Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 239 (Senator Robinson, *et al.*)
Budget and Taxation

Personal Property Tax - Exemption - Property Owned by New or Relocated Business

This bill exempts, from the personal property tax, property that is owned by a business that (1) has organized under the laws of Maryland during the current tax year or (2) relocates its headquarters to Maryland during the current tax year.

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

Fiscal Summary

State Effect: None.

Local Effect: Local property tax revenues will decrease beginning in FY 2019 to the extent businesses start up or relocate their headquarters to Maryland. Local expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful. Small business start-ups or businesses that relocate their headquarters to Maryland will not be subject to personal property taxes in the year the start-up or relocation occurs.

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: As shown in **Exhibit 1**, 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 1
County Business Personal Property Tax
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; Department of Legislative Services

Local Fiscal Effect: Local property tax revenues will decrease beginning in fiscal 2019 to the extent businesses start up or relocate in Maryland during a given year. The revenue loss will depend on the number of qualifying businesses and the assessed value of personal property. The amount of any revenue decrease will also vary between counties as counties have different tax rates and some counties do not tax personal property. To the extent a large company starts up or moves its headquarters, the effect could be significant in that year. As a point of reference, SDAT indicates that, in fiscal 2016, there were 332 new business filings; these new businesses had approximately $4.5 million in personal property, as shown in **Exhibit 2**. As a point of reference, based on this data county personal property tax revenues would have decreased by approximately $110,200 had the bill been in effect in fiscal 2016.

Exhibit 2
New Business Filings
Fiscal 2016

County	New Business Filings	Personal Property Base	Revenue Decrease
Allegany	6	$13,470	($329)
Anne Arundel	18	2,407,640	(55,544)
Baltimore City	21	96,590	(5,428)
Baltimore	24	241,000	(6,628)
Calvert	2	37,040	(826)
Caroline	1	27,500	(674)
Carroll	11	53,030	(1,334)
Cecil	3	21,850	(541)
Charles	3	46,110	(1,389)
Dorchester	3	0	0
Frederick	4	0	0
Garrett	3	0	0
Harford	16	127,720	(3,327)
Howard	12	59,550	(1,772)
Kent	0	0	0
Montgomery	19	645,660	(16,125)
Prince George’s	5	35,130	(1,207)
Queen Anne’s	2	0	0
St. Mary’s	7	48,870	(1,041)
Somerset	2	40,730	(1,018)
Talbot	1	0	0
Washington	19	106,750	(2,530)
Wicomico	12	73,700	(1,600)
Worcester	138	424,140	(8,854)
Total	**332**	**$4,506,480**	**($110,168)**

Source: State Department of Assessments and Taxation

Additional Information

Prior Introductions: None.

Cross File: None.

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

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