

HOUSE BILL 5

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1998 Regular Session
8lr1185

(PRE-FILED)

By: **Delegates Hixson, Taylor, Barve, Dewberry, Hurson, Rawlings, Curran, Busch, Guns, Vallario, Harrison, Menes, Kopp, Arnick, Owings, W. Baker, Bozman, E. Burns, Cadden, Conroy, Conway, C. Davis, Dembrow, Doory, Finifter, Franchot, Frank, Frush, Fulton, Goldwater, Hecht, Heller, Howard, Jones, Kagan, Klausmeier, Krysiak, Linton, Love, Mandel, Marriott, McIntosh, V. Mitchell, Morhaim, Nathan-Pulliam, Patterson, Petzold, Pitkin, Preis, Proctor, Rosenberg, Rudolph, Shriver, Slade, Turner, Weir, Wood, and ~~Workman~~ Workman, Donoghue, Valderrama, DeCarlo, McHale, Miller, Healey, Bonsack, McKee, and Cryor**

Requested: November 15, 1997

Introduced and read first time: January 14, 1998

Assigned to: Ways and Means

Committee Report: Favorable with amendments

House action: Adopted

Read second time: February 24, 1998

CHAPTER_____

1 AN ACT concerning

2 **Property Tax - Biotechnology and Computer Software - Manufacturing**
3 **Exemption**

4 FOR the purpose of altering the definition of "manufacturing" for property tax
5 purposes to include certain activities relating to biological materials and
6 computer software; ~~providing an exception to~~ providing that certain activities
7 described as manufacturing do not qualify for an exemption under the property
8 tax for certain property used in research and development; providing for the
9 application of this Act; and generally relating to the property taxation of certain
10 property used in certain activities relating to biological materials and computer
11 software.

12 BY repealing and reenacting, without amendments,
13 Article - Tax - Property
14 Section 1-101(a)
15 Annotated Code of Maryland
16 (1994 Replacement Volume and 1997 Supplement)

1 BY repealing and reenacting, with amendments,
2 Article - Tax - Property
3 Section 1-101(r) and 7-237
4 Annotated Code of Maryland
5 (1994 Replacement Volume and 1997 Supplement)

6 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
7 MARYLAND, That the Laws of Maryland read as follows:

8 **Article - Tax - Property**

9 1-101.

10 (a) In this article the following words have the meanings indicated.

11 (r) (1) "Manufacturing" means the process of substantially transforming, or
12 a substantial step in the process of substantially transforming, tangible personal
13 property into a new and different article of tangible personal property by use of labor
14 or machinery.

15 (2) "Manufacturing" includes:

16 (I) the operation of:

17 [(i)] 1. sawmills, grain mills, or feed mills; and

18 [(ii)] 2. machinery and equipment used to extract and process
19 minerals, metals, or earthen materials or by-products that result from the extracting
20 or processing;

21 (II) ~~THE IDENTIFICATION, DESIGN, OR GENETIC ENGINEERING OF~~
22 ~~BIOLOGICAL MATERIALS FOR SALE OR LICENSE, INCLUDING THE SMALL SCALE~~
23 ~~DEVELOPMENT OF ORGANISMS OR DERIVATIVE BIOLOGICAL MATERIALS FOR~~
24 ~~RESEARCH APPLICATION OR AS A FINAL PRODUCT FOR A BIOLOGICAL OR~~
25 ~~MOLECULAR PROCESS RESEARCH OR MANUFACTURE; AND~~

26 (III) ~~THE DESIGN, DEVELOPMENT, OR CREATION OF COMPUTER~~
27 ~~SOFTWARE FOR SALE, LEASE, OR LICENSE, INCLUDING THE ASSEMBLY OF~~
28 ~~MATERIALS OR COMPONENTS TO PRODUCE AN INTEGRATED SYSTEM OR OTHER~~
29 ~~PRODUCT.~~

30 (3) "Manufacturing" does not include:

31 (i) activities that are primarily a service;

32 (ii) activities that are intellectual, artistic, or clerical in nature;

33 †(iii) EXCEPT AS PROVIDED IN PARAGRAPH (2)(II) AND (III) OF THIS
34 SUBSECTION, research and development, as defined under § 7-237 of this article; ‡

1 {(iv)} ~~(III)~~ public utility services, including telephone, gas, electric,
2 water, and steam production services; or

3 {(v)} ~~(IV)~~ any other activity that would not commonly be
4 considered as manufacturing.

5 7-237.

6 (a) (1) In this section, "research and development" means:

7 (i) basic and applied research in the sciences and engineering; and

8 (ii) the design, development, and governmentally required
9 pre-market testing of prototypes, products, and processes.

10 (2) "Research and development" does not include:

11 (i) market research;

12 (ii) research in the social sciences or psychology and other
13 nontechnical activities;

14 (iii) routine product testing;

15 (iv) sales services;

16 (v) technical and nontechnical services; ~~or~~

17 (vi) research and development of a public utility; OR

18 (VII) MANUFACTURING ACTIVITIES DESCRIBED IN § 1-101(R)(2)(II)
19 AND (III) OF THIS ARTICLE.

20 (b) (1) ~~{ All }~~ ~~SUBJECT TO SUBSECTION (D) OF THIS SECTION, ALL~~
21 machinery, equipment, materials, and supplies are subject to a partial exemption
22 from property tax if consumed in or used primarily in research and development.

23 (2) The partial exemption granted under this subsection:

24 (i) is equal to the assessment of the property in excess of 50% of the
25 original cost of the property; and

26 (ii) shall apply only to property purchased or transferred into the
27 State after December 31, 1994.

28 (c) (1) ~~{ In }~~ ~~SUBJECT TO SUBSECTION (D) OF THIS SECTION, IN~~ addition to
29 the partial exemption granted under subsection (b) of this section, the governing body
30 of a municipal corporation or county may provide, by law, an exemption from county
31 or municipal corporation property tax imposed on all machinery, equipment,
32 materials, and supplies if consumed in or used primarily in research and
33 development.

1 (2) The governing body of the municipal corporation or county may
2 provide, by law:

3 (i) for the amount of the property tax exemption under this
4 subsection; and

5 (ii) for the application of the exemption to property purchased or
6 transferred into the State on or before December 31, 1994, as well as to property
7 eligible for the partial exemption under subsection (b) of this section.

8 (3) The governing body of a municipal corporation or county that enacts
9 an exemption under this subsection shall submit a copy of the law to the Department.

10 (4) If the Department receives a copy of the law on or before March 1, the
11 exemption shall be effective for the taxable year following the date the law is enacted.

12 ~~(D) (1) AN EXEMPTION UNDER SUBSECTION (B) OR (C) OF THIS SECTION~~
13 ~~DOES NOT APPLY TO PROPERTY THAT IS EXEMPT FROM PROPERTY TAX UNDER §~~
14 ~~7-225 OF THIS SUBTITLE.~~

15 ~~(2) PARAGRAPH (1) OF THIS SUBSECTION DOES NOT APPLY TO A COUNTY~~
16 ~~OR MUNICIPAL CORPORATION PROPERTY TAX IF PROPERTY DESCRIBED IN § 7-225 OF~~
17 ~~THIS SUBTITLE IS SUBJECT TO THE COUNTY OR MUNICIPAL CORPORATION~~
18 ~~PROPERTY TAX.~~

19 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
20 October 1, 1998 and shall be applicable to all taxable years beginning after June 30,
21 1999.