

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1190
Economic Matters

(Delegate Adams, *et al.*)

Corporations and Associations - Annual Reports - Fees

This bill alters the corporate filing fee amount paid by business entities in the State by establishing a new tiered fee schedule based on the gross sales or receipts of business entities.

Fiscal Summary

State Effect: General fund revenues decrease by a significant amount beginning in FY 2018. The amount of the decrease depends on the amount of gross sales or receipts that each business entity has and the corresponding filing fee that must be paid. Special fund expenditures increase by \$500,000 in FY 2018 and by \$30,000 annually thereafter for computer programming changes at the State Department of Assessments and Taxation (SDAT).

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill alters the amount of the corporate filing fee paid by business entities in the State by repealing the \$300 annual fee that is paid by business entities and establishing a new tiered rate schedule based on each business entity's gross sales or receipts, as shown in **Exhibit 1**.

Exhibit 1
New Corporate Filing Fee Schedule

<u>Gross Sales or Receipts</u>	<u>Fee</u>
\$100,000 or Less	\$0
\$100,001-\$200,000	100
\$200,001-\$300,000	200
Over \$300,000	300
Family Farms	100

Current Law: County and municipal governments in Maryland impose property taxes on business-owned personal property. As part of the property tax assessment process, business entities are required to submit an annual report fee to SDAT along with the personal property tax return. **Appendix – Corporate Filing Fees in Maryland** provides an overview on how personal property taxes are imposed and collected in Maryland and information on the collection of corporate filing fees. **Exhibit 2** shows average corporate filing fee revenue (tax years 2013-2015) for businesses with various levels of taxable assets.

Exhibit 2
Corporate Filing Fee Revenues
Average for Tax Years 2013-2015

<u>Taxable Assets</u>	<u>Number of Businesses</u>	<u>Current Fee Revenue</u>	<u>Percent of Total</u>
None	163,419	\$49,025,700	57.9%
\$1-\$10,000	69,513	20,853,900	24.6%
\$10,001-\$25,000	18,961	5,688,300	6.7%
\$25,001-\$50,000	10,796	3,238,800	3.8%
\$50,001-\$100,000	7,653	2,295,900	2.7%
\$100,001-\$150,000	3,252	975,600	1.2%
\$150,001-\$200,000	1,805	541,500	0.6%
over \$200,000	6,770	2,031,000	2.4%
Family Farms	562	56,200	0.1%
Exempt Businesses	57,464	0	
Total		\$84,706,900	100.0%

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

State Revenues: The bill alters the current corporate filing fee amount by eliminating the \$300 fee that is paid by most business entities and replacing it with a new tiered fee schedule based on each business entity’s gross sales or receipts. As a result, general fund revenues decrease by a significant amount beginning in fiscal 2018. The amount of the decrease depends on the amount of gross sales or receipts that each business entity has and the corresponding filing fee that must be paid. However, the Comptroller’s Office and SDAT do not track data on the amount of gross sales or receipts for Maryland businesses. As such, a precise estimate of the actual fiscal effect of the bill cannot be reliably estimated at this time.

Based on a three-year average (tax years 2013-2015), the State collects approximately \$84.7 million in corporate filing fees each year from approximately 282,200 business entities. An additional 57,500 business are currently exempt from paying any corporate filing fees. As a point of reference, *and for illustrative purpose only*, **Exhibit 3** shows the potential revenue impact based on three different scenarios:

- Equal distribution of business entities in each tier, which results in a \$42.4 million revenue loss.
- A larger proportion of business entities at the lower gross sales/receipts levels, which results in a \$65 million revenue loss.
- A larger proportion of business entities at the higher gross sales/receipts levels, which results in a \$19.8 million revenue loss.

Exhibit 3
Revenue Scenarios from New Corporate Filing Fee Schedule

<u>Gross Sales or Receipts</u>	<u>New Fee</u>	<u>Percent</u>	<u>New Revenue</u>	<u>Percent</u>	<u>New Revenue</u>	<u>Percent</u>	<u>New Revenue</u>
0-\$100,000	\$0	25%	\$0	60%	\$0	10%	\$0
\$100,001-\$200,000	100	25%	7,054,200	20%	5,643,360	10%	2,821,680
\$200,001-\$300,000	200	25%	14,108,400	10%	5,643,360	20%	11,286,720
Over \$300,000	300	25%	21,162,600	10%	8,465,040	60%	50,790,240
Total Revenue			\$42,325,200		\$19,751,760		\$64,898,640
Difference from Current Law			(\$42,381,367)		(\$64,954,807)		(\$19,807,927)

In addition, Chapters 323 and 324 of 2016 establish the Maryland Small Business Retirement Savings Program and Trust, which requires specified private-sector employers
HB 1190/ Page 3

to make the program available to their employees. The legislation waives the annual filing fee collected by SDAT for a corporation or business entity that participates in the program or otherwise offers a retirement savings arrangement for its employees for the filing of reports. The number of businesses that participate will also have an impact on revenues depending on the amount of personal property these businesses have and the fee they are required to pay.

State Expenditures: The bill requires SDAT to administer and collect a new tiered corporate filing fee structure, resulting in a significant computer programming expenditure increase for the department. The SDAT computer system for administering the State corporate filing fee will require substantial reprogramming to monitor and track corporate filings being paid under the new tiered fee schedule. The additional cost is estimated at \$500,000 in fiscal 2018 and \$30,000 annually thereafter for maintenance upgrades.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 7, 2017
md/hlb

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Appendix – Corporate Filing Fees in Maryland

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, the State Department of Assessments and Taxation (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 notifies business entities on record that a personal property tax return must be filed by April 15. This tax return must include personal property located in Maryland as of January 1, the date of finality. The “date of finality” is the date used to determine ownership, location, value, and liability for tax purposes. Beginning in 2017, all tax returns will be filed electronically. 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. **Exhibit 1** identifies the amount of the report fee that each legal entity is required to pay.

Exhibit 1 Annual Reporting Fee Requirement

<u>Business Entity</u>	<u>Fee</u>	<u>Business Entity</u>	<u>Fee</u>
Stock Corp	\$300	Domestic Statutory Trust	\$300
NonStock Corp	0	Foreign Statutory Trust	300
Foreign Insurance Corp	300	Real Estate Investment Trust	300
Foreign Interstate Corp	0	Certified Family Farm	100
Limited Liability Company	300	Sole Proprietorship	0
Limited Liability Partnership	300	General Partnership	0
Limited Partnership	300	Amended Return	0

SDAT’s Charter Unit is the central repository of all records for business entity formation and filings, such as charters, limited liability companies, partnerships, and trusts. The unit provides resident agent information for service of process on these entities and accepts service in certain instances on their behalf. It also records trade names and is the filing place for most financing statements under the Uniform Commercial Code. The Charter Unit administers the State’s annual corporate filing fee. Revenue collected is deposited into the State general fund.