

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 40 (Delegate Morgan)
Ways and Means

St. Mary's County - Personal Property Tax - Exemption

This bill alters the taxation of personal property in St. Mary's County beginning in fiscal 2018.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: None. The bill exempts businesses in St. Mary's County from filing a personal property tax return, but it does not exempt businesses from the corporate filing fee requirement.

Local Effect: St. Mary's County personal property tax revenues decrease by a significant amount beginning in FY 2018. Under one set of assumptions, personal property tax revenues decrease by approximately \$706,300 in FY 2018 through 2019 and by \$3.0 million annually beginning in FY 2020. Expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill exempts new personal property purchased by a business in St. Mary's County from the county personal property tax for personal property tax returns filed January 1, 2017, to December 31, 2018. For personal property tax returns filed on or after January 1, 2019, all personal property in St. Mary's County is exempt from the county personal property tax except (1) operating personal property of a railroad or public utility and (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.

In addition, the bill specifies that a person may not be required to file a personal property tax report with the State Department of Assessments and Taxation (SDAT) for personal property that is not subject to county personal property taxes under the bill.

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.

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 for property in the owners possession as of the preceding January 1 for property purchased in the prior calendar year). 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.

State Fiscal Effect: The bill specifies that, beginning in fiscal 2018, businesses in St. Mary's County that have exempt personal property do not have to file a personal property tax report with SDAT, as required by Title 11 of the Tax Property Article.

Businesses operating in Maryland must file a personal property tax return (report) with SDAT each year if they have personal property. In addition, businesses are also required

to pay an annual filing fee of, in most instances, \$300, as required under Title 1 of the Corporations and Associations Article, in order to operate in the State. SDAT advises that it uses one form (Form 1) to meet the requirements of both statutes. The bill exempts business in St. Mary's County from filing a personal property tax return (report), but it does not exempt businesses from the corporate filing fee requirement under current law.

Local Fiscal Effect: The bill alters the taxation of personal property in St. Mary's County in two ways beginning in fiscal 2018. First, the bill exempts from county taxation specified new business personal property purchased between January 1, 2016 (returns filed beginning January 1, 2017), and December 31, 2018. Second, beginning in fiscal 2020 (for property purchased during calendar 2018 for returns filed on or after January 1, 2019), the bill exempts all personal property from county taxation, except for operating personal property of a railroad or public utility and specified telecommunications property.

St. Mary's County currently collects approximately \$3.5 million annually in business personal property tax revenues. Exempting newly purchased personal property from county taxation may decrease county revenues by approximately \$706,300 in fiscal 2018 and 2019. Exempting most personal property from county taxation could decrease county revenues by approximately \$3.0 million annually beginning in fiscal 2020. These estimates assume that 20% of the taxable personal property assessable base in a year comes from new purchases by businesses and that specified telecommunications property comprise 15% of the county's business personal property assessable base.

SDAT estimates that the St. Mary's County business personal property assessable base will total approximately \$164.2 million for fiscal 2016 and \$165.0 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.

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 St. Mary's County will not be subject to personal property taxes for new personal property purchased through December 31, 2018, and beginning in fiscal 2020 these small businesses will not be subject to county personal property taxes with regards to business personal property. As a point of reference, in fiscal 2014, there were 2,907 personal property tax reports filed with SDAT. The average personal property assessment was \$55,700, resulting in an average tax amount of \$1,200.

Additional Information

Prior Introductions: HB 184 of 2015 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): St. Mary's County, State Department of Assessments and Taxation, Department of Legislative Services

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