

Department of Legislative Services
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FISCAL AND POLICY NOTE
First Reader

House Bill 69
Ways and Means

(Delegate Luedtke, *et al.*)

Personal Property Tax - Credit for New or Small Business

This bill authorizes county and municipal governments to provide up to a 100% property tax credit for personal property that is owned or leased by a business entity that has been in operation for two years or less or has 15 employees or less. The credit does not apply to operating property of a railroad or public utility. County and municipal governments may provide, by law, for (1) the amount and duration of the property tax credit; (2) additional eligibility criteria for the property tax credit; (3) regulations and procedures for the application and uniform processing of requests for the property tax credit; and (4) any other provision necessary to carry out the property tax credit.

The bill takes effect July 1, 2016, and applies to taxable years beginning after December 31, 2016.

Fiscal Summary

State Effect: None.

Local Effect: Local government revenues may decrease beginning in FY 2018 to the extent the property tax credit is granted. The amount of the decrease depends on the amount of businesses that are eligible for the personal property tax credit and the value of the personal property. Local government expenditures are not affected.

Small Business Effect: Potential meaningful. Small businesses that qualify for the property tax credit will benefit from reduced property tax payments.

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, the State Department of Assessments and Taxation (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: Local government revenues may decrease beginning in fiscal 2018 to the extent the property tax credit is granted. The amount of the decrease depends on the amount of businesses that are eligible for the personal property tax credit and the value of the personal property owned by those businesses, neither of which can be reliably estimated. As a point of reference, if it is assumed that businesses eligible for the tax credit under the bill comprise 5% of the business personal property assessable base, local property tax revenues may decrease by approximately \$17.9 million annually beginning in fiscal 2018.

This estimate is based on the fact that the vast majority of the assessable base for business personal property in Maryland is owned by relatively large entities. As shown in **Exhibit 2**, while less than 20% of personal property accounts had an assessed value of greater than \$50,000, these accounts represented over 90% of the total assessable base for business personal property. In contrast, 71.7% of personal property accounts in Maryland had an assessed value of \$25,000 or less. However, these accounts represent approximately 5% of the total assessable base for business personal property. Therefore, providing a property tax credit for new or small businesses will not result in a sizeable reduction in the overall business personal property base.

Exhibit 2
Business Personal Property
Accounts and Assessable Base
Fiscal 2015

Assessable Base	Number of Accounts	Percent of Total Accounts	Assessable Base	Percent of Total Base
Base under \$10,000	72,443	55.7%	\$231,585,630	2.1%
Base \$10,001-\$25,000	20,838	16.0%	334,948,480	3.0%
Base \$25,001-\$50,000	12,485	9.6%	443,843,850	3.9%
Base \$50,001-\$100,000	9,277	7.1%	658,290,770	5.8%
Base Over \$100,000	14,980	11.5%	9,625,661,740	85.2%
Total	130,023	100.0%	\$11,294,330,470	100.0%

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Anne Arundel, Charles, and Montgomery counties; State Department of Assessments and Taxation; Department of Legislative Services

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