

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 981

(Senator Robey)

Budget and Taxation

Ways and Means

Property Tax - Abatement of Tax on Exempt Manufacturing Personal Property

This bill provides that the property tax on exempt manufacturing personal property must be abated for a taxable year if the owner, on January 1, files an application with the State Department of Assessments and Taxation for an exemption within six months of receiving the first assessment notice for the taxable year that includes the manufacturing personal property, provided the application is approved. The bill provides that an owner of manufacturing personal property as of June 30, 2007 may be granted a personal property tax abatement if an application is filed with SDAT by June 30, 2008.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: None.

Local Effect: Howard County revenues would decrease by \$21,800 in FY 2009 due to the retroactive abatement provision. Local property tax revenues would decrease further to the extent that businesses file an application for property tax abatement after the application deadline allowed under current law. Any such decrease is assumed to be minimal.

Small Business Effect: Minimal.

Analysis

Current Law: Except for property used exclusively for charitable or education purposes or property owned by a housing authority, property tax on wholly exempt property must be abated for the taxable year that follows the date on which the property became exempt. If an owner of property subject to an exemption on June 30 files an application for abatement on or before the following September 1 with SDAT, the tax is abated for the taxable year.

If property that is exempt from property tax is transferred to a person whose use of the property qualifies the property for an exemption from the date of transfer, then the property tax must be abated from that date if the transferee • files a specified application on or before September 1 of the following taxable year; or • files a specified application with regards to manufacturing personal property within six months after receipt of the first assessment notice which includes the manufacturing personal property that is issued after the date of the transfer.

Exempt manufacturing personal property includes tools, implements, machinery, or manufacturing apparatus or engines. Property is not exempt if it is used primarily in administration, management, sales, storage, shipping, receiving, or any other nonmanufacturing activity. In order to qualify for the exemption under this section, a person claiming the exemption must apply for and be granted the exemption by SDAT.

Background: All assessable tangible personal property located in Maryland and owned by businesses as of January 1 may be subject to a local personal property tax. The State has not imposed personal property taxes since 1984.

The assessment of personal property is the responsibility of SDAT while the collection of the tax on personal property is the responsibility of local governments. SDAT separately values inventory and all other tangible business personal property based on information filed annually by property owners by April 15 (the data are as of the preceding January 1). Property owners may request a filing extension of 60 days.

Inventory is valued at its “fair average value,” which means the lower of cost or market value. All other personal property, including office furniture, fixtures, equipment, and plant machinery is valued at “full cash value.” Uniform rates of depreciation are applied to the cost of the property to determine full cash value.

The State mandates certain exemptions from personal property assessment including aircraft, manufacturing tools, equipment or machinery, research and development

property, farm implements, agricultural products, livestock, and residential property (nonbusiness property).

Except for personal property used in connection with a business, personal property owned by an individual is not subject to valuation or taxation. Personal property used in connection with a business is also exempt if it is owned by an individual and is located at the individual's residence and either (1) is used in connection with a licensed family day care home; or (2) had a total original cost (excluding vehicles) of less than \$10,000.

Local governments may provide various additional exemptions.

Local Fiscal Effect: SDAT reports that the retroactive abatement provision in the bill would currently apply to one business in Howard County. This business had a personal property tax assessment of \$860,000 as of June 30, 2007. The business reports that it filed for an exemption prior to the September 1 filing deadline; however, the paperwork was not received and processed by SDAT until after September 1, and as a result, the business was not granted a tax exemption for its manufacturing personal property.

The Howard County personal property tax rate is \$2.535 per \$100 of assessment. As a result, a retroactive abatement granted under the bill would reduce Howard County revenues by \$21,800 in fiscal 2009.

The bill could result in an additional reduction in local personal property tax revenues to the extent that businesses file an application for property tax abatement after the deadline allowed under current law, which in most cases is September 1. The bill changes the deadline to six months after receiving the first assessment notice.

The amount of the decrease cannot be reliably estimated but is expected to be minimal. It depends on the number of property owners who would not qualify for an abatement based on the application deadlines imposed under current law, but who would file an application for an abatement within the six-month time period allowed under the bill.

Additional Information

Prior Introductions: None.

Cross File: HB 1609 (Delegate F. Turner, *et al.*) – Ways and Means.

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

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Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510