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By: **Senators Hogan and Teitelbaum**  
Introduced and read first time: February 3, 1998  
Assigned to: Budget and Taxation

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A BILL ENTITLED

1 AN ACT concerning

2                                   **Property Tax Exemptions - Biotechnology and Computer Software -**  
3                                   **Manufacturing and Research and Development**

4 FOR the purpose of altering for property tax purposes the definition of  
5 "manufacturing" to include research and development activities; including  
6 certain biological processes used for research or manufacture within the  
7 definition of manufacturing; including the design, development, or creation of  
8 computer software within the definition of manufacturing; repealing the partial  
9 property tax exemption for property used for research and development  
10 activities; providing for the application of this Act; and generally relating to  
11 property tax exemptions for property used for manufacturing and for research  
12 and development.

13 BY repealing and reenacting, without amendments,  
14 Article - Tax - Property  
15 Section 1-101(a)  
16 Annotated Code of Maryland  
17 (1994 Replacement Volume and 1997 Supplement)

18 BY repealing and reenacting, with amendments,  
19 Article - Tax - Property  
20 Section 1-101(r) and (dd) through (ll), inclusive, and 9-205  
21 Annotated Code of Maryland  
22 (1994 Replacement Volume and 1997 Supplement)

23 BY adding to  
24 Article - Tax - Property  
25 Section 1-101(dd)  
26 Annotated Code of Maryland  
27 (1994 Replacement Volume and 1997 Supplement)

28 BY repealing  
29 Article - Tax - Property

1 Section 7-237  
2 Annotated Code of Maryland  
3 (1994 Replacement Volume and 1997 Supplement)

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

6 **Article - Tax - Property**

7 1-101.

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

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

13 (2) "Manufacturing" includes [the operation of]:

14 (i) THE OPERATION OF sawmills, grain mills, or feed mills; [and]

15 (ii) THE OPERATION OF machinery and equipment used to extract  
16 and process minerals, metals, or earthen materials or by-products that result from  
17 the extracting or processing;

18 (III) RESEARCH AND DEVELOPMENT ACTIVITIES, WHETHER OR NOT  
19 THE COMPANY HAS A PRODUCT FOR SALE;

20 (IV) THE IDENTIFICATION, DESIGN, OR GENETIC ENGINEERING OF  
21 BIOLOGICAL MATERIALS FOR RESEARCH OR MANUFACTURE; AND

22 (V) THE DESIGN, DEVELOPMENT, OR CREATION OF COMPUTER  
23 SOFTWARE FOR SALE, LEASE, OR LICENSE.

24 (3) "Manufacturing" does not include:

25 (i) activities that are primarily a service;

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

27 (iii) [research and development, as defined under § 7-237 of this  
28 article;

29 (iv)] public utility services, including telephone, gas, electric, water,  
30 and steam production services; or

31 [(v)] (IV) any other activity that would not commonly be considered  
32 as manufacturing.

1 (DD) (1) "RESEARCH AND DEVELOPMENT" MEANS:

2 (I) BASIC AND APPLIED RESEARCH IN THE SCIENCES AND  
3 ENGINEERING; AND

4 (II) THE DESIGN, DEVELOPMENT, AND GOVERNMENTALLY  
5 REQUIRED PREMARKET TESTING OF PROTOTYPES, PRODUCTS, AND PROCESSES.

6 (2) "RESEARCH AND DEVELOPMENT" DOES NOT INCLUDE:

7 (I) MARKET RESEARCH;

8 (II) RESEARCH IN THE SOCIAL SCIENCES, PSYCHOLOGY, OR OTHER  
9 NONTECHNICAL ACTIVITIES;

10 (III) ROUTINE PRODUCT TESTING;

11 (IV) SALES SERVICES;

12 (V) TECHNICAL AND NONTECHNICAL SERVICES; OR

13 (VI) RESEARCH AND DEVELOPMENT OF A PUBLIC UTILITY.

14 [(dd)] (EE) "Resident of the State" includes a domestic corporation.

15 [(ee)] (FF) "Semiannual date of finality" means July 1, when assessments may  
16 be made for real property that becomes assessable after the immediately preceding  
17 date of finality or quarterly date of finality.

18 [(ff)] (GG) "State" means:

19 (1) a state, possession, or territory of the United States;

20 (2) the District of Columbia; or

21 (3) the Commonwealth of Puerto Rico.

22 [(gg)] (HH) "State property tax" means the tax imposed on property under §  
23 6-201 and authorized under §§ 10-102 and 10-103 of this article.

24 [(hh)] (II) "Supervisor" means the supervisor of assessments for a county.

25 [(ii)] (JJ) "Taxable year" means July 1 to June 30, both inclusive, for which the  
26 State, each county, municipal corporation, and taxing district of the State computes,  
27 imposes, and collects property tax.

28 [(jj)] (KK) "Tax roll" means the assessment roll to which the property tax rate  
29 has been applied and on which the property tax on each property is shown.

30 [(kk)] (LL) "Valuation" means the process of determining the value of property.

1 [(II)] (MM) "Value" means the full cash value of property.

2 [7-237.

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

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

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

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

8 (i) market research;

9 (ii) research in the social sciences or psychology and other  
10 nontechnical activities;

11 (iii) routine product testing;

12 (iv) sales services;

13 (v) technical and nontechnical services; or

14 (vi) research and development of a public utility.

15 (b) (1) All machinery, equipment, materials, and supplies are subject to a  
16 partial exemption from property tax if consumed in or used primarily in research and  
17 development.

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

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

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

23 (c) (1) In addition to the partial exemption granted under subsection (b) of  
24 this section, the governing body of a municipal corporation or county may provide, by  
25 law, an exemption from county or municipal corporation property tax imposed on all  
26 machinery, equipment, materials, and supplies if consumed in or used primarily in  
27 research and development.

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

30 (i) for the amount of the property tax exemption under this  
31 subsection; and

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

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

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

9 9-205.

10 (a) The Mayor and City Council of Baltimore City or the governing body of a  
11 county or of a municipal corporation may grant, by law, a property tax credit under  
12 this section against the county or municipal corporation property tax imposed on part  
13 or all of the property of any manufacturing, fabricating, or assembling facility [or real  
14 property of a research and development facility] that:

15 (1) locates in the county or municipal corporation;

16 (2) expands in the county or municipal corporation; or

17 (3) develops a new product or industrial process.

18 (b) A property tax credit under this section may be granted on up to 100% of  
19 the county or municipal corporation property tax against the property described in  
20 subsection (a) of this section.

21 (c) A property tax credit granted under this section may be granted for the  
22 period of years from the date of completion of a new facility or expansion of a facility  
23 that the Mayor and City Council of Baltimore City or the appropriate governing body  
24 determines.

25 (d) The Mayor and City Council of Baltimore City or the appropriate  
26 governing body may:

27 (1) adopt regulations necessary to carry out this section; and

28 (2) provide any other restriction or condition considered desirable.

29 (e) The Mayor and City Council of Baltimore City or each governing body shall  
30 designate the administrative unit or official to administer the property tax credit  
31 granted under this section.

32 (f) When a tax bill is sent to a taxpayer who may be eligible for a property tax  
33 credit under this section, the Mayor and City Council of Baltimore City or the  
34 appropriate governing body shall give notice of the property tax credit under this  
35 section to the taxpayer.

36 (g) (1) A taxpayer must apply to receive a tax credit under this section.

1           (2)     Except in Frederick County, if a taxpayer fails to apply for a property  
2 tax credit under this section on or before October 1 of each taxable year, the property  
3 tax credit may not be granted.

4           (3)     In Frederick County, a taxpayer may apply for a property tax credit  
5 under this section on or before October 1 of the taxable year, and the property tax  
6 credit received shall continue from year to year until the property is conveyed.

7           (4)     A taxpayer shall state under oath that the facts in the application are  
8 true.

9     (h)     Each governing body that grants a property tax credit under this section  
10 shall submit to the Department a copy of the law granting the credit.

11     SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect  
12 October 1, 1998 and shall be applicable to all taxable years beginning after June 30,  
13 1999.