HB 831

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 831 (Delegate Gordon)
Ways and Means

State Personal Property Tax

This bill imposes a State personal property tax on specified personal property at a rate that is 2.5 times the rate for real property and requires the Board of Public Works to certify the personal property tax rate. The bill also requires the governing bodies of each county to collect the tax. All revenues resulting from the tax imposed on personal property is required to be deposited in the State's general fund. Finally, the bill repeals an obsolete section of property tax law.

The bill takes effect October 1, 2004 and applies to all taxable years beginning after July 1, 2005.

Fiscal Summary

State Effect: General fund revenues could increase by approximately $66.2 million annually beginning in FY 2006 based on current estimates of the personal property tax base. General fund expenditures could increase by approximately $66,100 in FY 2005. Future year expenditures reflect annualization and inflation.

($ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	$0	$66.2	$66.4	$66.6	$66.8
GF Expenditure	.1	.1	.1	.1	.1
Net Effect	($.1)	$66.1	$66.3	$66.5	$66.7

Note :() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Potential increase in local government expenditures due to the collection of the State personal property tax.

Small Business Effect: Meaningful. Small businesses that own taxable personal property would pay higher property taxes.

Analysis

Current Law: The State does not impose a property tax on personal property.

Background: The State has not imposed a personal property tax since fiscal 1984. However, the State Department of Assessments and Taxation (SDAT) has continued to assess personal property for the purposes of maintaining a State personal property tax base and for local tax purposes.

Commercial and manufacturing inventory, which was previously subject to the State personal property tax but is not subject to the county personal property tax, would not be assessed for State purposes. Most local governments impose a personal property tax on tangible personal property owned by businesses, public utilities, and railroads.

State Revenues: The bill imposes a State personal property tax on tangible personal property owned by businesses, public utilities, and railroads. This includes stock, distilled spirits, and specified operating property and machinery of railroads and public utilities. As a result, the bill could result in a general fund revenue increase of approximately $66.2 million annually beginning in fiscal 2006 based on current estimates of the personal property base. The bill sets the personal property tax rate at 2.5 times the real property tax rate. Because the State real property rate is $0.132 per $100 of assessed value, the State personal property tax rate would therefore be set at $0.33 per $100 of assessed value.

Exhibit 1 provides the estimated personal property tax base for fiscal 2006 through 2009, the assumed personal property tax rate (based on the current real property tax rate), and the revenue generated from imposing the tax.

Exhibit 1
Estimated Revenue Impact of HB 831
($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
Estimated Assessable Personal Property Base	$20,063.6	$20,119.1	$20,179.0	$20,243.0
Tax Rate	0.33	0.33	0.33	0.33
GF Revenue	**$66.2**	**$66.4**	**$66.6**	**$66.8**

If the State tax rate for real property is changed it will automatically affect the personal property rate, and the estimate above would change as well.

State Expenditures: This bill requires SDAT to assess personal property of railroads in Frederick County and all business personal property in Frederick, Kent, Queen Anne's, and Talbot counties because these counties do not impose a personal property tax, and therefore do not do assessments for personal property.

As a result, SDAT's general fund expenditures could increase by an estimated $55,750 in fiscal 2005, which accounts for the bill's October 1, 2004 effective date. This estimate reflects the cost of hiring two personal property tax assessors to assess personal property in Frederick, Kent, Queen Anne's, and Talbot counties. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Local Expenditures: The bill requires local governments to collect the State personal property tax. Local governments currently collect the State real property tax. Because the bill adds a new tax collection responsibility for local governments, it is possible that local government expenditures could increase.

Montgomery County states that in order to collect and administer the State personal property tax, it would have to hire one fiscal assistant at a cost of approximately $57,100 annually. Talbot County states that because it does not impose a personal property tax, it will need to establish a new tax collection system. As a result, expenditures could increase by approximately $127,500 in fiscal 2005. This includes the cost of additional personnel and computer software and programming. In future years expenditures would be incurred for personnel only.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Wicomico County, Allegany County, Montgomery County, Prince George's County, Talbot County, Baltimore City, Department of Legislative Services

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