

Department of Legislative Services  
Maryland General Assembly  
2011 Session

FISCAL AND POLICY NOTE

House Bill 1087  
Ways and Means

(Delegate Fisher, *et al.*)

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Personal Property Tax - Business Start-Up Exemption

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This bill exempts from the personal property tax property that is owned by a business that (1) has organized under the laws of Maryland during the current tax year; or (2) relocates its headquarters to Maryland during the current tax year. The bill is intended to grant a one-time personal property tax exemption for the year a business either starts up or relocates its headquarters to Maryland.

The bill takes effect June 1, 2011, and applies to all taxable years beginning after June 30, 2011.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Local property tax revenues will decrease beginning in FY 2012 to the extent businesses start up or relocate their headquarters to Maryland during a given year. The revenue loss will depend on the number of qualifying businesses, and the assessed value of personal property. Local expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** Potential meaningful. Small business start ups or businesses that relocate their headquarters to Maryland will not be subject to personal property taxes in the year the start up or relocation occurs.

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## Analysis

**Current Law:** The State has not imposed personal property taxes since fiscal 1984 and all personal property is exempt from State property tax. However, the counties, municipalities, and special taxing districts are authorized to tax personal property.

All business entities in Maryland may be required to pay local personal property taxes. Beginning January 1, 2011, the personal property tax on heavy equipment property is replaced with a gross receipts tax on the short-term lease or rental of heavy equipment property. 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 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). Local governments are authorized to exempt from taxation tools, equipment, or machinery used in manufacturing.

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.

**Background:** The assessment of personal property is the responsibility of the State Department of Assessments and Taxation, while the collection of the tax on personal property is the responsibility of local governments. The department separately values inventory and all other tangible business personal property based on information filed annually by property owners by April 15 (the data is as of the preceding January 1). Property owners may request a filing extension of two months.

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.

**Local Fiscal Effect:** The intent of the bill is to provide a one-year personal property tax exemption for businesses that either start up or relocate their headquarters to Maryland for the tax year in which the start up or relocation occurs. Local property tax revenues will decrease beginning in fiscal 2012 to the extent businesses start up or relocate in

Maryland during a given year. The revenue loss will depend on the number of qualifying businesses, and the assessed value of personal property. The amount of any revenue decrease will also vary between counties as counties have different tax rates and some counties do not tax personal property. To the extent a large company starts up or moves its headquarters, the effect could be significant in that year.

**Exhibit 1** shows estimated personal property taxes paid to each county in fiscal 2010 based on the number of personal property certifications, the personal property assessable base, the average assessment per certification, and current personal property tax rates. Personal property certifications are similar to the number of personal property accounts except that in some instances businesses can have multiple certifications due to having personal property located in more than one jurisdiction. As such, certifications are a more accurate representation of the personal property located in each county.

Based on current assessable base date and current tax rates, if one business either started-up or relocated its headquarters in each county, total county personal property taxes will decrease by \$41,900 as shown in Exhibit 1.

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**Exhibit 1**  
**Average Personal Property Taxes Paid**  
**Fiscal 2010**

<u>County</u>	<u>Personal Property Tax Rate</u>	<u>Certifications</u>	<u>County Personal Property Base</u>	<u>Average Certification</u>	<u>Average Tax Per Certification</u>
Allegany	\$2.4573	2,210	\$220,700,620	\$99,865	\$2,454
Anne Arundel	2.2000	15,314	1,896,000,000	123,808	2,724
Baltimore City	5.6700	12,261	1,056,029,000	86,129	4,884
Baltimore	2.7500	21,139	1,875,714,000	88,732	2,440
Calvert	2.2300	2,404	133,504,600	55,534	1,238
Caroline	2.1800	970	51,819,000	53,422	1,165
Carroll	2.6200	5,261	284,192,000	54,019	1,415
Cecil	2.2883	2,376	174,807,500	73,572	1,684
Charles	2.5650	3,398	726,200,000	213,714	5,482
Dorchester	2.2400	1,118	40,800,000	36,494	817
Frederick	0.0000	0	0	0	0
Garrett	0.0000	1	1,922,130	1,922,130	0
Harford	2.6050	6,854	440,776,900	64,309	1,675
Howard	2.8738	9,877	930,400,000	94,199	2,707
Kent	0.0000	0	0	0	0
Montgomery	2.2875	30,247	2,533,544,900	83,762	1,916
Prince George's	3.2975	16,874	1,756,410,000	104,090	3,432
Queen Anne's	0.0000	0	0	0	0
St. Mary's	2.1430	2,984	157,419,100	52,754	1,131
Somerset	2.2093	569	35,018,000	61,543	1,360
Talbot	0.0000	0	0	0	0
Washington	2.3700	3,833	401,771,600	104,819	2,484
Wicomico	1.8980	3,127	379,352,800	121,315	2,303
Worcester	1.7500	6,455	217,494,000	33,694	590
<b>Total</b>		<b>147,272</b>	<b>\$13,313,876,150</b>	<b>90,403</b>	<b>\$41,900</b>

Source: State Department of Assessments and Taxation

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Anne Arundel, Carroll, Frederick, Montgomery, Kent, and Somerset counties; Maryland Association of Counties; Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 1, 2011  
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