

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 573 (Delegates Fisher and O'Donnell)
Ways and Means

Calvert County - Personal Property Tax - Exemption

This bill alters the taxation of personal property in Calvert County beginning June 1, 2014.

The bill takes effect June 1, 2014, and applies to taxable years beginning after June 30, 2014.

Fiscal Summary

State Effect: None.

Local Effect: Calvert County personal property tax revenues decrease by a significant amount beginning in FY 2015. Under one set of assumptions, personal property tax revenues decrease by approximately \$250,000 annually beginning in FY 2015 and by \$2.3 million annually beginning in FY 2018. Expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful. Small businesses in Calvert County will not be subject to personal property taxes for new personal property purchased through June 30, 2017, and beginning in FY 2018, these small businesses will not be subject to county personal property taxes with regards to business personal property.

Analysis

Bill Summary: The bill exempts new personal property purchased by a business in Calvert County from the county personal property tax beginning July 1, 2014, through June 30, 2017. Beginning July 1, 2017, all personal property in Calvert County is exempt

from the county personal property tax except (1) operating personal property of a railroad or public utility; (2) property of a cellular telephone company, including cellular telephone towers; and (3) electronic bingo machines authorized to operate in the county. In addition, the bill specifies that personal property under a specified payment in lieu of taxes agreement will be subject to the county personal property tax on the termination of the agreement.

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.

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.

Chapter 516 of 2013 authorizes Calvert County to enter into a negotiated payment in lieu of taxes agreement for all or a specified part of the county real, operating real, personal, or operating personal property owned by a facility for the liquefaction of natural gas that is located or locates in Calvert County. The county real, operating real, personal, or operating personal property of the facility is exempt from Calvert County property taxes for the duration of the agreement.

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: The bill alters the taxation of personal property in Calvert County in two ways beginning in fiscal 2015. First, the bill exempts from county taxation specified new business personal property purchased between July 1, 2014, and June 30, 2017. Second, beginning in fiscal 2018, the bill exempts all personal property from county taxation, except for operating personal property of a railroad or public utility, property owned by a cellular telephone company, and electronic bingo machines.

Calvert County currently collects approximately \$2.5 million annually from the personal property tax. Exempting newly purchased personal property from county taxation may decrease county revenues by approximately \$250,000 annually in fiscal 2015 through fiscal 2017. Exempting most personal property from county taxation could decrease county revenues by approximately \$2.3 million annually beginning in fiscal 2018. This estimate is based on the following facts and assumptions.

SDAT estimates that the Calvert County business personal property assessable base will total approximately \$115.0 million for fiscal 2014 through 2016. This suggests that any new personal property added to the assessable base is offset by the depreciation of current personal property in the county. *For illustrative purposes*, it is assumed that new business personal property purchased in fiscal 2015 through 2017 will represent 10% of the county's total business property assessable base. Accordingly, county revenues will decrease by approximately \$250,000 each year as a result of new personal property not being added to the assessable base.

SDAT does not currently have data as to the amount of personal property owned by cellular telephone companies in the county; nor does it have an estimated value of electronic bingo machines in the county. The State Lottery and Gaming Control Agency advises that there are 460 electronic bingo machines in Calvert County; however the agency does not have data as to the assessed value of these machines.

Assuming that cellular personal property and electronic bingo machines comprise 10% of the county's business personal property assessable base, the exemption proposed by the bill will reduce county personal property tax revenues by approximately \$2.3 million annually beginning in fiscal 2018.

To the extent the actual personal property assessable base differs from the estimate, the effect of the property tax exemptions will vary accordingly.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mc/hlb

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