

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 434 (Delegate Fisher, *et al.*)
Ways and Means

Calvert County - Personal Property Tax - Exemption

This bill alters the taxation of personal property in Calvert County beginning on the date on which Dominion Resources, Inc. makes its first payment in lieu of taxes payment to Calvert County.

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

Fiscal Summary

State Effect: None.

Local Effect: Calvert County personal property tax revenues decrease by a significant amount beginning in FY 2019. Under one set of assumptions, personal property tax revenues decrease by approximately \$2.1 million annually, beginning in FY 2019. Expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: Beginning on the date on which Dominion Resources, Inc. makes its first payment in lieu of taxes payment to Calvert County, the bill exempts all personal property in Calvert County from the county personal property tax except (1) operating personal property of a railroad or public utility; (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; and (3) electronic bingo machines authorized to operate in the county. In addition, the bill specifies that personal property under a specified payment in lieu of taxes agreement will be subject to the county personal property tax on the termination of the agreement.

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.

Local Fiscal Effect: Calvert County indicates that Dominion Resources is scheduled to make its first payment in lieu of taxes payment January 1, 2018. As a result, specified personal property will be exempt from taxation beginning July 1, 2018.

Calvert County currently collects approximately \$2.5 million annually in business personal property tax revenues. Exempting most personal property from county taxation could decrease county revenues by approximately \$2.1 million annually beginning in fiscal 2019. This estimate assumes that specified telecommunications property and electronic bingo machines comprise 15% of the county's business personal property assessable base.

SDAT estimates that the Calvert County business personal property assessable base will total approximately \$115.5 million for fiscal 2016 and \$117.8 million for fiscal 2017. SDAT does not currently have data as to the amount of personal property owned by various telecommunications services referenced in the bill, nor does it have an estimated value of electronic bingo machines in the county. The State Lottery and Gaming Control Agency advises that there are 460 electronic bingo machines at the following locations – Chesapeake Beach Resort and Spa (278), Abner's Crab House (85), Traders (87), and American Legion Post #206 (10) – in Calvert County; however the agency does not have data as to the assessed value of these machines.

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

Small Business Effect: Small businesses in Calvert County will not be subject to personal property taxes for certain business personal property beginning in fiscal 2019. As a point

of reference, for fiscal 2015, there were 2,098 personal property tax reports filed with SDAT. The average personal property assessment was \$54,859, resulting in an average tax amount of \$1,223.

Additional Information

Prior Introductions: Similar bills were introduced during the 2014 and 2015 sessions. SB 841 of 2015 was assigned to the Senate Rules Committee, but no further action was taken. Its cross file, HB 69 of 2015, received a hearing in the House Ways and Means Committee, but no further action was taken. HB 573 of 2014 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Calvert County, State Department of Assessments and Taxation, Maryland State Lottery and Gaming Control Agency, Department of Legislative Services

Fiscal Note History: First Reader - February 23, 2016
kb/hlb

Analysis by: Michael Sanelli

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

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
