

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 561 (Delegate Flanagan, *et al.*)
 Ways and Means

Small Business Personal Property Tax Relief Act of 2016

This bill exempts a business that owns or leases business personal property with a total assessed value of \$100,000 or less from the personal property tax for taxable years beginning after December 31, 2016.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund expenditures increase by approximately \$51.2 million in FY 2018, by \$39.4 million in FY 2019, and by \$26.9 million in FY 2020 for personal property tax reimbursements to local governments. State revenues are not affected. **This bill establishes a mandated appropriation beginning in FY 2018.**

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	51.2	39.4	26.9	0
Net Effect	\$0.0	(\$51.2)	(\$39.4)	(\$26.9)	\$0.0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local government personal property tax revenues decrease by approximately \$51.2 million in FY 2017 and by \$56.5 million in FY 2021. State reimbursements to local governments for lost personal property tax revenue increase by \$51.2 million in FY 2018, by \$39.4 million in FY 2019, and by \$26.9 million in FY 2020. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill exempts a business that owns or leases business personal property with a total assessed value of \$100,000 or less from the personal property tax for taxable years beginning after December 31, 2016. Total assessed value is, for each person, the personal property assessment that is the greater of (1) the aggregate assessment of personal property for that person in all counties or (2) the aggregate assessment of personal property for that person in all municipalities.

For each exemption granted, and as provided in the State budget, the State must remit to each county or municipality an amount equal to the following percentages of the tax that would have been collected if the personal property tax exemption had not been granted: (1) 100% in tax year 2017; (2) 75% in tax year 2018; (3) 50% in tax year 2019; and (4) 0% in tax year 2020 and each year thereafter. In calculating the amount required to be remitted by the State, the tax that would have been collected must be based on the assessed value of the personal property at the time the person applied for the personal property tax exemption.

The State budget for fiscal 2018 must include an appropriation to each county or municipality equal to 100% of the tax that would have been collected in fiscal 2017 if the personal property tax exemption under the bill had not been granted.

A person must apply annually to the State Department of Assessments and Taxation (SDAT) for the personal property tax exemption at the time the person files a required personal property tax report. SDAT must specify procedures for application for, approval of, and monitoring of continuing eligibility for the personal property tax exemption. A person who certifies in the annual report that the person has personal property that qualifies for the exemption under the bill may not be required to submit specified personal property information that would otherwise be required in the report.

Current Law: In Maryland, there is a tax on business-owned personal property that is imposed and collected by local governments. Personal property generally includes business property including furniture, fixtures, office and industrial equipment, machinery, tools, supplies, inventory, and any other property not classified as real property. To provide for uniform assessments, SDAT is responsible for assessing all personal property. Each county or municipal government is responsible for issuing the tax bills and collecting the tax. The tax year begins on July 1 and ends on June 30. The personal property tax has been a local tax exclusively since 1984 when the State tax rate on personal property was set at zero.

At the beginning of each calendar year SDAT mails a personal property tax return to most businesses on record. Businesses must file the return by April 15, reporting personal property located in Maryland on January 1, the “date of finality.” The date of finality is

the date used to determine ownership, location, value, and liability for tax purposes. An annual report fee is required to be paid to SDAT with the personal property tax return. The annual report fee is for the privilege of maintaining the legal entity's existence in the State.

Personal property, except inventory, is assessed based on the original cost less an annual depreciation allowance. The depreciation rate is determined based on the category of property. Seven rate categories (A through G) each pertain to different types of personal property. Except for data processing equipment and canned software, property may not be depreciated below 25%. For example, an item that was purchased for \$400 would be reduced by the depreciation factor each year until it reaches a minimum of \$100. Inventory is valued at its fair average value using the cost or market value, whichever is lower.

Certain personal property is exempt by statute or local law. Exemptions generally fall into two categories: those mandated by State law and those that are optional to local governments. There are certain organizations or groups whose personal property is exempt throughout the State. These organizations include religious groups, governmental entities, nonprofit hospitals, cemetery and mausoleum companies, and certain other groups that meet specified strict use criteria. In addition, State law requires that certain types of personal property be fully exempt throughout the State. These include aircraft, farming implements, residential (nonbusiness) property, most registered vehicles, boats not more than 100 feet in length, hand tools of mechanics or artisans, and intangible personal property (*e.g.*, stocks, bonds, patents, goodwill, trademarks, etc.).

State law authorizes local governments to exempt certain types of personal property. The county or municipality where the property is located may authorize a full or partial exemption. The most significant categories that may be exempt from the personal property tax are commercial inventory, manufacturing and research and development inventory, and manufacturing and research and development machinery. Twenty-one counties offer exemptions for 100% of all three categories. Five of these counties (Frederick, Garrett, Kent, Queen Anne's, and Talbot) have elected to exempt all business personal property from county taxation. The three remaining subdivisions do not offer a 100% exemption in all categories but offer exemptions ranging from 0% to 65% for various commercial inventory, manufacturing inventory, and machinery.

Background: As shown in **Exhibit 1**, the statewide assessable base for business personal property totals \$12.3 billion in fiscal 2016. Among counties that impose the business personal property tax, the assessable base ranges from a high of \$2.3 billion in Montgomery County to a low of \$34.1 million in Somerset County. Tax rates on business personal property range from \$2.09 in Worcester County to \$5.62 in Baltimore City.

Exhibit 1
County Business Personal Property Base
Fiscal 2016

County	Tax Rate	Business Personal Property
Allegany	\$2.4450	\$184,616,721
Anne Arundel	2.3070	1,567,105,677
Baltimore City	5.6200	1,060,171,330
Baltimore	2.7500	1,760,793,226
Calvert	2.2300	115,513,235
Caroline	2.4500	57,326,479
Carroll	2.5150	283,917,151
Cecil	2.4768	239,755,057
Charles	3.0125	521,201,660
Dorchester	2.4400	0
Frederick	0.0000	0
Garrett	0.0000	121,469,520
Harford	2.6049	575,150,767
Howard	2.9750	1,062,520,181
Kent	0.0000	0
Montgomery	2.4975	2,263,632,060
Prince George's	3.4350	1,466,649,980
Queen Anne's	0.0000	0
St. Mary's	2.1308	164,162,831
Somerset	2.5000	34,092,186
Talbot	0.0000	0
Washington	2.3700	395,701,992
Wicomico	2.1715	222,741,705
Worcester	2.0875	207,188,047
Total		\$12,303,709,805

Source: State Department of Assessments and Taxation

State Expenditures: The bill requires the State to reimburse each local government, as appropriated in the State budget, for the loss of personal property tax revenue resulting from the exemption proposed by the bill. The reimbursement lasts for three years for each exemption. The amount of the reimbursement is 100% of the lost revenue in tax year 2017, 75% in tax year 2018, and 50% in tax year 2019. Beginning in tax year 2020 and each year thereafter, local governments lose all personal property tax revenue resulting from the exemption.

Exhibit 2 shows the number of accounts with an assessable base of \$100,000 or less for fiscal 2015. As shown in the exhibit, the total assessable base for businesses with \$100,000 or less of personal property was approximately \$1.7 billion in fiscal 2015. Dorchester County will not impose a personal property tax beginning July 1, 2016.

Exhibit 2
Number of Accounts and Assessable Base of \$100,000 or Less¹
Fiscal 2015

County	Accounts	Assessable Base
Allegany	1,507	\$26,510,320
Anne Arundel	12,326	182,885,610
Baltimore City	9,875	130,490,890
Baltimore	17,077	249,814,070
Calvert	1,884	27,980,830
Caroline	745	12,654,060
Carroll	4,329	65,581,670
Cecil	1,903	34,229,560
Charles	2,775	44,837,170
Dorchester ²	33	62,450
Frederick	0	0
Garrett	0	0
Harford	5,042	75,261,360
Howard	8,291	131,170,600
Kent	0	0
Montgomery	22,671	311,964,970
Prince George's	12,076	180,588,740
Queen Anne's	0	0
St. Mary's	2,010	33,349,530
Somerset	449	6,322,890
Talbot	0	0
Washington	2,894	53,182,470
Wicomico	2,481	45,717,930
Worcester	5,110	49,176,910
Total	113,478	\$1,661,782,030

¹Data as of February 24, 2016.

²Dorchester County will not tax personal property as of July 1, 2016.

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

As noted, businesses are required to file a personal property report by April 15 of each year certifying the personal property in their possession as of January 1 of that year. This information is used to determine the value of personal property subject to personal property taxes for the fiscal year beginning July 1 of that year. As a result, local government personal property tax revenues decrease by approximately \$51.2 million in fiscal 2017 and by \$56.5 million in fiscal 2021, as shown in **Exhibit 3**. The estimate is based on those businesses that had business personal property with an assessed value of \$100,000 or less in fiscal 2015 and current personal property tax rates.

Exhibit 4 shows the amount of the State reimbursement for fiscal 2018 through 2020. As shown, general fund expenditures increase by approximately \$51.2 million in fiscal 2018 and by \$26.9 million in fiscal 2020.

Exhibit 3
Effect of Exemption on Local Personal Property Tax Revenue
Fiscal 2017-2021

County	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Allegany	(\$648,177)	(\$664,382)	(\$680,991)	(\$698,016)	(\$715,466)
Anne Arundel	(4,219,171)	(4,324,650)	(4,432,767)	(4,543,586)	(4,657,175)
Baltimore City	(7,333,588)	(7,516,928)	(7,704,851)	(7,897,472)	(8,094,909)
Baltimore	(6,869,887)	(7,041,634)	(7,217,675)	(7,398,117)	(7,583,070)
Calvert	(623,973)	(639,572)	(655,561)	(671,950)	(688,749)
Caroline	(310,024)	(317,775)	(325,719)	(333,862)	(342,209)
Carroll	(1,649,379)	(1,690,613)	(1,732,879)	(1,776,201)	(1,820,606)
Cecil	(847,798)	(868,993)	(890,718)	(912,985)	(935,810)
Charles	(1,350,720)	(1,384,488)	(1,419,100)	(1,454,577)	(1,490,942)
Dorchester ¹	0	0	0	0	0
Frederick	0	0	0	0	0
Garrett	0	0	0	0	0
Harford	(1,960,483)	(2,009,495)	(2,059,733)	(2,111,226)	(2,164,007)
Howard	(3,902,325)	(3,999,883)	(4,099,881)	(4,202,378)	(4,307,437)
Kent	0	0	0	0	0
Montgomery	(7,791,325)	(7,986,108)	(8,185,761)	(8,390,405)	(8,600,165)
Prince George's	(6,203,223)	(6,358,304)	(6,517,261)	(6,680,193)	(6,847,198)
Queen Anne's	0	0	0	0	0
St. Mary's	(710,612)	(728,377)	(746,587)	(765,251)	(784,382)
Somerset	(158,072)	(162,024)	(166,075)	(170,227)	(174,482)
Talbot	0	0	0	0	0
Washington	(1,260,425)	(1,291,935)	(1,324,234)	(1,357,339)	(1,391,273)
Wicomico	(992,765)	(1,017,584)	(1,043,024)	(1,069,099)	(1,095,827)
Worcester	(1,026,568)	(1,052,232)	(1,078,538)	(1,105,501)	(1,133,139)
County Decrease	(\$47,858,51)	(\$49,054,97)	(\$50,281,35)	(\$51,538,38)	(\$52,826,84)
Municipal Decrease	(3,350,096)	(3,433,848)	(3,519,695)	(3,607,687)	(3,697,879)
Total Local	(\$51,208,61)	(\$52,488,82)	(\$53,801,04)	(\$55,146,07)	(\$56,524,72)

¹Dorchester County will not tax personal property as of July 1, 2016.

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

Exhibit 4
State Reimbursement Amounts
Fiscal 2018-2020

County	FY 2018	FY 2019	FY 2020
Allegany	\$648,177	\$498,286	\$340,496
Anne Arundel	4,219,171	3,243,488	2,216,383
Baltimore City	7,333,588	5,637,696	3,852,425
Baltimore	6,869,887	5,281,226	3,608,837
Calvert	623,973	479,679	327,781
Caroline	310,024	238,331	162,860
Carroll	1,649,379	1,267,960	866,439
Cecil	847,798	651,745	445,359
Charles	1,350,720	1,038,366	709,550
Dorchester ¹	0	0	0
Frederick	0	0	0
Garrett	0	0	0
Harford	1,960,483	1,507,121	1,029,866
Howard	3,902,325	2,999,913	2,049,940
Kent	0	0	0
Montgomery	7,791,325	5,989,581	4,092,880
Prince George's	6,203,223	4,768,728	3,258,631
Queen Anne's	0	0	0
St. Mary's	710,612	546,283	373,293
Somerset	158,072	121,518	83,037
Talbot	0	0	0
Washington	1,260,425	968,951	662,117
Wicomico	992,765	763,188	521,512
Worcester	1,026,568	789,174	539,269
County Reimbursement	\$47,858,515	\$36,791,233	\$25,140,676
Municipal Reimbursement	3,350,096	2,575,386	1,759,847
Total Local Reimbursement	\$51,208,611	\$39,366,620	\$26,900,524

¹Dorchester County will not tax personal property as of July 1, 2016.

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

Local Fiscal Effect: Local government personal property tax revenues decrease by approximately \$51.2 million in fiscal 2017 and by \$56.5 million in fiscal 2021, as shown in Exhibit 3. Local government revenue decreases are offset for a three-year period beginning in fiscal 2018, as shown in Exhibit 4.

Small Business Effect: Fiscal 2015 data indicates that, on average, businesses with \$100,000 or less of assessed personal property had a personal property tax assessment of \$14,644. As a point of reference, using an average property tax rate of \$2.21, this results in an average tax savings of \$324. These businesses may realize additional savings by not having to file a personal property tax return each year.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Counties, Maryland Municipal League, Department of Budget and Management, Property Tax Assessment Appeals Board, State Department of Assessments and Taxation, Department of Legislative Services

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