Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 795 (Delegate Luedtke)
Ways and Means Budget and Taxation

Gross Receipts Tax on Short-Term Lease or Rental of Heavy Equipment - Alterations

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This bill exempts government agencies from the gross receipts tax on short-term leases or rentals of heavy equipment property. The bill also repeals a requirement that a person with gross receipts subject to tax to report specified information to the county or municipality where the heavy equipment rental business is located. In addition, local governments will no longer be required to calculate the amount of property tax that would have been due under the personal property tax method. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: Potential minimal reduction in State expenditures beginning in FY 2023. State revenues are not affected.

Local Effect: Potential decrease in county and municipal gross receipts tax revenues beginning in FY 2023. Potential decrease in county and municipal administrative expenditures beginning in FY 2023.

Small Business Effect: Minimal.

Analysis

Current Law: Chapter 337 of 2010 replaced the personal property tax on heavy equipment property with a gross receipts tax on the short-term lease or rental of heavy equipment property. The tax must be remitted to the local government where the business is located on a quarterly basis. Chapter 337 also required that the taxes be calculated under the gross receipts tax and the personal property tax method. If the amount of revenue collected under the "gross receipt tax method" is below the amount that would have been collected under the "property tax method," the business must pay the difference to the local government.

Specifically, Chapter 337 imposed a local 2% tax on the gross receipts from the short-term lease or rental of heavy equipment property by a person whose principal business is the short-term lease or rental of heavy equipment property at retail. The gross receipts tax does not apply to a business located in a county or municipality that does not impose a personal property tax.

A person is determined to be in the principal business of short-term lease or rental of heavy equipment property if (1) the largest segment of total rental receipts of the business is from the short-term lease or rental of heavy equipment property and (2) the business is described under Code 532412 of the North American Industry Classification System as published by the U.S. Census Bureau.

A person who owns a business with gross receipts subject to the tax must collect the tax from rental customers and remit the tax on a quarterly basis. Chapter 337 requires a person with gross receipts subject to the tax to file a report with the State Department of Assessments and Taxation detailing all personal property held by the person. Local governments must calculate the difference between the total gross receipts tax remitted during the previous calendar year and the amount of property tax calculated that would have been due. On or before February 28 of each year, local governments must provide a statement to each person who owns a business with gross receipts subject to the tax that includes the total gross receipts tax remitted during the previous calendar year; (2) the total property tax calculated that would have been due; and (3) the gross receipts shortage or gross receipts surplus. To the extent there is a gross receipt shortage between the calculated personal property tax owed and the amount of gross receipts taxes paid, the person must pay the difference to the appropriate local government.

Heavy equipment property is defined as construction, earthmoving, or industrial equipment that is mobile including any attachment for the heavy equipment. It includes (1) a self-propelled vehicle that is not designed to be driven on a highway or (2) industrial electrical generation equipment, industrial lift equipment, industrial material handling equipment, or other similar industrial equipment. A short-term lease or rental is defined as a period of 365 days or less.

State Fiscal Effect: The bill may result in a minimal reduction in State expenditures to the extent that heavy equipment leased or rented by the State is subject to the gross receipts tax on the lease or rental of heavy equipment. However, the following State agencies indicated that the bill will not have any effect on agency expenditures: (1) the Maryland Department of the Environment; (2) the Maryland Department of Emergency

Management; (3) the Department of Natural Resources; (4) the Maryland State Police; and (5) the Maryland Military Department. In addition, the Maryland Department of Transportation reports that much of its construction work is conducted by contractors who own or lease heavy equipment, and as a result, the bill will not have a significant impact on the department.

Local Fiscal Effect: Under current law, local governments must provide a statement to each person who owns a business with gross receipts subject to the tax that includes (1) the total gross receipts tax remitted during the previous calendar year; (2) the total property tax calculated that would have been due; and (3) the gross receipts shortage or gross receipts surplus. To the extent there is a gross receipts shortage between the calculated personal property tax owed and the amount of gross receipts taxes paid, the person must pay the difference to the appropriate local government. The bill repeals the gross receipts shortage provision. As a result, local government gross receipts tax revenues may decrease beginning in fiscal 2023. The amount of the decrease depends on the amount of the gross receipts shortage that is calculated for each business in each jurisdiction.

In addition, removing the gross receipts shortage provision may also result in reduced administrative costs for local governments because they will no longer have to use two methods of calculating gross receipts taxes owed.

As shown in **Exhibit 1**, local revenue collections from the gross receipts tax on heavy equipment account for a minimal amount of overall county revenues in most jurisdictions. For the five jurisdictions for which an itemized revenue amount was included in the county budget documents, local revenue collections total approximately $2.1 million, ranging from $50,000 in Charles County to $1.4 million in Baltimore County.

Exhibit 1
Gross Receipts Tax Yield – Heavy Equipment

County	FY 2020	FY 2021	FY 2022
Anne Arundel	$488,307	$400,000	$400,000
Baltimore City	126,361	150,000	150,000
Baltimore	1,280,045	1,400,000	1,400,000
Carroll	157,947	125,000	80,000
Charles	50,000	50,000	50,000
Total	**$2,102,660**	**$2,125,000**	**$2,080,000**

Source: County Budget Documents; Department of Legislative Services

Additional Information

Prior Introductions: None.

Designated Cross File: SB 724 (Senator King) - Budget and Taxation.

Information Source(s): Maryland Department of Emergency Management; Maryland Municipal League; Comptroller's Office; Maryland Department of the Environment; Department of Natural Resources; Department of State Police; Maryland Department of Transportation; State Department of Assessments and Taxation; Military Department; Department of Legislative Services

Fiscal Note History: First Reader - February 20, 2022
rh/hlb Third Reader - March 21, 2022

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