

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 90

(Chair, Ways and Means Committee)(By Request -
Departmental - Assessments and Taxation)

Ways and Means

Budget and Taxation

Personal Property Tax - Exemption for Low Assessments

This departmental bill provides an exemption from personal property valuation and taxation if the total original cost of the personal property was less than \$2,500. **The bill takes effect July 1, 2018, and applies to taxable years beginning after December 31, 2018.**

Fiscal Summary

State Effect: None. The bill does not materially affect the operations or finances of the State Department of Assessments and Taxation.

Local Effect: Local government personal property tax revenues decrease by approximately \$345,500 beginning in FY 2020. Local expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: The State Department of Assessments and Taxation has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services disagrees with this assessment.

Analysis

Current Law/Background: 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 2018.

Local Fiscal Effect: Local government personal property tax revenues decrease by approximately \$345,500 annually beginning in fiscal 2020. **Exhibit 1** shows the number of personal property accounts with a total original purchase price of less than \$2,500 and the current assessable base amount, by county, for tax year 2016. As shown in the exhibit, the total assessable base for these accounts was approximately \$10.8 million in tax year 2016, which represents less than one-tenth of 1% (0.1%) of the total personal property base. Based on current county personal property tax rates, county personal property tax revenues will decrease by approximately \$323,200 annually beginning in fiscal 2020, assuming a relatively constant personal property base and rates of depreciation. Municipal property tax revenues will decrease by an estimated \$22,300.

Small Business Effect: Tax year 2016 data (as shown in Exhibit 1) indicates that, on average, the businesses with personal property with an original purchase price of less than \$2,500 will have an average tax savings of \$11. However, these businesses may realize additional savings by not having to value personal property for their annual personal property tax return each year.

Exhibit 1
Personal Property Accounts with Original Purchase Price of less than \$2,500
Tax Year 2016

County	Personal Property Tax Rate	Number of Accounts	Base Value	Local Revenue Decrease	Average Per Account
Allegany	\$2.4425	293	\$81,220	(\$1,984)	\$7
Anne Arundel	2.2670	2,864	1,137,230	(25,781)	9
Baltimore City	5.6200	2,563	1,130,860	(63,554)	25
Baltimore	2.7500	3,904	1,640,750	(45,121)	12
Calvert	2.2300	421	167,320	(3,731)	9
Caroline	2.4500	138	55,660	(1,364)	10
Carroll	2.5150	892	344,340	(8,660)	10
Cecil	2.6035	377	140,190	(3,650)	10
Charles	3.0125	618	226,890	(6,835)	11
Dorchester	2.4400	100	0	0	0
Frederick	0.0000	579	0	0	0
Garrett	2.4750	73	0	0	0
Harford	2.6049	1,139	477,490	(12,438)	11
Howard	2.9750	2,023	793,510	(23,607)	12
Kent	0.0000	49	0	0	0
Montgomery	2.5320	6,539	2,412,550	(61,086)	9
Prince George's	3.4350	3,307	1,359,240	(46,690)	14
Queen Anne's	0.0000	87	0	0	0
St. Mary's	2.1195	83	29,790	(631)	8
Somerset	2.5000	508	147,930	(3,698)	7
Talbot	1.4270	196	0	0	0
Washington	2.3700	562	209,080	(4,955)	9
Wicomico	2.1715	452	154,690	(3,359)	7
Worcester	2.0875	726	292,220	(6,100)	8
Total		28,493	\$10,800,960	(\$323,244)	\$11

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

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - January 28, 2018
md/hlb Third Reader - March 20, 2018

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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 such as 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 business 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. Most counties offer exemptions for 100% of all three of these categories, but tax other types of business personal property. In addition, six counties (Dorchester, Frederick, Garrett, Kent, Queen Anne's, and Talbot) have elected to exempt all business personal property from county taxation. Garrett County does not tax business personal property, however the county does tax property of non-utility generators at the county personal property tax rate.

Personal Property Tax Rates and Assessable Base Amounts

As shown in **Exhibit 2**, the statewide assessable base for business personal property totals \$13.1 billion in fiscal 2018. Among counties that impose the business personal property tax, the assessable base ranges from a high of \$2.4 billion in Montgomery County to a low of \$38.7 million in Somerset County. Tax rates on business personal property range from \$2.0875 in Worcester County to \$5.62 in Baltimore City.

Exhibit 2
County Business Personal Property Base
Fiscal 2018

County	Personal Property Tax Rate	Business Personal Property
Allegany	\$2.4425	\$182,348,030
Anne Arundel	2.2670	1,594,684,760
Baltimore City	5.6200	1,363,449,310
Baltimore	2.7500	1,881,971,450
Calvert	2.2300	158,865,410
Caroline	2.4500	55,961,050
Carroll	2.5150	306,836,860
Cecil	2.6035	235,408,890
Charles	3.0125	231,003,880
Dorchester	2.4400	0
Frederick	0.0000	0
Garrett	2.4750	145,172,850
Harford	2.6049	696,101,930
Howard	2.9750	1,038,693,700
Kent	0.0000	0
Montgomery	2.5320	2,417,503,290
Prince George's	3.4350	1,704,318,300
Queen Anne's	0.0000	0
St. Mary's	2.1195	169,942,030
Somerset	2.5000	38,704,360
Talbot	1.4270	0
Washington	2.3700	416,848,090
Wicomico	2.1715	217,027,750
Worcester	2.0875	224,176,860
Total		\$13,079,018,800

Source: State Department of Assessments and Taxation

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: **Personal Property – Exemption for Low Assessments**

BILL NUMBER: HB 90

PREPARED BY: **Corbett Webb**, 410-767-1142, corbett.webb@maryland.gov

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation would benefit small businesses by exempting them from paying personal property tax. Small-business owners are currently tasked with submitting paperwork to our Department and paying single-digit tax bills issued by the counties. Under this proposed bill, small businesses with less than \$1,000 in assessed personal property would be exempt. Although our Department is suggesting a \$1,000 threshold, some alternatives are listed here for reference:

Exemption amount:	Number of small-businesses exempted:	Estimated average personal property tax liability*:	Overall savings for small businesses:
<\$250	0	\$0	\$0
<\$500	6,340	\$7.45	\$47,231
<\$1,000	15,842	\$11.98	\$189,859
<\$2,500	33,501	\$23.51	\$787,707

*Calculated using the statewide-county-average personal property tax rate of 2.05%