

Department of Legislative Services  
 Maryland General Assembly  
 2017 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 859 (Delegate Carr, *et al.*)  
 Economic Matters

Business Regulation - Trader's and Chain Stores Licenses and Personal Property  
 Tax - Fees and Exemptions

This bill (1) replaces the tiered fee structure for trader’s licenses with a flat fee in each jurisdiction and repeals the chain store license and associated fee; (2) requires the State Department of Assessments and Taxation (SDAT) to waive the \$300 annual filing fee for a business that holds a trader’s license; and (3) removes the applicability of the municipal personal property tax on commercial business inventory.

The bill takes effect October 1, 2017, and applies to all taxable years after December 31, 2017.

Fiscal Summary

**State Effect:** Net general fund revenues decrease by approximately \$12.3 million annually beginning in FY 2018 due to the corporate filing fee exemption for businesses that hold a trader’s license, offset marginally by additional general fund revenue from the changes to trader’s and chain store licenses. Special fund expenditures for SDAT increase by \$120,000 in FY 2018 for a one-time programming expense. The Judiciary (Administrative Office of the Courts) can implement the bill with existing resources.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$12.3)	(\$12.3)	(\$12.3)	(\$12.3)	(\$12.3)
SF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$12.4)	(\$12.3)	(\$12.3)	(\$12.3)	(\$12.3)

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

**Local Effect:** Local government revenues increase by \$4.3 million annually beginning in FY 2018 (\$2.3 million for counties and \$2.0 million for municipalities) due to the changes in trader’s and chain store licenses. The increase in municipal revenue is at least partially

offset by the elimination of the municipal personal property tax on commercial business inventory; however, the effect of this provision, both on municipalities in general and on individual municipalities, cannot be reliably estimated at this time. Each effect is discussed separately below. Expenditures are not affected.

**Small Business Effect:** Meaningful. The bill increases fees for businesses with relatively low inventory levels and decreases fees for those with relatively high inventory levels. Small businesses benefit from reduced complexity associated with the tiered trader's license fee structure removed by the bill. Small businesses with high inventory levels located in municipalities that tax commercial inventory benefit from a potentially significant reduction in personal property taxes.

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## Analysis

### Bill Summary/Current Law:

#### *Trader's License*

*Current Law:* In a county other than Baltimore City or Baltimore County, an applicant for a trader's license must pay to the clerk of the court in the appropriate jurisdiction an annual license fee ranging from \$15 to \$800, based on the value of the person's stock-in-trade, *i.e.*, inventory. The fee ranges from \$20 to \$2,125 in Baltimore City and from \$20 to \$1,600 in Baltimore County. There are specified exceptions to these general fees; for Blind Industries and Services of Maryland (BISM) and specified visually handicapped applicants, the fee is \$6.

Revenue from the fee is distributed primarily to the county or, if applicable, the municipality in which the business is located.

*The Bill:* The trader's license fee does not vary based on inventory. The fee is \$325 in Baltimore City and \$300 in Baltimore County. In a county other than Baltimore City or Baltimore County, the fee is \$225. In any municipality, the fee is \$325. The fee is waived for BISM (although BISM advises that it does not hold any trader's licenses) and specified visually handicapped applicants.

#### *Chain Store License*

*Current Law:* A chain store license must be purchased whenever a person operates two or more retail stores under the same general management in the State. In a county other than Baltimore City, Baltimore County, or Cecil County, an applicant for a chain store license must pay to the clerk of the court in the appropriate jurisdiction an annual license fee

ranging from \$5 to \$150, based on the number of stores. The fee ranges from \$12 to \$375 in Baltimore City and Baltimore County and from \$10 to \$300 in Cecil County.

Revenues from the fees are distributed primarily to counties or, if applicable, the municipality in which the business is located.

*The Bill:* The requirement to purchase a chain store license and associated provisions are repealed.

### *Corporate Filing Fee*

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. The fee is typically \$300.

### *Municipal Personal Property Tax*

*Current Law:* Generally, the inventory of a person engaged in manufacturing or commercial business is not subject to State or local property tax. However, unless exempted in full or in part by the governing body of a municipality, the inventory of a person engaged in manufacturing or commercial business *is* subject to the municipal *personal* property tax. This is in addition to other types of personal property subject to the municipal personal property tax, as specified. The municipal personal property tax rate varies widely across jurisdictions. Some municipalities do not tax commercial personal property.

*The Bill:* Commercial business inventory is no longer subject to the municipal personal property tax by default. Any municipality that taxed commercial business inventory is no longer authorized to do so. Manufacturing business inventory is treated the same under current law and the bill.

**Background:** 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.

### **State Fiscal Effect:**

#### *Trader's and Chain Store Licenses*

Trader's and chain store licenses are issued by the clerk of the court in each jurisdiction. The revenues from these licenses are split between local government (92%) and the State general fund (8%). If a business is located in a municipality, the local government portion of the revenue is distributed to the municipality. Licenses are typically renewed on May 1 of each year. Under current law, there is no separate fee amount for municipalities – the fee is determined by the county in which the business is located.

In fiscal 2016, there were approximately 56,300 trader's licenses and 16,500 chain store licenses issued by the clerks of the court. State revenue collected in that year from both licenses was \$820,000. Under the bill, State revenue collected from trader's licenses is estimated to be about \$1,180,000. Based on this information, replacing the tiered trader's license fee structure with flat fees, while removing the chain store license fees, increases general fund revenues by about \$360,000 annually beginning in fiscal 2018. This estimate does not account for any visually handicapped applicants for whom the fee is waived; any such impact is likely negligible.

#### *Corporate Filing Fees*

The exact number of businesses exempt from the annual corporate filing fee due to the bill is unknown at this time. About 16% of business entities that are on record with SDAT are in some way exempt from paying a filing fee, but historic levels of exempt businesses are somewhat higher. Using a conservative estimate that 25% of businesses with trader's licenses are currently exempt from paying the fee, general fund revenues decrease by about \$12.7 million annually.

SDAT estimates a one-time programming expense associated with the corporate filing fee exemption of \$120,000. The affected unit in SDAT is funded by special fund revenues collected through expedited fees paid by businesses for expedited processing of business filings. Therefore, special fund expenditures for SDAT increase by \$120,000 in fiscal 2018. It is assumed that SDAT otherwise can check eligibility for a filing fee exemption for businesses under the bill with existing staff. To the extent this is not the case, special fund expenditures for SDAT further increase beginning as early as fiscal 2018.

### *Municipal Personal Property Tax*

It is assumed that SDAT can implement any required changes related to removing the applicability of the municipal personal property tax on commercial business inventory with existing staff. SDAT's role in the assessment process is not substantively altered by the bill.

### **Local Fiscal Effect:**

#### *Trader's and Chain Store Licenses*

As noted above, trader's and chain store licenses are issued by the clerk of the court in each jurisdiction. The revenues from these licenses are split between local government (92%) and the State general fund (8%). If a business is located in a municipality, the local government portion of the revenue is distributed to the municipality. Licenses are typically renewed on May 1 of each year. Under current law, there is no separate fee amount for municipalities – the fee is determined by the county in which the business is located.

In fiscal 2016, there were approximately 56,300 trader's licenses and 16,500 chain store licenses issued by the clerks of the court. Total local government revenue (counties and municipalities) collected from both licenses was \$9.7 million in that year. Of that amount, \$7.9 million went to the counties, and \$1.8 million went to municipalities. Under the bill, total local government revenue collected from trader's licenses is estimated to be about \$14.0 million – \$10.2 million for counties and \$3.8 million for municipalities. Therefore, total local government revenue is estimated to increase by \$4.3 million annually beginning in fiscal 2018 – \$2.3 million for counties and \$2.0 million for municipalities. This estimate does not account for any visually handicapped applicants for whom the fee is waived; any such impact is likely negligible. The net effect for each county and the municipalities in each county, if applicable, is shown in **Exhibit 1**. An estimate of the revenue impact for each municipality is beyond the scope of this fiscal and policy note.

### *Municipal Personal Property Tax*

According to information received from SDAT, the total assessable base for purposes of the municipal property tax on commercial business inventory is approximately \$530.1 million. Some municipalities do not tax inventory and/or personal property, and municipal personal property tax rates vary significantly. Some municipalities, such as University Park in Prince George's County, have a rate of more than \$2 per \$100 of assessable base. Others have rates lower than 50 cents per \$100. Municipalities also have varying levels of exemptions that affect the overall amount collected.

The revenue impact of the exemption, both on municipalities in general and on individual municipalities, cannot be reliably estimated at this time. The effect on any individual municipality depends on the assessable base and the effective personal property tax rate in the municipality. The range of rates can be found on SDAT's [website](#).

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**Exhibit 1**  
**Revenue Increase due to Trader's and Chain Store License Changes**  
**Fiscal 2018**

<u>Jurisdiction</u>	<u>County</u>	<u>Municipality</u>	<u>Total Local</u>
Allegany	\$43,524	\$100,631	\$144,156
Anne Arundel	316,467	90,841	407,308
Baltimore City	501,987	N/A	501,987
Baltimore	29,336	N/A	29,336
Calvert	68,496	13,931	82,427
Caroline	26,044	33,219	59,263
Carroll	111,918	118,851	230,769
Cecil	60,233	68,337	128,569
Charles	34,077	28,158	62,235
Dorchester	21,437	54,550	75,987
Frederick	32,377	225,196	257,573
Garrett	40,140	27,287	67,427
Harford	119,788	106,939	226,727
Howard	105,907	N/A	105,907
Kent	14,481	44,234	58,716
Montgomery	293,304	272,069	565,373
Prince George's	121,578	195,493	317,071
Queen Anne's	50,557	14,974	65,531
St. Mary's	79,857	20,497	100,354
Somerset	28,260	30,208	58,469
Talbot	23,589	118,425	142,014
Washington	57,107	145,033	202,141
Wicomico	39,163	123,651	162,814
Worcester	35,317	199,810	235,127
<b>Statewide</b>	<b>\$2,254,946</b>	<b>\$2,032,333</b>	<b>\$4,287,279</b>

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** State Department of Assessments and Taxation; Judiciary (Administrative Office of the Courts); Baltimore City; Montgomery County; Blind Industries and Services of Maryland; Department of Legislative Services

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