HB 537

# Department of Legislative Services

Maryland General Assembly
2000 Session

## FISCAL NOTE

House Bill 537 (Allegany County Delegation and Garrett County Delegation)
Ways and Means

**Personal Property - Tax Exemptions and Credits - Effect on State Aid**

This bill excludes personal property subject to a manufacturing tax credit from a county's assessable base for purposes of calculating State aid payments.

This bill takes effect June 1, 2000.

## Fiscal Summary

**State Effect:** None. This bill redirects existing State aid among local jurisdictions. There is no additional cost to the State.

**Local Effect:** This bill redistributes State aid to certain counties that provide personal property tax credits in lieu of exemptions.

**Small Business Effect:** None.

## Analysis

**Current Law:** For purposes of calculating State aid, the value of tax exempt property is excluded from a county's assessable base; however, the value of property to which a tax credit applies is included in the assessable base.

**Background:** Approximately 66% of State education aid is allocated inversely to local wealth, whereby less affluent jurisdictions receive relatively more aid. Wealth is usually defined as some combination of property assessable base and net taxable income. Two of the State's primary aid programs, current expense and compensatory aid, include personal property assessable base as a wealth component to distribute aid to local governments. State funding for these programs totals $1.7 billion in the proposed fiscal 2001 budget.

**Local Fiscal Effect:** Under State law, personal property used in manufacturing is exempt from property taxes, except in six counties (Allegany, Dorchester, Garrett, Somerset, Wicomico, and Worcester). However, Garrett, Wicomico, and Worcester counties provide a property tax credit against personal property used in manufacturing, Allegany County provides both a tax credit and a 25% exemption. Dorchester County, while not required by State law, provides for a 100% exemption.

The impact on local property tax revenues from either a property tax exemption or a 100% tax credit is similar, with the local government receiving no tax revenue from the personal property used in manufacturing. However, a county's State aid allocation is affected by the type of property tax relief granted to manufacturers. For purposes of calculating State aid under current law, the value of tax exempt property is excluded from a county's assessable base; however, the value of property to which a tax credit applies is currently included in the base. Since both the current expense and compensatory aid formulas are partly based on local wealth, retaining the personal property that is subject to a tax credit within a county's wealth base makes that county relatively more wealthier than it otherwise would be if the personal property was subject to an exemption and was removed from the base.

Pursuant to this legislation, the assessable base related to the personal property tax credit would no longer be counted in a county's wealth base. However, since under current law only 50% of the personal property assessable base is included in a county's wealth base for aid purposes, only one-half of the affected assessable base will be removed from the county's wealth base. This adjustment to the county's wealth base will affect each county's share of State aid.

For example, in Allegany County, manufacturing personal property has increased significantly in recent years due to an expansion at a manufacturing plant and at a coal-utility facility. However, since the county had granted sizeable tax credits to these facilities, Allegany County has not realized a significant increase in local revenues. In addition, since personal property subject to a tax credit is not removed from the county's assessable base, Allegany County has realized a significant decrease in State education aid in the last two years. For fiscal 2001, Allegany County's current expense aid decreases by $909,482 and its compensatory aid decreases by $43,311. This reduction is on top of the sizeable decrease the county experienced in fiscal 2000 which totaled approximately $620,000. If manufacturing personal property subject to a tax credit was removed from the county's assessable base, Allegany County would have realized a $213,000 increase in State current expense aid and a $113,000 increase in compensatory aid in fiscal 2000 instead of a $545,000 decrease in current expense aid and a $71,000 decrease in compensatory aid. Garrett County would have realized a $5,000 increase in current expense aid in fiscal 2000 instead of a $37,000 decrease.

## Additional Information

**Prior Introductions:** A similar bill was introduced in the 1999 session as HB 285 and received an unfavorable report by the House Ways and Means Committee.

**Cross File:** None.

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

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