SB 385

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 385 (The President, *et al.*) (By Request - Administration)
Budget and Taxation

Corporations and Associations - Filing Fees - Reductions

This Administration bill reduces the fee that specified business entities must pay for filing a required annual report with the State Department of Assessments and Taxation (SDAT) and makes conforming changes. The bill reduces current filing fees in $50 increments each fiscal year, beginning in fiscal 2018 and ending in fiscal 2021, when the specified filing fees are reduced to $100.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: No effect in FY 2017. General fund revenues decrease by $15.3 million in FY 2018 due to decreased filing fee revenues for annual reports, assuming the number of annual report returns remains constant in future fiscal years. The compounding effect of further reducing the filing fee each year results in the general fund revenue reduction escalating to $61.2 million in FY 2021 and subsequent years, when all filing fees are reduced to $100. Expenditures are not affected.

($ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	$0	($15.3)	($30.6)	($45.9)	($61.2)
Expenditure	0	0	0	0	0
Net Effect	$0.0	($15.3)	($30.6)	($45.9)	($61.2)

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

Local Effect: None.

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

Analysis

Bill Summary/Current Law: The bill reduces annual report filing fees for specified business entities that currently pay $300 annually to SDAT. Filing fees are reduced to the following levels each fiscal year beginning in fiscal 2018:

- $250 in fiscal 2018;
- $200 in fiscal 2019;
- $150 in fiscal 2020; and
- $100 in subsequent fiscal years.

Specifically, the bill applies to the annual reports filed by the following entities:

- annual report of a Maryland corporation (except a charitable or benevolent institution, nonstock corporation, savings and loan corporation, credit union, family farm, and banking institution);

- annual report of a foreign corporation subject to the jurisdiction of Maryland (except a national banking association, savings and loan association, credit union, nonstock corporation, and charitable and benevolent institution);

- annual report of a Maryland savings and loan association, banking institution, or credit union or of a foreign savings and loan association, national banking association, or credit union that is subject to the jurisdiction of Maryland;

- annual report of a Maryland limited liability company, limited liability partnership, or limited partnership, or of a foreign limited liability company, foreign limited liability partnership, or foreign limited partnership (except a family farm);

- annual report of a business trust; and

- annual report of a real estate investment trust or foreign statutory trust doing business in Maryland.

Under current law, for each of the annual reports listed above, which are filed but not recorded, the filing fee is $300. In addition, the filing fee for the annual report of a family farm is $100; that filing fee remains at $100 each year under the bill.

On or before April 15 of each year, a person must submit a report on personal property to SDAT if:

- the person is a business trust, statutory trust, domestic corporation, limited liability company, limited liability partnership, or limited partnership;

- the person is a foreign corporation, foreign statutory trust, foreign limited liability company, foreign limited liability partnership, or foreign limited partnership registered or qualified to do business in the State; or

- the person owns, or during the preceding calendar year owned, property that is subject to property tax.

The report must (1) be in the form the department requires; (2) be under oath as the department requires; and (3) contain the information that the department requires.

Background: In Maryland, a tax on business-owned personal property 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.

State Revenues: General fund revenues decrease by approximately $15.3 million for each $50 reduction in the filing fee. Since the fee remains at its current level in fiscal 2017, general fund revenues are not impacted in that year. However, general fund revenues decrease by $15.3 million in fiscal 2018. Because of the compounding effect of the progressive reduction in the fee, general fund revenues decrease by $30.6 million in fiscal 2019, $45.9 million in fiscal 2020, and $61.2 million in fiscal 2021 – at which time the fee is set at $100 for all future years as well. Thus, foregone general fund revenues remain at $61.2 million in subsequent years. This estimate is based on the 305,894 reports filed in fiscal 2015, for which the current $300 fee is charged, and assumes that the number of filers remains constant. To the extent that the number of filers increases, the general fund revenue loss increases. Likewise, to the extent that the number of filers decreases in subsequent fiscal years, the general fund revenue loss decreases.

Small Business Effect: Small businesses are not affected in fiscal 2017, but they benefit by realizing minimal cost savings beginning in fiscal 2018 due to the reduction in the filing fee paid to SDAT. Those savings grow as the filing fee reduction continues in subsequent fiscal years. By fiscal 2021, the filing fee declines to two-thirds of what would otherwise be paid under current law; even so, the benefit from the reduced fee is likely minimal to the overall operations of the business (with a $100 fee paid each year from fiscal 2021 on rather than the $300 annual fee under current law).

Additional Information

Prior Introductions: None.

Cross File: HB 457 (The Speaker, *et al.*) (By Request - Administration) - Economic Matters.

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

Fiscal Note History: First Reader - February 16, 2016
md/kdm

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Corporations and Associations – Filing Fees – Reductions

BILL NUMBER: SB0385/HB0457

PREPARED BY: Aaron Barker, DBM Staff Economist

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

___ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

_X_ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Reducing the property tax filing fees for business entities from $300 to $100 over four years will save affected entities $200 per year. This is estimated to impact approximately 300,000 business entities, most of which are Maryland small businesses, saving them a total of $65 million annually once fully phased-in. This will allow these affected entities to invest more in their businesses.