

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 2 (Delegate Hixson, et al.)
Ways and Means

Referred to Budget and Taxation

Property Tax - Manufacturing and Research and Development

This enrolled bill makes technical changes to the manufacturing exemption for personal property, and expands the authorization for local jurisdictions to grant property tax credits for research and development facilities.

This bill is effective July 1, 1996, and applies to all taxable years beginning after June 30, 1997.

Fiscal Summary

State Effect: None.

Local Effect: Indeterminate potential decrease in local revenue, as discussed below. Expenditures would not be affected.

Fiscal Analysis

Bill Summary: This bill provides that for property tax purposes “manufacturing” is defined as the process of, or a substantial step in the process of, substantially transforming an article of tangible personal property into a new and different article of tangible personal property. Manufacturing does not include: (1) activities that are primarily a service; (2) activities that are intellectual, artistic, or clerical in nature; (3) research and development activities; (4) public utility services; or (5) any other activity that would not commonly be considered as manufacturing. To qualify for the manufacturing personal property tax exemption, the property must be used to substantially transform or perform a substantial step in the process of transforming tangible personal property into a new and different article of personal property. Additionally, the property may not be primarily used in a nonmanufacturing activity, and the exemption must be applied for and granted by the Department of Assessments and Taxation.

The bill also adds real property of a research and development facility to the types of property for which a local jurisdiction can grant property tax credits. In addition, the credits can be granted for up to 100% of the property tax due, rather than only 100% of the tax.

Local Revenues: Local revenues could decline an indeterminate amount. Provisions of this bill relating to the manufacturing exemption codify court decisions regarding what is and is not manufacturing. Under current law, some manufacturing exemptions are denied by the department. The courts have granted many of these exemptions when taxpayers have contested the department's decisions. Some taxpayers do not dispute the department's positions, and do not receive the exemption. To the extent that taxpayers do not currently go to court to dispute denied manufacturing exemptions, local revenues would decline.

To the extent that local jurisdictions authorize the real property tax credits for research and development facilities, local revenues would decrease. Local revenue could increase for those jurisdictions which are currently granting 100% credits for the property of a manufacturing, fabricating, or assembly facility if those jurisdictions lower the amount of the credit. The revenue effect of these provisions depends on the credits authorized by local governments, as well as the amount of property which is eligible for the credits, which is unknown.

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

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