

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1426
(Delegate Fisher)
Ways and Means

Calvert County - Personal Property Tax - Exemption

This bill alters the taxation of personal property in Calvert County beginning on the date that Dominion Resources, Inc. makes its first payment in lieu of taxes payment to the county government.

The bill takes effect June 1, 2017, and applies to taxable years beginning after June 30, 2017.

Fiscal Summary

State Effect: None.

Local Effect: Calvert County personal property tax revenues decrease by a significant amount beginning in FY 2019. Under one set of assumptions, personal property tax revenues decrease by approximately \$2.2 million annually, beginning in FY 2019. Expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: Beginning on the date on which Dominion Resources, Inc. makes its first payment in lieu of taxes payment to Calvert County, the bill exempts all personal property in Calvert County from the county personal property tax except (1) operating personal property of a railroad or public utility; (2) property used to provide a cable television, data, or telecommunications service, including all fiber-optic and other cable wire systems,

cellular telephone towers, and wireless appurtenances attached to or installed on 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: County and municipal governments impose property taxes on business-owned personal property. In Calvert County, the personal property tax rate is set at \$2.23 per \$100 of assessed value in fiscal 2017. **Appendix – Personal Property Taxation in Maryland** provides an overview on how personal property taxes are imposed and collected in Maryland. The Appendix also includes information on personal property tax rates and the assessable base amounts for fiscal 2017.

Local Fiscal Effect: Calvert County indicates that Dominion Resources, Inc. is scheduled to make its first payment in lieu of taxes payment by January 31, 2018. As a result, specified personal property will be exempt from taxation beginning July 1, 2018.

Calvert County currently collects approximately \$2.6 million annually in business personal property tax revenues. Exempting most personal property from county taxation could decrease county revenues by approximately \$2.2 million annually beginning in fiscal 2019. This estimate assumes that specified telecommunications property and electronic bingo machines comprise 15% of the county's business personal property assessable base.

The State Department of Assessments and Taxation (SDAT) estimates that the Calvert County business personal property assessable base will total approximately \$152.7 million for both fiscal 2017 and fiscal 2018. SDAT does not currently have data as to the amount of personal property owned by various telecommunications services referenced in the bill, 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 at the following locations – Chesapeake Beach Resort and Spa (278), Abner's Crab House (85), Traders (87), and American Legion Post #206 (10) – in Calvert County; however the agency does not have data as to the assessed value of these machines.

To the extent the actual personal property assessable base, including the amount of telecommunications property within the assessable base, differs from the estimate, the effect of the property tax exemption will vary accordingly.

Small Business Effect: Small businesses in Calvert County will not be subject to personal property taxes for certain business personal property beginning in fiscal 2019. As a point of reference, for fiscal 2016, there were 2,337 personal property tax reports filed with

SDAT. The average personal property assessment was \$65,364, resulting in an average tax amount of \$1,458.

Additional Information

Prior Introductions: Similar bills were introduced during the 2014, 2015, and 2016 sessions. HB 434 of 2016 received a hearing in the House Ways and Means Committee, but no further action was taken. SB 841 of 2015 was assigned to the Senate Rules Committee, but no further action was taken. Its cross file, HB 69 of 2015, received a hearing in the House Ways and Means Committee, but no further action was taken. HB 573 of 2014 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - March 1, 2017
mm/hlb

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Appendix – Personal Property Taxation 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

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.

Personal Property Tax Rates and Assessable Base Amounts

As shown in **Exhibit 2**, the statewide assessable base for business personal property totals \$12.2 billion in fiscal 2017. Among counties that impose the business personal property tax, the assessable base ranges from a high of \$2.2 billion in Montgomery County to a low of \$26.9 million in Somerset County. Tax rates on business personal property range from \$2.09 in Worcester County to \$5.62 in Baltimore City.

Exhibit 2
County Business Personal Property Base
Fiscal 2017

County	Personal Property Tax Rate	Business Personal Property
Allegany	\$2.4425	\$177,042,760
Anne Arundel	2.2870	1,544,655,000
Baltimore City	5.6200	1,258,000,100
Baltimore	2.7500	1,718,998,460
Calvert	2.2300	152,754,820
Caroline	2.4500	50,234,340
Carroll	2.5150	286,877,230
Cecil	2.4785	238,333,990
Charles	3.0125	487,412,820
Dorchester	0.0000	0
Frederick	0.0000	0
Garrett	2.4750	115,137,760
Harford	2.6049	627,854,280
Howard	2.9750	999,910,650
Kent	0.0000	0
Montgomery	2.5950	2,167,592,600
Prince George's	3.4350	1,403,313,280
Queen Anne's	0.0000	0
St. Mary's	2.1308	160,434,990
Somerset	2.5000	26,909,010
Talbot	0.0000	0
Washington	2.3700	409,948,270
Wicomico	2.1715	201,725,460
Worcester	2.0875	212,925,130
Total		\$12,240,060,950

Source: State Department of Assessments and Taxation
