

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 572
Ways and Means

(Delegate Fisher, *et al.*)

Personal Property Tax - Investments in Maryland

This bill exempts, from the personal property tax, property that is owned by a business that (1) has organized under the laws of Maryland during the current tax year or (2) relocates its headquarters to Maryland during the current tax year. Also, beginning in fiscal 2019, the bill exempts all personal property, except for operating personal property of a railroad or public utility and specified telecommunications property, from county or municipal property taxes.

The bill takes effect June 1, 2016, and applies to all taxable years beginning after June 30, 2016.

Fiscal Summary

State Effect: General fund expenditures may increase by a minimal amount in FY 2017 for the State Department of Assessments and Taxation (SDAT) to hire contractual staff to prepare the specified report to the General Assembly. Revenues are not affected.

Local Effect: Local property tax revenues will decrease beginning in FY 2017 to the extent businesses start up or relocate their headquarters to Maryland. Beginning in FY 2019, local government revenues will decrease by an estimated \$331.2 million annually due to the business personal property tax exemption. Local expenditures are not affected.

This bill imposes a mandate on a unit of local government.

Small Business Effect: Potential meaningful. Small business start-ups or businesses that relocate their headquarters to Maryland will not be subject to personal property taxes in the year the start-up or relocation occurs. Beginning in FY 2019, small businesses will not be subject to local personal property taxes.

Analysis

Bill Summary: SDAT must identify provisions of the Annotated Code of Maryland or the Code of Public Local Laws that are rendered inaccurate or obsolete as a result of specified provisions of the bill and must submit a report to the General Assembly, by December 1, 2016, on its findings with recommendations for any amendments to the Annotated Code of Maryland or the Code of Public Local Laws.

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.

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 1**, the statewide assessable base for business personal property totals \$12.3 billion in fiscal 2016. Among counties that impose the business personal property tax, the assessable base ranges from a high of \$2.3 billion in Montgomery County to a low of \$34.1 million in Somerset County. Tax rates on business personal property range from \$2.09 in Worcester County to \$5.62 in Baltimore City.

Exhibit 1
County Business Personal Property Base
Fiscal 2016

County	Tax Rate	Business Personal Property
Allegany	\$2.4450	\$184,616,721
Anne Arundel	2.3070	1,567,105,677
Baltimore City	5.6200	1,060,171,330
Baltimore	2.7500	1,760,793,226
Calvert	2.2300	115,513,235
Caroline	2.4500	57,326,479
Carroll	2.5150	283,917,151
Cecil	2.4768	239,755,057
Charles	3.0125	521,201,660
Dorchester	2.4400	0
Frederick	0.0000	0
Garrett	0.0000	121,469,520
Harford	2.6049	575,150,767
Howard	2.9750	1,062,520,181
Kent	0.0000	0
Montgomery	2.4975	2,263,632,060
Prince George's	3.4350	1,466,649,980
Queen Anne's	0.0000	0
St. Mary's	2.1308	164,162,831
Somerset	2.5000	34,092,186
Talbot	0.0000	0
Washington	2.3700	395,701,992
Wicomico	2.1715	222,741,705
Worcester	2.0875	207,188,047
Total		\$12,303,709,805

Source: State Department of Assessments and Taxation

Local Fiscal Effect: The bill affects local personal property tax collections in two ways. First, the bill provides a one-year personal property tax exemption for businesses that either start up or relocate their headquarters to Maryland for the tax year in which the start-up or relocation occurs. Second, beginning in fiscal 2019, the bill provides a personal property tax exemption for all personal property, except for operating personal property of a railroad or a public utility, and property used to provide a cable television, data, or telecommunications service, including all fiber-optic and other cable wire systems, cellular
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telephone towers, and wireless appurtenances attached to or installed on cellular telephone towers.

One-time Start-up Exemption

Local property tax revenues will decrease beginning in fiscal 2017 to the extent businesses start up or relocate in Maryland during a given year. The revenue loss will depend on the number of qualifying businesses and the assessed value of personal property. The amount of any revenue decrease will also vary between counties as counties have different tax rates and some counties do not tax personal property. To the extent a large company starts up or moves its headquarters, the effect could be significant in that year. As a point of reference, SDAT indicates that, in fiscal 2015, there were 536 new business filings; these new businesses had approximately \$3.0 million in personal property, as shown in **Exhibit 2**. In addition, there were an additional 299 new business filings in various municipalities; these businesses had approximately \$1.3 million in personal property.

Exhibit 2
New Business Filings
Fiscal 2015

County	New Business Filings	Personal Property Base
Allegany	7	\$32,430
Anne Arundel	31	290,850
Baltimore City	30	162,330
Baltimore	47	396,520
Calvert	2	3,550
Caroline	5	11,720
Carroll	12	78,950
Cecil	11	162,200
Charles	15	202,300
Dorchester	1	2,000
Frederick	0	0
Garrett	0	0
Harford	10	44,110
Howard	0	0
Kent	0	0
Montgomery	57	337,410
Prince George's	49	240,160
Queen Anne's	0	0
St. Mary's	0	0
Somerset	4	12,260
Talbot	0	0
Washington	14	147,240
Wicomico	15	64,780
Worcester	226	829,120
Total	536	\$3,017,930

Source: State Department of Assessments and Taxation

Exhibit 3 shows estimated personal property taxes paid to each county in fiscal 2015 based on the number of personal property certifications, the personal property assessable base, the average assessment per certification, and current personal property tax rates. Personal
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property certifications are similar to the number of personal property accounts, except that in some instances, businesses can have multiple certifications due to having personal property located in more than one jurisdiction. As such, certifications are a more accurate representation of the personal property located in each county.

Personal Property Tax Exemption

Beginning in fiscal 2019, the bill exempts all personal property, other than operating personal property of a railroad or a public utility, and specified telecommunications property from county and municipal personal property taxes. As a result, county property tax revenues will decrease by a significant amount beginning in fiscal 2019. SDAT estimates that the county business personal property assessable base will total approximately \$12.5 billion in fiscal 2018. As the county personal property tax base is forecast to remain relatively constant from fiscal 2016 to 2018, the Department of Legislative Services assumes that the assessable base will remain relatively constant beyond fiscal 2018 when the exemption takes effect. As a result, it is estimated that county personal property tax revenues will decrease by approximately \$309.7 million annually beginning in fiscal 2019, as shown in **Exhibit 4**. Municipal property tax revenues are estimated to decrease by an additional \$21.5 million. These estimates assume that specified telecommunications property comprises 15% of each county's (except Garrett County) business personal property assessable base.

To the extent the actual personal property assessable base differs from the estimate, the effect of the property tax exemption will vary accordingly.

Exhibit 3
Average Personal Property Taxes Paid
Fiscal 2015

County	Personal Property Tax Rate	Certifications	County Personal Property Base	Average Certification	Average Tax Per Certification
Allegany	\$2.4475	2,031	\$171,945,270	\$84,660	\$2,072
Anne Arundel	2.3570	14,668	1,238,618,140	84,444	1,990
Baltimore City	5.6200	11,540	1,022,539,530	88,608	4,980
Baltimore	2.7500	19,792	1,678,671,000	84,816	2,332
Calvert	2.2300	2,169	116,148,450	53,549	1,194
Caroline	2.4000	843	51,795,730	61,442	1,475
Carroll	2.5150	4,851	297,897,050	61,409	1,544
Cecil	2.4768	2,198	172,220,850	78,353	1,941
Charles	3.0125	3,148	203,559,490	64,663	1,948
Dorchester	2.4400	450	62,450	139	3
Frederick	0.0000	0	0	0	0
Garrett	2.4750	0	0	0	0
Harford	2.6049	6,332	636,314,540	100,492	2,618
Howard	2.9750	9,769	988,548,110	101,192	3,010
Kent	0.0000	0	0	0	0
Montgomery	2.5200	28,692	2,153,876,720	75,069	1,892
Prince George's	3.2975	15,995	1,340,767,330	83,824	2,764
Queen Anne's	2.1180	0	0	0	0
St. Mary's	2.1425	2,703	149,424,060	55,281	1,184
Somerset	2.2875	493	32,755,540	66,441	1,520
Talbot	1.3175	0	0	0	0
Washington	2.3700	3,541	396,998,300	112,115	2,657
Wicomico	2.1715	2,870	204,713,770	71,329	1,549
Worcester	1.9250	5,523	205,867,560	37,275	718
Total		137,608	\$11,062,723,890	\$80,393	

Source: State Department of Assessments and Taxation

Exhibit 4
Estimated Personal Property Tax Revenue Decrease

County	Personal Property Tax Rate	Business Personal Property Base	Property Tax Decrease
Allegany	\$2.4450	\$186,467,504	(\$3,875,261)
Anne Arundel	2.3070	1,553,033,460	(30,454,210)
Baltimore City	5.6200	1,102,894,117	(52,685,252)
Baltimore	2.7500	1,796,185,170	(41,985,828)
Calvert	2.2300	120,179,970	(2,278,011)
Caroline	2.4500	59,642,468	(1,242,054)
Carroll	2.5150	289,623,886	(6,191,435)
Cecil	2.4768	251,892,656	(5,303,046)
Charles	3.0125	531,677,813	(13,614,275)
Dorchester	2.4400	0	0
Frederick	0.0000	0	0
Garrett	0.0000	111,946,310	0
Harford	2.6049	580,916,653	(12,862,453)
Howard	2.9750	1,137,868,293	(28,773,844)
Kent	0.0000	0	0
Montgomery	2.4975	2,218,585,782	(47,097,803)
Prince George's	3.4350	1,510,979,476	(44,116,823)
Queen Anne's	0.0000	0	0
St. Mary's	2.1308	165,808,563	(3,003,092)
Somerset	2.5000	34,777,439	(739,021)
Talbot	0.0000	0	0
Washington	2.3700	403,655,602	(8,131,642)
Wicomico	2.1715	192,649,301	(3,555,873)
Worcester	2.0875	211,352,527	(3,750,186)
Total		\$12,460,136,990	(\$309,660,109)

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

Additional Information

Prior Introductions: HB 161 of 2015, HB 1129 of 2014, HB 856 of 2013, and HB 1065 of 2012 received hearings in the House Ways and Means Committee, but no further action was taken on any of the bills.

Cross File: None.

Information Source(s): Baltimore, Carroll, Montgomery, Queen Anne's, and St. Mary's counties; Town of Leonardtown; State Department of Assessments and Taxation; Department of Legislative Services

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