

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE

House Bill 480 (The Speaker, *et al.*) (By Request - Administration)
 Ways and Means

Small Business Personal Property Tax Relief Act of 2015

This Administration bill exempts a business that has personal property with an assessed value of \$10,000 or less from (1) the personal property tax; (2) filing a specified personal property tax report; and (3) the fee that is paid with the filing of the annual report.

The bill takes effect June 1, 2015, and applies to taxable years beginning after June 30, 2015.

Fiscal Summary

State Effect: General fund revenues decrease by approximately \$69.4 million annually beginning in FY 2016. General fund expenditures increase by approximately \$7.4 million in FY 2017, by \$5.7 million in FY 2018, and by \$3.9 million in FY 2019 for personal property tax reimbursements to local governments.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	(\$69.4)	(\$69.4)	(\$69.4)	(\$69.4)	(\$69.4)
GF Expenditure	\$0	\$7.4	\$5.7	\$3.9	\$0
Net Effect	(\$69.4)	(\$76.8)	(\$75.1)	(\$73.3)	(\$69.4)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local government personal property tax revenues decrease by approximately \$7.4 million in FY 2016 and by \$8.1 million in FY 2020. State reimbursements to local governments for lost personal property tax revenue increase by \$7.4 million in FY 2017, by \$5.7 million in FY 2018, and by \$3.9 million in FY 2019. Local expenditures are not affected.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment as discussed below.

Analysis

Bill Summary: The bill exempts a business that has personal property with an assessed value of \$10,000 or less from (1) the personal property tax; (2) filing a specified personal property tax report as required under Title 11 of the Tax Property Article; and (3) the fee that is paid with the filing of the annual report.

For each exemption granted, and as provided in the State budget, the State must remit to each county or municipality an amount equal to the following percentages of the tax that would have been collected if the personal property tax exemption had not been granted: (1) 100% in the first year; (2) 75% in the second year; (3) 50% in the third year; and (4) 0% in the fourth year and each year thereafter. In calculating the amount required to be remitted by the State, the tax that would have been collected must be based on the assessed value of the personal property at the time the person applied for the personal property tax exemption.

A person must apply to the State Department of Assessments and Taxation (SDAT) for the personal property tax exemption. SDAT must specify procedures for application for, approval of, and monitoring of continuing eligibility for the personal property tax exemption.

The State budget for fiscal 2017 must include an appropriation to each county or municipality equal to 100% of the tax that would have been collected in fiscal 2016 if the personal property tax exemption under the bill had not been granted.

Current Law/Background: In Maryland, there is a tax on business owned personal property which 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. In order to provide for uniform assessments, 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. For the fiscal year ending June 30, 2013, there were 286,218 personal property

reports filed. Local governments collected \$588.9 million in personal property tax revenues in fiscal 2014 and \$597.4 million in fiscal 2015. **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. There are seven rate categories (A through G) with each pertaining 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 which 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 which 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.

In fiscal 2015, the total statewide assessable base for business personal property is \$11.9 billion. Among counties that impose the business personal property tax, the assessable base ranges from a high in Montgomery County of \$2.2 billion to a low in Somerset County of \$31.6 million. Tax rates on business personal property range from \$1.925 in Worcester County to \$5.62 in Baltimore City.

State Revenues: General fund revenues decrease by approximately \$69.4 million annually beginning in fiscal 2016 as a result of the filing fee exemption for businesses with \$10,000 or less of assessed personal property. As noted in Exhibit 1, most businesses pay a \$300 annual fee, except for family farms, which pay a \$100 annual fee. SDAT reports that for fiscal 2014, there were 75,561 accounts that had assessed personal property of \$10,000 or less, and an additional 156,123 accounts with no assessed personal property. All of these accounts would be exempt from the annual filing fee under the bill. **Exhibit 2** shows the effect of the filing fee exemption.

Exhibit 2
Effect of Filing Fee Exemption

	<u>Accounts</u>	<u>Fee</u>	<u>Revenue Loss</u>
Personal Property <\$10,000			
Business Entities	75,506	\$300	(\$22,651,800)
Family Farms	55	100	(5,500)
No Assessed Personal Property			
Business Entities	155,705	300	(46,711,500)
Family Farms	418	100	(41,800)
General Fund Revenue Loss			(\$69,410,600)

Source: State Department of Assessments and Taxation

State Expenditures: The bill requires the State to reimburse each local government, as appropriated in the State budget, for the loss of personal property tax revenue resulting from the exemption proposed by the bill. The reimbursement lasts for three years for each

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exemption. The amount of the reimbursement is 100% of the lost revenue in the first year, 75% in the second year, and 50% in the third year. In the fourth year and each year thereafter, local governments lose all personal property tax revenue resulting from the exemption.

Exhibit 3 shows the number of accounts with an assessable base of \$10,000 or less for fiscal 2014. As shown in the exhibit, the total assessable base for businesses with \$10,000 or less of personal property was approximately \$239.0 million in fiscal 2014. Dorchester County will not impose a personal property tax beginning July 1, 2016.

As shown in **Exhibit 4**, county personal property tax revenues will decrease by approximately \$6.9 million and municipal property tax revenues will decrease by approximately \$485,300 in fiscal 2016. These amounts increase to \$7.6 million and \$532,400, respectively, in fiscal 2020.

Exhibit 5 shows the amount of the State reimbursement for fiscal 2017 through 2019. As shown, general fund expenditures increase by approximately \$7.4 million in fiscal 2017 and by \$3.9 million in fiscal 2019. The estimates assume that the State reimburses local governments through the State budget in the fiscal year following the fiscal year in which the exemption occurred. As such, the State pays \$7.4 million to local jurisdictions in fiscal 2017 to reimburse these jurisdictions for personal property tax losses incurred in fiscal 2016. The amount of the State reimbursement beyond fiscal 2019 cannot be reliably estimated and depends on the number of businesses that become eligible for the exemption after fiscal 2016.

SDAT likely incurs additional expenditures to administer the provisions of the bill. The amount of these expenditures cannot be reliably estimated at this time.

Local Fiscal Effect: Local government personal property tax revenues decrease by approximately \$7.4 million in fiscal 2016 and by \$8.1 million in fiscal 2020, as shown in Exhibit 4. Local government revenue decreases are offset for a three-year period beginning in fiscal 2017. Based on the timing of when the exemptions occur and when the State budget is passed, local governments are reimbursed for personal property tax decreases in the fiscal year that follows the year in which the revenue loss occurred. For example, local governments realize a personal property tax reduction of approximately \$7.4 million in fiscal 2016 and are reimbursed by the State for this amount in fiscal 2017, as shown in Exhibit 5.

Small Business Effect: Fiscal 2014 data indicates that, on average, businesses with \$10,000 or less of assessed personal property had a personal property tax assessment of \$3,240. Using an average property tax rate of \$2.21, this results in an average tax savings

of \$72. These businesses are also not required to pay the \$300 annual filing fee and may realize additional savings by not having to file a personal property tax return each year.

Additional Information

Prior Introductions: None.

Cross File: SB 590 (The President, *et al.*) (By Request - Administration) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 26, 2015
md/hlb

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Exhibit 3
Number of Accounts with Personal Property Assessable Base of \$10,000 or Less¹
Fiscal 2014

County	Accounts	Assessable Base
Allegany	835	\$3,187,420
Anne Arundel	7,745	25,183,080
Baltimore City	6,860	22,141,510
Baltimore	11,177	35,900,760
Calvert	1,207	4,087,840
Caroline	453	1,621,020
Carroll	2,750	9,182,650
Cecil	1,022	3,686,230
Charles	1,643	5,713,890
Dorchester ²	724	1,719,100
Frederick	0	0
Garrett	0	0
Harford	3,207	10,265,160
Howard	5,168	16,177,390
Kent	0	0
Montgomery	15,056	48,041,180
Prince George's	7,531	25,631,650
Queen Anne's	0	0
St. Mary's	1,138	3,997,630
Somerset	298	914,520
Talbot	0	0
Washington	1,529	5,437,140
Wicomico	1,370	4,789,930
Worcester	4,065	11,358,480
Total	73,778³	\$239,036,580

¹Data as of February 23, 2015.

²Dorchester County will not tax personal property as of July 1, 2016.

³Does not include 1,728 accounts in municipalities within counties that do not impose the personal property tax and 11,639 accounts that do not pay the corporate filing fee.

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

Exhibit 4
Effect of Exemption on Local Personal Property Tax Revenue
Fiscal 2016-2020

County	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Allegany	(\$78,012)	(\$79,962)	(\$81,961)	(\$84,011)	(\$86,111)
Anne Arundel	(593,565)	(608,404)	(623,614)	(639,205)	(655,185)
Baltimore City	(1,244,353)	(1,275,462)	(1,307,348)	(1,340,032)	(1,373,533)
Baltimore	(987,271)	(1,011,953)	(1,037,251)	(1,063,183)	(1,089,762)
Calvert	(91,159)	(93,438)	(95,774)	(98,168)	(100,622)
Caroline	(38,904)	(39,877)	(40,874)	(41,896)	(42,943)
Carroll	(230,944)	(236,717)	(242,635)	(248,701)	(254,919)
Cecil	(91,299)	(93,581)	(95,921)	(98,319)	(100,777)
Charles	(172,131)	(176,434)	(180,845)	(185,366)	(190,000)
Dorchester ¹	(41,946)	0	0	0	0
Frederick	0	0	0	0	0
Garrett	0	0	0	0	0
Harford	(267,397)	(274,082)	(280,934)	(287,957)	(295,156)
Howard	(481,277)	(493,309)	(505,642)	(518,283)	(531,240)
Kent	0	0	0	0	0
Montgomery	(1,210,638)	(1,240,904)	(1,271,926)	(1,303,724)	(1,336,318)
Prince George's	(845,204)	(866,334)	(887,992)	(910,192)	(932,947)
Queen Anne's	0	0	0	0	0
St. Mary's	(85,649)	(87,790)	(89,985)	(92,235)	(94,541)
Somerset	(20,920)	(21,443)	(21,979)	(22,528)	(23,091)
Talbot	0	0	0	0	0
Washington	(128,860)	(132,082)	(135,384)	(138,768)	(142,238)
Wicomico	(104,013)	(106,614)	(109,279)	(112,011)	(114,811)
Worcester	(218,651)	(224,117)	(229,720)	(235,463)	(241,350)
County Decrease	(\$6,932,193)	(\$7,062,503)	(\$7,239,065)	(\$7,420,042)	(\$7,605,543)
Municipal Decrease	(\$485,253)	(\$494,375)	(\$506,735)	(\$519,403)	(\$532,388)
Total Local Decrease	(\$7,417,446)	(\$7,556,878)	(\$7,745,800)	(\$7,939,445)	(\$8,137,931)

¹Dorchester County will not tax personal property as of July 1, 2016.

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

Exhibit 5
State Reimbursement Amounts
Fiscal 2017-2019

County	Fiscal 2017	Fiscal 2018	Fiscal 2019
Allegany	\$78,012	\$59,972	\$40,981
Anne Arundel	593,565	456,303	311,807
Baltimore City	1,244,353	956,596	653,674
Baltimore	987,271	758,965	518,626
Calvert	91,159	70,078	47,887
Caroline	38,904	29,908	20,437
Carroll	230,944	177,538	121,318
Cecil	91,299	70,186	47,960
Charles	172,131	132,326	90,423
Dorchester ¹	41,946	0	0
Frederick	0	0	0
Garrett	0	0	0
Harford	267,397	205,562	140,467
Howard	481,277	369,982	252,821
Kent	0	0	0
Montgomery	1,210,638	930,678	635,963
Prince George's	845,204	649,750	443,996
Queen Anne's	0	0	0
St. Mary's	85,649	65,843	44,993
Somerset	20,920	16,082	10,989
Talbot	0	0	0
Washington	128,860	99,061	67,692
Wicomico	104,013	79,960	54,640
Worcester	218,651	168,088	114,860
County Reimbursement	\$6,932,193	\$5,296,877	\$3,619,533
Municipal Reimbursement	\$485,253	\$370,781	\$253,367
Total Local Reimbursement	\$7,417,446	\$5,667,659	\$3,872,900

¹Dorchester County will not tax personal property as of July 1, 2016.

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

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Small Business Personal Property Tax Relief Act of 2015

BILL NUMBER: SB 590/HB480

PREPARED BY:

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

Legislation will have a positive impact on small business.