

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1260 (Delegate McMillan)
 Economic Matters

Annual Reports and Personal Property Reports - Fees, Exemption, and Affidavit

This bill reduces the corporate filing fee from \$300 to \$100 for business entities that have no assessed personal property during the preceding taxable year. Businesses that have no assessed personal property in the preceding calendar year are not required to file a specified annual report with the State Department of Assessments and Taxation (SDAT) but must submit to SDAT, by April 15, an affidavit attesting that the person has no tax liability for the taxable period.

Fiscal Summary

State Effect: General fund revenues decrease by approximately \$32.7 million annually beginning in FY 2018. Expenditures are not affected.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$32.7)	(\$32.7)	(\$32.7)	(\$32.7)	(\$32.7)
Expenditure	0	0	0	0	0
Net Effect	(\$32.7)	(\$32.7)	(\$32.7)	(\$32.7)	(\$32.7)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

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 1** shows average corporate filing fee revenue (tax years 2013-2015) for businesses with various levels of taxable assets.

Exhibit 1
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>Percentage of Total</u>
None	163,419	\$49,025,700	57.9%
\$1- \$10,000	69,513	20,853,900	24.6%
\$10,000-\$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 Fiscal Effect: General fund revenues decrease by approximately \$32.7 million annually beginning in fiscal 2018 as a result of the filing fee reduction (\$300 to \$100) for businesses that have no assessed personal property. Based on a three-year average (tax years 2013-2015) of corporate filing fees paid, there were 163,419 accounts with no assessed personal property. All of these accounts would qualify for the new \$100 filing fee under the bill, as shown in **Exhibit 2**.

Exhibit 2
Fiscal Effect of Corporate Filing Fee Reduction

	<u>Accounts</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Revenue Loss</u>
Business Entities	163,419	\$300	\$100	(\$32,683,800)

Source: State Department of Assessments and Taxation

This estimate assumes that the number of filers remains constant. To the extent that variations occur in the number of business entities paying the filing fee each year, the effect on general fund revenues will vary accordingly. In addition, Chapters 323 and 324 of 2016 establish the Maryland Small Business Retirement Savings Program and Trust, which requires specified private-sector employers 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 how many participate in the program and have the filing fee waiver each year.

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
fn/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.