

Department of Legislative Services  
Maryland General Assembly  
2017 Session

FISCAL AND POLICY NOTE  
Third Reader

House Bill 566  
Ways and Means

(Howard County Delegation)

Budget and Taxation

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Howard County - Property Tax - Exemption for Personal Property of Business  
Located in Historic District  
Ho. Co. 10-17

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This bill authorizes Howard County to exempt, from the county personal property tax, the personal property owned or leased by a business located in a local historic district or a national register district. A local historic district is defined as a district that Howard County has designated under local law as historic.

The bill takes effect June 1, 2017, and applies to taxable years beginning after June 30, 2017, but before July 1, 2022. The bill terminates June 30, 2022.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Howard County personal property tax revenues may decrease in FY 2018 through FY 2022. Under one set of assumptions, county revenues may decrease by approximately \$600,000 annually. County expenditures are not affected.

**Small Business Effect:** Potential meaningful.

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**Analysis**

**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, 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 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:** The assessable base for business personal property in Howard County totals approximately \$1.0 billion in fiscal 2017. The county tax rate on business personal property is \$2.535 per \$100 of assessed value. The county also imposes a \$0.44 fire district tax rate on personal property.

The National Register of Historic Places lists four historic districts in Howard County – Daniels Mill, Ellicott City Historic District, Lawyers Hill Historic District, and Savage Mill Historic District. The Ellicott City Historic District and Lawyers Hill Historic District are also local historic districts designated by Howard County. Daniels Mill consists of 8 buildings on 1,050 acres. The Ellicott City Historic District consists of 3,250 acres and has 186 buildings. The Lawyers Hill Historic District has 47 buildings and one structure located on 6,500 acres. The Savage Mill Historic District consists of 500 acres with 36 buildings.

**Local Fiscal Effect:** Howard County personal property tax revenues may decrease in fiscal 2018 through fiscal 2022 to the extent the property tax credit is authorized. The amount of the revenue decrease depends on the number of businesses located in historic districts and the assessed value of personal property owned or leased by these businesses, neither of which can be reliably estimated.

As a point of reference, the current historic districts in Howard County consist of 11,300 total acres, which is equivalent to 17.66 square miles and approximately 7.0% of the county's total land area. It is assumed that the amount of personal property located within the designated historic districts will represent a smaller proportion of the county's overall personal property base. Assuming that 2% of the county's personal property base is located within the designated historic districts, Howard County revenues may decrease by approximately \$600,000 annually.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 22, 2017  
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