

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 856
Ways and Means

(Delegate Fisher, *et al.*)

Personal Property Tax - Investments in Maryland

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. Also, beginning in fiscal 2016, the bill exempts all personal property other than operating personal property of a railroad or public utility from county or municipal property taxes.

The bill takes effect June 1, 2013, and applies to all taxable years beginning after June 30, 2013.

Fiscal Summary

State Effect: General fund expenditures may increase by a minimal amount in FY 2014 for the State Department of Assessments and Taxation (SDAT) to hire contractual staff to prepare the specified report to the General Assembly.

Local Effect: Local property tax revenues will decrease beginning in FY 2014 to the extent businesses start up or relocate their headquarters to Maryland. Beginning in FY 2016, local government revenues will decrease by an estimated \$356 million annually due to the business personal property tax exemption. 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. Beginning in FY 2016, small businesses will not be subject to local personal property taxes.

Analysis

Bill Summary: SDAT must identify provisions of the Annotated Code of Maryland or the Code of Public Local Laws that are rendered inaccurate or obsolete as a result of specified provisions of the bill and must submit a report to the General Assembly, by December 1, 2013, on its findings with recommendations for any amendments to the Annotated Code of Maryland or the Code of Public Local Laws.

Current Law: The State has not imposed personal property taxes since fiscal 1984 and all personal property is exempt from the State property tax. However, 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 SDAT, 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 bill affects local personal property tax collections in two ways. First, the bill provides 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. Second, beginning in fiscal 2016, the bill provides a personal property tax exemption for all personal property, other than operating personal property of a railroad or a public utility.

One-time Start-up Exemption

Local property tax revenues will decrease beginning in fiscal 2014 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 2012 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 \$41,100 as shown in Exhibit 1.

Personal Property Tax Exemption

Beginning in fiscal 2016, the bill exempts all personal property, other than operating personal property of a railroad or a public utility from county and municipal personal property taxes. As a result, county property tax revenues will decrease by a significant amount beginning in fiscal 2016. SDAT forecasts the county business personal property assessable base to be approximately \$12.8 billion for fiscal 2015, as shown in **Exhibit 2**. As the county personal property tax base is forecast to remain relatively constant from fiscal 2013 to 2015, Legislative Services assumes that the assessable base will remain relatively constant beyond fiscal 2015 when the exemption takes effect. As a result, it is estimated that county personal property tax revenues will decrease by approximately \$333.5 million annually beginning in fiscal 2016. Municipal property tax revenues are estimated to decrease by an additional \$23 million. As a point of reference, the cities of

Frederick and Havre de Grace report that they would incur a property tax revenue decreases of \$2.6 million and \$304,000, respectively, beginning in fiscal 2016.

Exhibit 1
Average Personal Property Taxes Paid
Fiscal 2012

County	Personal Property Tax Rate	Certifications	Business Personal Property Base	Average Certification	Average Tax Per Certification
Allegany	\$2.4525	2,144	\$187,641,690	\$87,519	\$2,146
Anne Arundel	2.3525	14,968	1,697,874,620	113,434	2,669
Baltimore City	5.6700	12,015	1,060,291,410	88,247	5,004
Baltimore	2.7500	20,541	1,808,372,810	88,037	2,421
Calvert	2.2300	2,309	117,506,120	50,890	1,135
Caroline	2.2250	911	49,680,630	54,534	1,213
Carroll	2.5450	5,118	328,153,290	64,117	1,632
Cecil	2.4768	2,329	176,383,060	75,733	1,876
Charles	2.6425	3,232	701,053,060	216,910	5,732
Dorchester	2.4400	1,027	30,011,310	29,222	713
Frederick	0.0000	0	0	0	0
Garrett	2.4750	1	56,823,460	56,823,460	0
Harford	2.6050	6,672	537,518,570	80,563	2,099
Howard	2.5350	9,851	953,804,030	96,823	2,454
Kent	0.0000	0	0	0	0
Montgomery	1.8100	29,963	2,374,907,070	79,261	1,435
Prince George's	2.4000	16,485	1,698,759,990	103,049	2,473
Queen Anne's	2.1178				0
St. Mary's	2.1425	2,896	150,098,710	51,830	1,110
Somerset	2.2093	539	35,860,290	66,531	1,470
Talbot	0.0000	0	0	0	0
Washington	2.3700	3,700	356,062,010	96,233	2,281
Wicomico	2.1010	3,007	361,559,410	120,239	2,526
Worcester	1.9250	5,778	204,308,700	35,360	681
Total		143,486	\$12,886,670,240	\$89,811	\$41,069

Source: State Department of Assessments and Taxation

Exhibit 2
Estimated Personal Property Tax Revenue Decrease
Fiscal 2015
(\$ in Thousands)

County	Personal Property Tax Rate	Business Personal Property Base	Property Tax Decrease
Allegany	\$2.4525	\$188,500	(\$4,623)
Anne Arundel	2.3525	1,703,900	(40,084)
Baltimore City	5.6700	1,009,000	(57,210)
Baltimore	2.7500	1,803,300	(49,591)
Calvert	2.2300	118,500	(2,643)
Caroline	2.2250	49,720	(1,106)
Carroll	2.5450	329,000	(8,373)
Cecil	2.4768	234,500	(5,808)
Charles	2.6425	624,200	(16,494)
Dorchester	2.4400	15,360	(375)
Frederick	0.0000	0	0
Garrett	2.4750	89,000	0
Harford	2.6050	537,500	(14,002)
Howard	2.5350	951,500	(24,121)
Kent	0.0000	0	0
Montgomery	1.8100	2,370,000	(42,897)
Prince George's	2.4000	1,667,000	(40,008)
Queen Anne's	2.1178	0	0
St. Mary's	2.1425	150,400	(3,222)
Somerset	2.2093	35,900	(793)
Talbot	0.0000	0	0
Washington	2.3700	364,900	(8,648)
Wicomico	2.1010	360,000	(7,564)
Worcester	1.9250	204,500	(3,937)
Total		\$12,806,680	(\$333,499)

Source: State Department of Assessments and Taxation; Department of Legislative Services

Additional Information

Prior Introductions: HB 1065 of 2012 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Carroll, Cecil, Harford, Montgomery, Queen Anne's, and St. Mary's counties; Frederick City; City of Havre de Grace; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - March 5, 2013
mlm/hlb

Analysis by: Michael Sanelli

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