

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 251
Budget and Taxation

(Senator Brinkley, *et al.*)

Personal Property Tax - Depreciation of Assessed Value

This bill establishes an annual depreciation rate for purposes of assessing the value of personal property. Except as otherwise provided by the State Department of Assessments and Taxation (SDAT), in the assessment of personal property a 10% annual rate of depreciation must be applied to the original cost of the personal property and in the eleventh year the assessed value must be \$0. The bill authorizes SDAT to establish different annual rates of depreciation for specific types of personal property based on the expected life of the personal property or other established criteria.

The bill also specifies that it is the intent of the General Assembly that the bill nullify Section 18.03.01.02 of the Code of Maryland Regulations (COMAR) that established a minimum depreciated value for most personal property at 25% of the original cost.

The bill takes effect June 1, 2013, and applies to taxable years beginning after June 30, 2013.

Fiscal Summary

State Effect: None.

Local Effect: Local personal property tax revenues may decrease by a significant amount beginning in FY 2014, depending on property depreciation schedules established by SDAT. Under one set of assumptions, county personal property tax revenues decrease by \$48.9 million in FY 2014. Local expenditures are not affected.

Small Business Effect: Potential meaningful. Small businesses may pay lower personal property taxes depending on property depreciation schedules established by SDAT.

Analysis

Current Law: Personal property is a class of property and is divided into the following subclasses: (1) stock in business; (2) distilled spirits; (3) operating personal property of a railroad; (4) operating personal property of a public utility that is machinery or equipment used to generate electricity or steam for sale; (5) all other operating personal property of a public utility; (6) machinery and equipment, other than operating personal property of a public utility, that is used to generate: electricity or steam for sale; or hot or chilled water for sale that is used to heat or cool a building; and (7) all other personal property.

Generally, the value of personal property is its value on the date of finality. However, stock in business is valued to the owner of the stock in business at its fair average value on the date of finality.

In valuing any personal property acquired by purchase, lease purchase, or other similar agreement for transfer of title to the personal property after a period of its use, SDAT must consider any sum that is paid to acquire the personal property.

COMAR specifies that a 10% rate of depreciation per year is applied to the original cost of most property. Generally, personal property may not be depreciated below 25% of the original cost.

Exhibit 1 provides a general depreciation schedule used by SDAT in the valuation of business personal property. In addition, property determined by the department to have an expected life in excess of 10 years at the time of acquisition is depreciated at an annual rate as determined by the department. Personal property of nonutility nuclear power plants is depreciated at annual rates as determined by the department, consistent with licenses and license extensions.

Background: The assessment of personal property is the responsibility of SDAT, while the collection of the tax on personal property is the responsibility of local governments. The department separately values inventory and all other tangible business personal property based on information filed annually by property owners by April 15 (the data is as of the preceding January 1). Property owners may request a filing extension of two months.

Inventory is valued at its “fair average value,” which means the lower of cost or market value. All other personal property, including office furniture, fixtures, equipment, and plant machinery, is valued at “full cash value.” Uniform rates of depreciation are applied to the cost of the property to determine full cash value.

Exhibit 1
Personal Property Depreciation Schedule

Business Personal Property	Annual Depreciation Percentage
Long-lived electric generation machinery and equipment of nonutility entities that generate electricity for sale	Variable rate
Vessels (over 100 feet)	5%
Mobile telephones; heavy equipment (tractors, bulldozers); autos, trucks, and tractors not requiring registration; radio and television transmitting equipment; music boxes; open-air theatre equipment (outdoor equipment, posts, speakers, signs); motel and hotel furniture (rooms and lobby); self-service laundry equipment; theatre seats; bowling alley equipment; nursing home furniture, fixtures, and equipment (rooms and lobby); car wash equipment; X-ray equipment, brain scanners, and MRI equipment; photocopy equipment; outdoor Christmas decorations; hospital room furniture and equipment; rental soda fountain equipment; rental pagers; model home furnishings; vending machines; fax machines; mainframe computers originally costing \$500,000 or more	20%
Data processing equipment; computer software	30% to a minimum of 10%
Rental televisions; rental stereo and radio equipment; rental video cassette recorders and tapes; drapes and shades; carpets	33.3%
Machines; video games; rental tuxedos; rental uniforms	50%

Source: State Department of Assessments and Taxation

Local Fiscal Effect: The bill nullifies the current minimum depreciation level of 25% of the original cost and states that except as otherwise provided by SDAT, the minimum depreciation level is 0% after the property is more than 10 years old. Depending on any new depreciation schedules provided by SDAT, local government personal property tax revenues may decrease beginning in fiscal 2014.

SDAT advises that approximately \$2.5 billion of the personal property base is for property that is at least eight years old, and that 75%, or \$1.9 billion, of that amount is property that is 10 years old or older. For county personal property tax purposes, this property is currently valued at 25% of the original cost. If, however, under the bill, this

property is valued at 0% of the original cost, total county personal property tax revenues will decrease by approximately \$48.9 million, beginning in fiscal 2014, as shown in **Exhibit 2**. It is estimated that municipal revenues will decrease by approximately 6% of the county decrease, or \$2.9 million.

Exhibit 2
Estimated County Revenue Decrease from 0% Minimum Depreciation Level
Fiscal 2014

County	Estimated Base 10 years or Older	Personal Property Tax Rate	Estimated County Revenue Decrease
Allegany	\$27,566,389	\$2.4525	(\$676,066)
Anne Arundel	249,179,687	2.3525	(5,861,952)
Baltimore City	147,556,960	5.6700	(8,366,480)
Baltimore	263,716,021	2.7500	(7,252,191)
Calvert	17,329,534	2.2300	(386,449)
Caroline	7,271,092	2.2250	(161,782)
Carroll	48,113,221	2.5450	(1,224,481)
Cecil	35,170,911	2.4768	(871,096)
Charles	91,283,503	2.6425	(2,412,167)
Dorchester	3,509,779	2.4400	(85,639)
Frederick	0	2.3400	0
Garrett	13,015,431	2.4750	(322,132)
Harford	78,604,426	2.6050	(2,047,645)
Howard	139,148,114	2.5350	(3,527,405)
Kent	0	2.5550	0
Montgomery	346,590,679	1.8100	(6,273,291)
Prince George's	243,783,401	2.4000	(5,850,802)
Queen Anne's	0	2.1178	0
St. Mary's	21,994,615	2.1425	(471,235)
Somerset	5,250,044	2.2093	(115,987)
Talbot	0	1.2275	0
Washington	53,363,265	2.3700	(1,264,709)
Wicomico	52,646,685	2.1010	(1,106,107)
Worcester	29,906,242	1.9250	(575,695)
Total	\$1,875,000,000		(\$48,853,308)

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

However, this revenue decrease may be mitigated by any new depreciation schedule for personal property established by SDAT. Any new schedule of the effect on county and municipal revenues cannot be reliably estimated at this time.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Department of Legislative Services

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