

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 872

(Senator Klausmeier, *et al.*)

Budget and Taxation

Personal Property Tax - Manufacturing Property - Exemption

This bill expands the personal property tax exemption for specified manufacturing personal property by including the handling or movement of a finished product at a manufacturing site after the last step of production through the next immediate step before storage and shipping.

The bill takes effect June 1, 2014, and applies to personal property in use after December 31, 2013.

Fiscal Summary

State Effect: None.

Local Effect: Local personal property tax revenues will decrease by a significant amount beginning in FY 2015 to the extent that manufacturing facilities have personal property that meet the qualifications of the exemption. The amount of the decrease depends on the amount and value of the qualified exempt manufacturing property. Expenditures are not affected.

Small Business Effect: Potential meaningful. Small businesses that have personal property that qualify for the exemption will realize a reduction in personal property taxes.

Analysis

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 the State Department of Assessments and Taxation (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: Local personal property tax revenues will decrease beginning in fiscal 2015 to the extent that manufacturing facilities have property that meet the qualifications of the expanded exemption for manufacturing personal property. The

amount of the decrease depends on the amount and value of the qualified exempt manufacturing property, neither of which can be reliably estimated at this time.

SDAT has identified 3,595 manufacturing accounts in the State with a taxable assessable personal property base of approximately \$1.3 billion as shown in **Exhibit 1**. However, SDAT is unable to identify how much of the personal property tax base that may be subject to the expansion of the manufacturing personal property exemption proposed by the bill. If, for illustrative purposes only, it is assumed that 10% of currently taxable manufacturing personal property qualifies for the exemption proposed by the bill, county personal property tax revenues may decrease by approximately \$3.2 million, as shown in **Exhibit 2**.

Exhibit 1
Manufacturing Accounts and Assessable Base
Fiscal 2014

County	Manufacturing Accounts	Assessable Base	Average Assessment
Allegany	72	\$14,442,550	\$200,591
Anne Arundel	279	164,114,110	588,223
Baltimore City	505	70,399,260	139,404
Baltimore	521	178,042,290	341,732
Calvert	51	10,521,290	206,300
Caroline	31	1,487,100	47,971
Carroll	165	37,265,960	225,854
Cecil	64	26,180,500	409,070
Charles	80	22,475,400	280,943
Dorchester	56	2,903,830	51,854
Frederick	97	0	0
Garrett	28	0	0
Harford	187	65,534,170	350,450
Howard	251	112,562,730	448,457
Kent	13	0	0
Montgomery	396	246,270,880	621,896
Prince George's	333	135,140,990	405,829
Queen Anne's	17	0	0
St. Mary's	20	8,544,290	427,215
Somerset	60	8,899,400	148,323
Talbot	46	0	0
Washington	158	37,452,410	237,041
Wicomico	110	97,252,680	884,115
Worcester	55	31,593,780	574,432
Totals	3,595	\$1,271,083,620	\$353,570

Source: State Department of Assessments and Taxation

Exhibit 2
Potential Effect of Expanded Exemption

County	Personal Property Tax Rate	Revenue Decrease
Allegany	\$2.4500	(\$35,384)
Anne Arundel	2.3750	(389,771)
Baltimore City	5.6200	(395,644)
Baltimore	2.7500	(489,616)
Calvert	2.2300	(23,462)
Caroline	2.3500	(3,495)
Carroll	2.5150	(93,724)
Cecil	2.4768	(64,843)
Charles	3.0125	(67,707)
Dorchester	2.4400	(7,085)
Frederick	0.0000	0
Garrett	0.0000	0
Harford	2.6050	(170,717)
Howard	2.5350	(285,347)
Kent	0.0000	0
Montgomery	1.8975	(467,299)
Prince George's	2.4000	(324,338)
Queen Anne's	0.0000	0
St. Mary's	2.1425	(18,306)
Somerset	2.2875	(20,357)
Talbot	0.0000	0
Washington	2.3700	(88,762)
Wicomico	2.1367	(207,800)
Worcester	1.9250	(60,818)
Totals		(\$3,214,475)

Additional Information

Prior Introductions: None.

Cross File: HB 898 (Delegate Olszewski, *et al.*) - Ways and Means.

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

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