

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 636 (Senator Hogan)
Budget and Taxation

Referred to Ways and Means

Property Tax - Computer Software

This enrolled bill exempts computer software and related documentation from the personal property tax, except for “embedded software,” or software sold from stock in business which is ready for use as is. Embedded software is defined as computer instructions residing permanently in the internal memory of a computer system or other equipment and are integral to the operation of the system or equipment. Local governments are authorized to grant a tax credit of up to 100% of the tax due on software which is not exempt from taxation.

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

Fiscal Summary

State Effect: None.

Local Effect: Local revenues could decline an indeterminate amount beginning in FY 1998, as discussed below. Expenditures would not be affected.

Fiscal Analysis

Local Revenues: Under current law customized software is exempt from the personal property tax. This bill would exempt all software except embedded software and software sold for use as is. The amount of the tax base comprised of currently taxable software is not known with certainty. Estimates range from \$100 million to \$350 million of tax base. The portion of the tax base comprised of software which would remain taxable cannot be estimated. At the effective tax rate of \$2.89 per \$100 of assessed value, the revenue loss for the counties would range from \$2.9 million to \$10.1 million, less the tax on software sold for use as is. Municipalities would lose an estimated \$115,000 to \$400,000, assuming the municipal tax base is 10% of the county tax base and the effective municipal rate is \$1.15 per

\$100 of assessed value. The combined local loss would be somewhat less than \$3.0 million to \$10.5 million, increasing in the out-years to the extent that the exempt property increases in value. If, for example, software sold for use as is comprises half of the currently taxable software, local revenues would decline from \$1.5 million to \$5.3 million.

To the extent that local governments authorize the tax credit for software not exempt, local revenues would decline further. This decline cannot be reliably estimated as it depends on the value of software not exempt from taxation, the number of local jurisdictions authorizing the credit, and the size of the credit.

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

Fiscal Note History: First Reader - February 8, 1996
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