

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 161
Ways and Means

(Delegate Fisher, *et al.*)

Personal Property Tax - Investments in Maryland

This bill exempts, from the personal property tax, property that is owned by a business that (1) has organized under the laws of Maryland during the current tax year or (2) relocates its headquarters to Maryland during the current tax year. Also, beginning in fiscal 2018, the bill exempts all personal property, except for operating personal property of a railroad or public utility and specified telecommunications property from county or municipal property taxes.

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

Fiscal Summary

State Effect: General fund expenditures may increase by a minimal amount in FY 2016 for the State Department of Assessments and Taxation (SDAT) to hire contractual staff to prepare the specified report to the General Assembly. Revenues are not affected.

Local Effect: Local property tax revenues will decrease beginning in FY 2016 to the extent businesses start up or relocate their headquarters to Maryland. Beginning in FY 2018, local government revenues will decrease by an estimated \$288.1 million annually due to the business personal property tax exemption. Local expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful. Small business start ups or businesses that relocate their headquarters to Maryland will not be subject to personal property taxes in the year the start up or relocation occurs. Beginning in FY 2018, small businesses will not be subject to local personal property taxes.

Analysis

Bill Summary: SDAT must identify provisions of the Annotated Code of Maryland or the Code of Public Local Laws that are rendered inaccurate or obsolete as a result of specified provisions of the bill and must submit a report to the General Assembly, by December 1, 2015, on its findings with recommendations for any amendments to the Annotated Code of Maryland or the Code of Public Local Laws.

Current Law: The State has not imposed personal property taxes since fiscal 1984, and all personal property is exempt from the State property tax. However, 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. Local governments may provide various additional exemptions.

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.

Local Fiscal Effect: The bill affects local personal property tax collections in two ways. First, the bill provides a one-year personal property tax exemption for businesses that either start up or relocate their headquarters to Maryland for the tax year in which the start up or relocation occurs. Second, beginning in fiscal 2018, the bill provides a personal property tax exemption for all personal property, except for operating personal property of a railroad or a public utility, and 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.

One-time Start-up Exemption

Local property tax revenues will decrease beginning in fiscal 2016 to the extent businesses start up or relocate in Maryland during a given year. The revenue loss will depend on the number of qualifying businesses, and the assessed value of personal property. The amount of any revenue decrease will also vary between counties as counties have different tax rates and some counties do not tax personal property. To the extent a large company starts up or moves its headquarters, the effect could be significant in that year.

Exhibit 1 shows estimated personal property taxes paid to each county in fiscal 2014 based on the number of personal property certifications, the personal property assessable base, the average assessment per certification, and current personal property tax rates. Personal property certifications are similar to the number of personal property accounts except that in some instances businesses can have multiple certifications due to having personal property located in more than one jurisdiction. As such, certifications are a more accurate representation of the personal property located in each county.

Personal Property Tax Exemption

Beginning in fiscal 2018, the bill exempts all personal property, other than operating personal property of a railroad or a public utility, and specified telecommunications property from county and municipal personal property taxes. As a result, county property tax revenues will decrease by a significant amount beginning in fiscal 2018. SDAT forecasts the county business personal property assessable base to be approximately \$11.9 billion for fiscal 2017. As the county personal property tax base is forecast to remain relatively constant from fiscal 2015 to 2017, the Department of Legislative Services assumes that the assessable base will remain relatively constant beyond fiscal 2017 when the exemption takes effect. As a result, it is estimated that county personal property tax revenues will decrease by approximately \$269.4 million annually beginning in fiscal 2018, as shown in **Exhibit 2**. Municipal property tax revenues are estimated to decrease by an additional \$18.7 million. These estimates assume that specified

telecommunications property comprises 15% of each county's (except Garrett County) business personal property assessable base.

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

Exhibit 1
Average Personal Property Taxes Paid
Fiscal 2014

County	Personal Property Tax Rate	Certifications	County Personal Property Base	Average Certification	Average Tax Per Certification
Allegany	\$2.4500	2,196	\$187,704,490	\$85,476	\$2,094
Anne Arundel	2.3750	15,108	1,662,029,300	110,010	2,613
Baltimore City	5.6200	12,131	1,029,701,780	84,882	4,770
Baltimore	2.7500	20,596	1,733,364,890	84,160	2,314
Calvert	2.2300	2,298	108,374,630	47,160	1,052
Caroline	2.3500	917	54,706,040	59,658	1,402
Carroll	2.5150	5,088	258,262,500	50,759	1,277
Cecil	2.4768	2,319	181,681,140	78,345	1,940
Charles	3.0125	3,265	190,688,150	58,404	1,759
Dorchester	2.4400	992	13,960,670	14,073	343
Frederick	0.0000	0	0	0	0
Garrett	2.4750	1	87,773,660	87,773,660	2,172,398
Harford	2.6050	6,714	566,933,970	84,441	2,200
Howard	2.5350	10,032	973,192,560	97,009	2,459
Kent	0.0000	0	0	0	0
Montgomery	1.8975	30,260	2,209,135,610	73,005	1,385
Prince George's	2.4000	16,741	1,311,176,750	78,321	1,880
Queen Anne's	2.1178	0	0	0	0
St. Mary's	2.1425	2,907	161,819,810	55,666	1,193
Somerset	2.2875	536	32,399,440	60,447	1,383
Talbot	1.2800	0	0	0	0
Washington	2.3700	3,694	386,258,820	104,564	2,478
Wicomico	2.1367	3,024	245,712,180	81,254	1,736
Worcester	1.9250	5,774	207,587,820	35,952	692
Total		144,593	\$11,602,464,210	\$80,242	

Source: State Department of Assessments and Taxation

Exhibit 2
Estimated Personal Property Tax Revenue Decrease
(\$ in Thousands)

County	Personal Property Tax Rate FY 2015	Business Personal Property Base FY 2017	Property Tax Decrease
Allegany	\$2.4475	\$194,710	(\$4,051)
Anne Arundel	2.3570	1,521,840	(30,489)
Baltimore City	5.6200	1,080,800	(51,630)
Baltimore	2.7500	1,676,690	(39,193)
Calvert	2.2300	107,110	(2,030)
Caroline	2.4000	55,240	(1,127)
Carroll	2.5150	245,360	(5,245)
Cecil	2.4768	251,560	(5,296)
Charles	3.0125	556,860	(14,259)
Dorchester	2.4400	0	0
Frederick	0.0000	0	0
Garrett	2.4750	84,990	(2,104)
Harford	2.6050	628,930	(13,926)
Howard	2.5350	963,650	(20,764)
Kent	0.0000	0	0
Montgomery	1.8300	2,158,300	(33,572)
Prince George's	2.4000	1,319,300	(26,914)
Queen Anne's	0.0000	0	0
St. Mary's	2.1425	174,760	(3,183)
Somerset	2.2875	30,950	(602)
Talbot	0.0000	0	0
Washington	2.3700	364,450	(7,342)
Wicomico	2.1715	229,370	(4,234)
Worcester	1.9250	210,010	(3,436)
Total		\$11,854,880	(\$269,396)

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

Additional Information

Prior Introductions: HB 1129 of 2014, HB 856 of 2013, and HB 1065 of 2012 received hearings in the House Ways and Means Committee, but no further action was taken on any of the bills.

Cross File: None.

Information Source(s): Baltimore City, Allegany, Montgomery, and Talbot counties; City of Rockville; State Department of Assessments and Taxation; Maryland Association of Counties; Department of Legislative Services

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