

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1666
Ways and Means

(Delegate Malone, *et al.*)

Small Business Personal Property Tax Relief Act of 2018

This bill exempts a business that owns or leases business personal property with a total assessed value of \$10,000 or less from the personal property tax for taxable years beginning after December 31, 2018. **The bill takes effect June 1, 2018.**

Fiscal Summary

State Effect: None.

Local Effect: Local government revenues decrease by approximately \$7.1 million annually beginning in FY 2020. Local government 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 a business that owns or leases business personal property with a total assessed value of \$10,000 or less from the personal property tax for taxable years beginning after December 31, 2018. Total assessed value is, for each person, the personal property assessment that is the greater of (1) the aggregate assessment of personal property for that person in all counties or (2) the aggregate assessment of personal property for that person in all municipalities.

A person must apply annually to the State Department of Assessments and Taxation (SDAT) for the personal property tax exemption at the time the person files a required personal property tax report. SDAT must specify procedures for application for, approval

of, and monitoring of continuing eligibility for the personal property tax exemption. A person who certifies in the annual report that the person has personal property that qualifies for the exemption under the bill may not be required to submit specified personal property information that would otherwise be required in the report.

Current Law: County and municipal governments impose property taxes on business-owned personal property. **Appendix – Personal Property Taxation in Maryland** provides an overview on how personal property taxes are imposed and collected in Maryland. The Appendix also includes information on personal property tax rates and the assessable base amounts for fiscal 2018.

Local Fiscal Effect: Businesses are required to file a personal property report by April 15 of each year certifying the personal property in their possession as of January 1 of that year. This information is used to determine the value of personal property subject to personal property taxes for the fiscal year beginning July 1 of that year. As a result of exempting businesses with \$10,000 or less of assessed personal property, local government personal property tax revenues decrease by approximately \$7.1 million annually beginning in fiscal 2020, as shown in **Exhibit 1**. The estimate is based on those businesses that had business personal property with an assessed value of \$10,000 or less in fiscal 2018, current personal property tax rates, and that personal property assessments will remain relatively constant.

Exhibit 2 shows the number of accounts with a personal property assessable base of \$10,000 or less for fiscal 2018. As shown in the exhibit, the total personal property base for businesses with \$10,000 or less of personal property is approximately \$221.3 million in fiscal 2018.

Small Business Effect: Beginning in fiscal 2020, small businesses with \$10,000 or less of assessed personal property will not be subject to county and municipal personal property taxes with regard to certain business personal property. As a point of reference, in fiscal 2017 there were 330,981 personal property tax reports filed with SDAT, of which 118,516 had assessed personal property. The average personal property assessment was \$81,409, resulting in an average tax amount of \$2,416.

Exhibit 1
Local Revenue Decrease
Fiscal 2020

County	Revenue Decrease
Allegany	(\$70,300)
Anne Arundel	(552,400)
Baltimore City	(1,198,700)
Baltimore	(955,300)
Calvert	(85,500)
Caroline	(35,100)
Carroll	(206,100)
Cecil	(97,700)
Charles	(167,200)
Dorchester	0
Frederick	0
Garrett	0
Harford	(247,600)
Howard	(456,200)
Kent	0
Montgomery	(1,154,500)
Prince George's	(886,800)
Queen Anne's	0
St. Mary's	(84,300)
Somerset	(22,300)
Talbot	0
Washington	(127,500)
Wicomico	(101,200)
Worcester	(199,500)
County Decrease	(\$6,648,300)
Municipal Decrease	(\$465,400)
Total Local Decrease	(\$7,113,700)

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

Exhibit 2
Number of Accounts and Assessable Base of \$10,000 or Less¹
Fiscal 2018

County	Accounts	Assessable Base
Allegany	773	\$2,806,410
Anne Arundel	7,476	23,774,080
Baltimore City	6,526	20,808,440
Baltimore	10,566	33,891,760
Calvert	1,157	3,741,360
Caroline	420	1,399,270
Carroll	2,515	7,994,690
Cecil	985	3,662,770
Charles	1,611	5,415,830
Dorchester	0	0
Frederick	0	0
Garrett	0	0
Harford	3,015	9,274,710
Howard	4,956	14,960,350
Kent	0	0
Montgomery	14,483	44,483,750
Prince George's	7,569	25,186,410
Queen Anne's	0	0
St. Mary's	1,121	3,881,390
Somerset	261	870,410
Talbot	0	0
Washington	1,519	5,248,970
Wicomico	1,310	4,547,810
Worcester	2,822	9,321,560
Total	69,085	\$221,269,970

¹Data as of February 21, 2018.

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

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 - March 5, 2018
mm/hlb

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Appendix – Personal Property Taxation 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 such as 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

Personal property, except inventory, is assessed based on the original cost less an annual depreciation allowance. The depreciation rate is determined based on the category of property. Seven rate categories (A through G) each pertain to different types of personal property. Except for data processing equipment and canned software, property may not be depreciated below 25%. For example, an item that was purchased for \$400 would be

reduced by the depreciation factor each year until it reaches a minimum of \$100. Inventory is valued at its fair average value using the cost or market value, whichever is lower.

Certain personal property is exempt by statute or local law. Exemptions generally fall into two categories: those mandated by State law and those that are optional to local governments. There are certain organizations or groups whose personal property is exempt throughout the State. These organizations include religious groups, governmental entities, nonprofit hospitals, cemetery and mausoleum companies, and certain other groups that meet specified strict use criteria. In addition, State law requires that certain types of personal property be fully exempt throughout the State. These include aircraft, farming implements, residential (nonbusiness) property, most registered vehicles, boats not more than 100 feet in length, hand tools of mechanics or artisans, and intangible personal property (*e.g.*, stocks, bonds, patents, goodwill, trademarks, etc.).

State law authorizes local governments to exempt certain types of business personal property. The county or municipality where the property is located may authorize a full or partial exemption. The most significant categories that may be exempt from the personal property tax are commercial inventory, manufacturing and research and development inventory, and manufacturing and research and development machinery. Most counties offer exemptions for 100% of all three of these categories, but tax other types of business personal property. In addition, six counties (Dorchester, Frederick, Garrett, Kent, Queen Anne's, and Talbot) have elected to exempt all business personal property from county taxation. Garrett County does not tax business personal property, however the county does tax property of non-utility generators at the county personal property tax rate.

Personal Property Tax Rates and Assessable Base Amounts

As shown in **Exhibit 2**, the statewide assessable base for business personal property totals \$13.1 billion in fiscal 2018. Among counties that impose the business personal property tax, the assessable base ranges from a high of \$2.4 billion in Montgomery County to a low of \$38.7 million in Somerset County. Tax rates on business personal property range from \$2.0875 in Worcester County to \$5.62 in Baltimore City.

Exhibit 2
County Business Personal Property Base
Fiscal 2018

County	Personal Property Tax Rate	Business Personal Property
Allegany	\$2.4425	\$182,348,030
Anne Arundel	2.2670	1,594,684,760
Baltimore City	5.6200	1,363,449,310
Baltimore	2.7500	1,881,971,450
Calvert	2.2300	158,865,410
Caroline	2.4500	55,961,050
Carroll	2.5150	306,836,860
Cecil	2.6035	235,408,890
Charles	3.0125	231,003,880
Dorchester	2.4400	0
Frederick	0.0000	0
Garrett	2.4750	145,172,850
Harford	2.6049	696,101,930
Howard	2.9750	1,038,693,700
Kent	0.0000	0
Montgomery	2.5320	2,417,503,290
Prince George's	3.4350	1,704,318,300
Queen Anne's	0.0000	0
St. Mary's	2.1195	169,942,030
Somerset	2.5000	38,704,360
Talbot	1.4270	0
Washington	2.3700	416,848,090
Wicomico	2.1715	217,027,750
Worcester	2.0875	224,176,860
Total		\$13,079,018,800

Source: State Department of Assessments and Taxation
