

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1238
Ways and Means

(Delegate Fisher, *et al.*)

Personal Property Tax - Exemption for Business Personal Property

This bill exempts personal property from the county and municipal personal property tax except (1) operating personal property of a railroad or public utility and (2) property used to provide a cable television, data, or telecommunications service, including all fiber-optic and other cable wire systems, cellular telephone towers, and wireless appurtenances attached to or installed on cellular telephone towers.

The State Department of Assessments and Taxation (SDAT) must identify provisions of State and local law that are rendered inaccurate or obsolete as a result of provisions of the bill and must submit a report to the General Assembly of its findings and recommendations for amendments by December 1, 2017.

The bill takes effect June 1, 2017, and applies to taxable years beginning after June 30, 2017.

Fiscal Summary

State Effect: General fund expenditures increase by \$120,000 in FY 2018 for computer programming changes at SDAT. Revenues are not affected.

Local Effect: County and municipal property tax revenues will decrease by an estimated \$322.0 million annually beginning in FY 2018 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.

Analysis

Current Law: County and municipal governments impose property taxes on business-owned personal property. **Appendix – Personal Property Taxation in Maryland** provides an overview on how personal property taxes are imposed and collected in Maryland. The Appendix also includes information on personal property tax rates and the assessable base amounts for fiscal 2017.

State Fiscal Effect: SDAT advises that the department does not have an inventory of specified telecommunications property as identified in the bill. As a result, the department will have to create a new subclass of business personal property in its database, which will require computer programming changes at an estimated cost of \$120,000 in fiscal 2018.

Local Fiscal Effect: The bill exempts all personal property from county and municipal taxation, except for operating personal property of a railroad or public utility and specified telecommunications property. As a result, local personal property tax revenues will decrease by a significant amount beginning in fiscal 2018. SDAT estimates that the county business personal property assessable base will total approximately \$12.2 billion for fiscal 2017 and \$12.0 billion for fiscal 2018.

SDAT does not currently have data as to the amount of personal property owned by various telecommunications services referenced in the bill. As a point of reference, if specified telecommunications property comprises 15% of the county business personal property assessable base, and the business personal property tax base remains constant, county personal property tax revenues may decrease by approximately \$301 million beginning in fiscal 2018. Municipal property tax revenues will decrease by an estimated \$20.9 million.

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

Small Business Effect: Beginning in fiscal 2018, small businesses will not be subject to county personal property taxes with regard to certain business personal property. As a point of reference, in fiscal 2014, there were 347,331 personal property tax reports filed with SDAT. The average personal property assessment was \$35,151, resulting in an average tax amount of \$1,043.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Counties; Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - March 1, 2017

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Appendix – Personal Property Taxation in Maryland

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 notifies business entities on record that a personal property tax return must be filed by April 15. This tax return must include personal property located in Maryland as of January 1, the date of finality. The “date of finality” is the date used to determine ownership, location, value, and liability for tax purposes. Beginning in 2017, all tax returns will be filed electronically. 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.

Personal Property Tax Rates and Assessable Base Amounts

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
