was purchased for \$400 would be reduced by the depreciation factor each year until it reaches a minimum of \$100.

Inventory is valued at its fair average value using the cost or market value, whichever is lower.

Certain personal property is exempt by statute or local law. Exemptions generally fall into two categories: those mandated by State law and those that are optional to local governments. There are certain organizations or groups whose personal property is exempt throughout the State. These organizations include religious groups, governmental entities, nonprofit hospitals, cemetery and mausoleum companies, and certain other groups that meet specified strict use criteria. In addition, State law requires that certain types of personal property be fully exempt throughout the State. These include aircraft, farming implements, residential (nonbusiness) property, most registered vehicles, boats not more than 100 feet in length, hand tools of mechanics or artisans, and intangible personal property (*e.g.*, stocks, bonds, patents, goodwill, trademarks, etc.).

State law authorizes local governments to exempt certain types of personal property. The county or municipality where the property is located may authorize a full or partial exemption. The most significant categories that may be exempt from the personal property tax are commercial inventory, manufacturing and research and development inventory, and manufacturing and research and development machinery. Twenty-one counties offer exemptions for 100% of all three categories. Five of these counties (Frederick, Garrett, Kent, Queen Anne's, and Talbot) have elected to exempt all business personal property from county taxation. The three remaining subdivisions do not offer a 100% exemption in all categories but offer exemptions ranging from 0% to 65% for various commercial inventory, manufacturing inventory, and machinery.

Background: As shown in **Exhibit 2**, the statewide assessable base for business personal property totals \$12.2 billion in fiscal 2017. Among counties that impose the business personal property tax, the assessable base ranges from a high of \$2.2 billion in Montgomery County to a low of \$26.9 million in Somerset County. Tax rates on business personal property range from \$2.09 in Worcester County to \$5.62 in Baltimore City.

Exhibit 2
County Business Personal Property Base
Fiscal 2017

County	Personal Property Tax Rate	Business Personal Property
Allegany	\$2.4425	\$177,042,760
Anne Arundel	2.2870	1,544,655,000
Baltimore City	5.6200	1,258,000,100
Baltimore	2.7500	1,718,998,460
Calvert	2.2300	152,754,820
Caroline	2.4500	50,234,340
Carroll	2.5150	286,877,230
Cecil	2.4785	238,333,990
Charles	3.0125	487,412,820
Dorchester	0.0000	0
Frederick	0.0000	0
Garrett	2.4750	115,137,760
Harford	2.6049	627,854,280
Howard	2.9750	999,910,650
Kent	0.0000	0
Montgomery	2.5950	2,167,592,600
Prince George's	3.4350	1,403,313,280
Queen Anne's	0.0000	0
St. Mary's	2.1308	160,434,990
Somerset	2.5000	26,909,010
Talbot	0.0000	0
Washington	2.3700	409,948,270
Wicomico	2.1715	201,725,460
Worcester	2.0875	212,925,130
Total		\$12,240,060,950

Source: State Department of Assessments and Taxation

State Fiscal Effect: General fund revenues decrease by approximately \$67.9 million annually beginning in fiscal 2018 as a result of the filing fee exemption for businesses with \$2,500 or less of assessed personal property. As noted in Exhibit 1, most businesses pay a

\$300 annual fee, except for family farms, which pay a \$100 annual fee. SDAT reports that for tax year 2016, there were 32,506 accounts that had assessed personal property of \$2,500 or less, and an additional 194,168 accounts with no assessed personal property. All of these accounts would be exempt from the annual filing fee under the bill. **Exhibit 3** shows the effect of the filing fee exemption on general fund revenues.

Exhibit 3
Effect of Filing Fee Exemption

	<u>Accounts</u>	<u>Fee</u>	<u>Revenue Loss</u>
Personal Property <\$2,500			
Business Entities	32,485	\$300	(\$9,745,500)
Family Farms	21	100	(2,100)
No Assessed Personal Property			
Business Entities	193,643	300	(58,092,900)
Family Farms	525	100	(52,500)
General Fund Revenue Loss			(\$67,893,000)

Source: State Department of Assessments and Taxation

Local Fiscal Effect: Local government personal property tax revenues decrease by approximately \$1.2 million annually beginning in fiscal 2019. **Exhibit 4** shows the number of accounts with an assessable base of \$2,500 or less for tax year 2016. As shown in the exhibit, the total assessable base for businesses with \$2,500 or less of personal property was approximately \$40.1 million in tax year 2016. Based on current county personal property tax rates, county personal property tax revenues will decrease by approximately \$1.2 million annually beginning in fiscal 2019, assuming a relatively constant personal property base.

Exhibit 4
County Business Personal Property Tax Base of \$2,500 or Less
Tax Year 2016

County	Personal Property		Business	Revenue
	Tax Rate	Accounts	Personal Property	Decrease
Allegany	\$2.4425	336	\$381,800	(\$9,325)
Anne Arundel	2.2870	3,826	4,432,510	(101,372)
Baltimore City	5.6200	3,436	4,002,390	(224,934)
Baltimore	2.7500	5,504	6,166,030	(169,566)
Calvert	2.2300	603	685,230	(15,281)
Caroline	2.4500	208	223,290	(5,471)
Carroll	2.5150	1,325	1,476,160	(37,125)
Cecil	2.4785	452	522,820	(12,958)
Charles	3.0125	777	913,900	(27,531)
Dorchester	0.0000	0	0	0
Frederick	0.0000	0	0	0
Garrett	2.4750	0	0	0
Harford	2.6049	1,571	1,713,600	(44,638)
Howard	2.9750	2,682	3,014,850	(89,692)
Kent	0.0000	0	0	0
Montgomery	2.5950	7,582	8,679,970	(225,245)
Prince George's	3.4350	3,516	4,121,660	(141,579)
Queen Anne's	0.0000	0	0	0
St. Mary's	2.1308	540	607,330	(12,941)
Somerset	2.5000	123	130,350	(3,259)
Talbot	0.0000	0	0	0
Washington	2.3700	718	821,280	(19,464)
Wicomico	2.1715	634	734,580	(15,951)
Worcester	2.0875	1,290	1,512,670	(31,577)
Total		35,123	\$40,140,420	(\$1,187,909)

Source: State Department of Assessments and Taxation; Department of Legislative Services

Small Business Effect: Tax year 2016 data indicates that, on average, businesses with \$2,500 or less of assessed personal property had a personal property tax assessment of \$1,143. Using an average property tax rate of \$2.21, this results in an average tax savings of \$25 per business. These businesses are also not required to pay the \$300 annual filing

fee and may realize additional savings by not having to file a personal property tax return each year.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation; Department of Legislative Services

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Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510