

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1510 (Delegate Mautz)
 Economic Matters

Corporations and Associations - Filing Fee - Annual Report

This bill reduces the corporate filing fee for a limited liability company (LLC) with fewer than five employees from \$300 to \$25.

Fiscal Summary

State Effect: General fund revenues decrease by a significant amount beginning in FY 2019. General fund expenditures increase by \$343,400 in FY 2019 and by \$296,200 in FY 2023. Future years reflect annualization and inflation.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	-	-	-	-	-
GF Expenditure	\$343,400	\$268,000	\$275,600	\$285,700	\$296,200
Net Effect	(\$343,400)	(\$268,000)	(\$275,600)	(\$285,700)	(\$296,200)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

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 the State Department of Assessments and Taxation (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 a significant amount beginning in fiscal 2019 as a result of reduced filing fees for LLCs. The amount of the revenue decrease depends on the number of LLCs that have fewer than five employees. SDAT indicates that there are 218,992 LLCs registered in the State, of which 193,922 are domestic LLCs and 25,070 are foreign LLCs. In total, these LLCs paid \$65.7 million in corporate filing fees. However, the department does not have data as to the number of employees at each LLC. **Exhibit 1** shows the potential impact on general fund revenues depending on the percentage of LLCs registered in the State that have fewer than five employees. As shown in Exhibit 1, if 50% of all LLCs have fewer than five employees, general fund revenues would decrease by \$30.1 million annually.

Exhibit 1
Potential Revenue Loss from Reduced Filing Fees

<u>Percentage of LLCs with Fewer than Five Employees</u>	<u>General Fund Revenues</u>
100%	(\$60,222,800)
90%	(54,200,520)
80%	(48,178,240)
70%	(42,155,960)
60%	(36,133,680)
50%	(30,111,400)
40%	(24,089,120)
30%	(18,066,840)
20%	(12,044,560)
10%	(6,022,280)

LLC: limited liability company

Source: Department of Legislative Services

State Expenditures: The bill will require SDAT to track the number of employees at each LLC registered in the State. This will require a computer system update at a cost of approximately \$120,000 in fiscal 2019. In addition, the department will need to hire additional personnel at a cost of \$223,400 to verify the number of employees at LLCs and to maintain the database. As a result, general fund expenditures will increase by \$343,400

in fiscal 2019, which accounts for the bill's October 1, 2018 effective date. This estimate reflects the cost of hiring one supervisor, two auditors, and two office services clerks to perform various data entry, processing, and verification tasks necessary to monitor the number of employees at each LLC to ensure compliance. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	5
Salaries and Fringe Benefits	\$196,608
Computer Programming Changes	120,000
Operating Expenses	26,794
Total FY 2019 State Expenditures	\$343,402

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses. SDAT also reports that the department may incur additional costs for travel related to auditing purposes, which are not included in this estimate.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 19, 2018
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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. The charter unit 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.