

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 1048
Ways and Means

(Delegate Hucker)

Personal Property Tax - Financial Institutions - Repeal of Tax Exemptions

This bill repeals a personal property tax exemption for personal property owned by specified financial institutions and credit unions and also repeals a personal property tax exemption for specified computer programs or hardware owned by banks, trust companies, or savings and loan associations that is used for processing deposits or loans. Financial institutions are defined as a credit company, certain finance companies, an international banking facility, a loan company, a mortgage company, and a safe-deposit company.

The bill takes effect June 1, 2011, and applies to all taxable years beginning after June 30, 2011.

Fiscal Summary

State Effect: None.

Local Effect: Potential significant increase in local government personal property tax revenues. The amount of the increase depends on the value of currently exempt personal property. Local expenditures are not affected.

Small Business Effect: Potential meaningful. Financial institutions with fewer than 50 employees will be required to pay more in personal property taxes.

Analysis

Current Law: The State has not imposed personal property taxes since fiscal 1984 and all personal property is exempt from State property tax. However, the counties, municipalities, and special taxing districts are authorized to tax personal property.

All business entities in Maryland may be required to pay local personal property taxes. Beginning January 1, 2011, the personal property tax on heavy equipment property is replaced with a gross receipts tax on the short-term lease or rental of heavy equipment property. All assessable tangible personal property located in Maryland and owned by businesses as of January 1 may be subject to a local personal property tax.

The State mandates certain exemptions from personal property assessment including aircraft, manufacturing tools, equipment or machinery, research and development property, farm implements, agricultural products, livestock, and residential property (nonbusiness property). Local governments are authorized to exempt from taxation tools, equipment, or machinery used in manufacturing.

Except for personal property used in connection with a business, personal property owned by an individual is not subject to valuation or taxation. Personal property used in connection with a business is also exempt if it is owned by an individual and is located at the individual's residence and either (1) is used in connection with a licensed family day care home; or (2) had a total original cost (excluding vehicles) of less than \$10,000.

Other major exemptions from local personal property taxes include (1) property of finance companies and savings and loan associations, generally; (2) manufacturing equipment (though subject to tax in some counties at specified percentages of assessment and subject to municipal property tax, unless exempted in full or in part by the municipality); (3) manufacturing inventory (though subject to municipal property tax, unless exempted in full or in part by the municipality); (4) commercial inventory (though subject to tax on up to 35% of assessment in Wicomico County and subject to municipal property tax, unless exempted in full or in part by the municipality); (5) motor vehicles, small vessels, and registered aircraft; (6) certain agricultural products and commodities; (7) farming implements and livestock; (8) property belonging to a home-based business with an initial purchase price of less than \$10,000; and (9) intangible property.

Local governments may provide various additional exemptions.

Background: The State has taxed financial institutions by various taxes not imposed on ordinary businesses through the years. Until 1995, the broader personal property tax exemption under the Tax Property Article § 7-221 applied to all financial institutions. Financial institutions were not subject to the State corporate income tax but were instead

subject to the financial institution franchise tax, which had a broader tax base than the corporate income tax. In particular, the interest derived from U.S. Government obligations, not taxable under the corporate income tax, was in the tax base for the financial institution franchise tax.

As to the banks and trust companies and the savings and loan associations, Chapter 127 of 1995 phased out and repealed the financial institution franchise tax. Under that legislation, those entities became subject to the ordinary corporate income tax instead of the financial institution franchise tax. In addition, the broad personal property tax exemption under the Tax Property Article § 7-221 was repealed as to those entities, and the new, more limited exemption under the Tax Property Article § 7-221.1 was enacted. This exemption for loan and deposit processing equipment of a bank or savings and loan association is analogous to the general exemptions under the property tax law for personal property of a manufacturer used in manufacturing.

Chapter 225 of 2000 repealed the financial institution franchise tax for the remaining types of financial institutions. In that legislation, the broader property tax exemption under the Tax Property Article § 7-221 was left in place for those types of financial institutions, *i.e.*, mortgage, loan, and credit companies, credit unions, and certain other entities.

Local Fiscal Effect: Local personal property tax revenues will increase beginning in fiscal 2012 as a result of repealing the personal property tax exemption for certain financial institutions. The amount of the increase depends on the value of personal property that is exempt from taxation in each jurisdiction and the property tax rate. However, the value of currently exempt personal property is not known.

The assessment of personal property is the responsibility of the State Department of Assessments and Taxation (SDAT), while the collection of the tax on personal property is the responsibility of local governments. SDAT 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.

While SDAT is responsible for the valuation of personal property, the department does not value exempt personal property. SDAT has, however, identified 76 financial

institutions, 133 banks, 58 savings and loans, and 14 credit unions that will be affected by the repeal of the personal property tax exemptions.

Exhibit 1 shows the amount of personal property tax revenue that would result from each \$100,000 exemption that is repealed, based on current county tax rates.

Exhibit 1
Personal Property Tax Increase for Each \$100,000 Exemption Repealed
Fiscal 2012

County	Personal Property Tax Rate	Exempt Personal Property Base	Personal Property Tax Increase
Allegany	\$2.4573	\$100,000	\$2,457
Anne Arundel	2.2000	100,000	2,200
Baltimore City	5.6700	100,000	5,670
Baltimore	2.7500	100,000	2,750
Calvert	2.2300	100,000	2,230
Caroline	2.1800	100,000	2,180
Carroll	2.6200	100,000	2,620
Cecil	2.2883	100,000	2,288
Charles	2.5650	100,000	2,565
Dorchester	2.2400	100,000	2,240
Frederick	0.0000	0	0
Garrett	0.0000	100,000	0
Harford	2.6050	100,000	2,605
Howard	2.8738	100,000	2,874
Kent	0.0000	0	0
Montgomery	2.2875	100,000	2,288
Prince George's	3.2975	100,000	3,298
Queen Anne's	0.0000	0	0
St. Mary's	2.1430	100,000	2,143
Somerset	2.2093	100,000	2,209
Talbot	0.0000	0	0
Washington	2.3700	100,000	2,370
Wicomico	1.8980	100,000	1,898
Worcester	1.7500	100,000	1,750
Total		\$2,000,000	\$48,635

Additional Information

Prior Introductions: None.

Cross File: None.

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

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