

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1184 (Delegate Malone, *et al.*)
 Economic Matters

Corporations and Associations - Filing Fees - Reductions

This 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) by reducing current filing fees in \$50 increments each fiscal year, beginning in fiscal 2019 and ending in fiscal 2022, when the specified filing fees are reduced to \$100.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: No effect in FY 2018. General fund revenues decrease by \$14.6 million in FY 2019 due to decreased filing fee revenues for annual reports, assuming the number of annual report returns remains constant in future fiscal years. Reducing the filing fee each year by an additional \$50 results in a general fund revenue decrease of \$58.7 million in FY 2022 and subsequent years, when all filing fees are reduced to \$100. Expenditures are not affected.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	\$0	(\$14.6)	(\$29.3)	(\$44.0)	(\$58.7)
Expenditure	0	0	0	0	0
Net Effect	\$0.0	(\$14.6)	(\$29.3)	(\$44.0)	(\$58.7)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: 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 2019:

- \$250 in fiscal 2019;
- \$200 in fiscal 2020;
- \$150 in fiscal 2021; and
- \$100 in fiscal 2022 and subsequent fiscal years.

Current Law: County and municipal governments in Maryland impose property taxes on business-owned personal property. As part of the property tax assessment process, business entities are required to submit an annual report fee to SDAT along with the personal property tax return. **Appendix – Corporate Filing Fees in Maryland** provides an overview on how personal property taxes are imposed and collected in Maryland and information on the collection of corporate filing fees. On average, the State collects approximately \$85 million annually in corporate filing fees.

State Revenues: General fund revenues decrease by approximately \$14.7 million for each \$50 reduction in the filing fee. Since the fee remains at its current level in fiscal 2018, general fund revenues are not impacted in that year. However, general fund revenues decrease by \$14.6 million in fiscal 2019. Reducing the filing fee by \$50 each year leads to a general fund revenue decrease by \$29.3 million in fiscal 2020, \$44.0 million in fiscal 2021, and \$58.7 million in fiscal 2022 – at which time the fee is set at \$100 for all future years as well. Thus, general fund revenues will decrease by \$58.7 million in subsequent years.

This estimate is based on the five-year average of reports filed in 2012 through 2016 for which the current \$300 fee is charged and assumes that the number of filers remains constant. To the extent that variations occur in the number of business entities paying the filing fee each year, the effect on general fund revenues will vary accordingly. In addition, Chapters 323 and 324 of 2016 establish the Maryland Small Business Retirement Savings Program and Trust, which requires specified private-sector employers to make the program available to their employees. The legislation waives the annual filing fee collected by SDAT for a corporation or business entity that participates in the program or otherwise offers a retirement savings arrangement for its employees for the filing of reports. The number of businesses that participate will also have an impact on revenues depending on how many participate in the program and have the filing fee waived each year.

Additional Information

Prior Introductions: HB 457 of 2016 received an unfavorable report from the House Economic Matters Committee. Its cross file, SB 385, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - March 7, 2017
fn/hlb

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Appendix – Corporate Filing Fees in Maryland

In Maryland, there is a tax on business-owned personal property that 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. To provide for uniform assessments, the State Department of Assessments and Taxation (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 notifies business entities on record that a personal property tax return must be filed by April 15. This tax return must include personal property located in Maryland as of January 1, the date of finality. The “date of finality” is the date used to determine ownership, location, value, and liability for tax purposes. Beginning in 2017, all tax returns will be filed electronically. 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. **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

SDAT’s Charter Unit is the central repository of all records for business entity formation and filings, such as charters, limited liability companies, partnerships, and trusts. The unit provides resident agent information for service of process on these entities and accepts service in certain instances on their behalf. It also records trade names and is the filing place for most financing statements under the Uniform Commercial Code. The Charter Unit administers the State’s annual corporate filing fee. Revenue collected is deposited into the State general fund.