

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 459
 Economic Matters

(Delegate Carr, *et al.*)

Finance

Business Regulation - Trader's Licenses - License Fees

This bill authorizes the governing body of a county or municipality to select a uniform trader’s license fee instead of using the existing tiered license fee. Selecting the uniform trader’s license fee is a one-time, irrevocable decision. As opposed to tiered licensing, in which most licensing revenue is retained by local governments, all revenue from uniform traders’ fees accrues to the State general fund. By December 31, 2018, the State Department of Assessments and Taxation (SDAT) must adopt regulations on the granting of exemptions from the reporting requirements (and associated filing fees) under § 11-101 of the Tax-Property Article.

Fiscal Summary

State Effect: General fund expenditures increase by \$56,700 in FY 2019 for a one-time programming expense. State revenues are not materially affected, as discussed below.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	56,700	0	0	0	0
Net Effect	(\$56,700)	\$0	\$0	\$0	\$0

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

Local Effect: Local government revenues are not materially affected, as discussed below. Expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The uniform fee is \$15, except in Baltimore City and Baltimore County where the fee is \$20. In local jurisdictions without a uniform license fee, the clerk of the court must verify the accuracy of each applicant's business location prior to issuing a trader's license. The bill also makes minor changes to the licensure of visually handicapped applicants.

If a local jurisdiction adopts the uniform trader's license fee *and* also provides a full tax exemption for commercial inventory, a trader's license applicant may not be required to submit an inventory certification from SDAT.

Current Law/Background: In a local jurisdiction other than Baltimore City or Baltimore County, an applicant for a trader's license must pay an annual license fee to the clerk of the court 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. The revenues are generally 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; otherwise, the revenue goes to the county in which the business is located. Licenses are typically renewed on May 1 of each year. There is no separate fee amount for municipalities – the fee is determined by the county in which the business is located.

In addition to other requirements, an applicant for a trader's license must submit a certification by SDAT on the value of its inventory in each county where the business is located for the applicant's business for the valuation year.

In fiscal 2016, there were approximately 56,300 trader's licenses issued by the clerks of the court with revenues totaling \$9.5 million across State and local government. Of that amount, \$7.1 million went to counties, \$1.6 million went to municipalities, and \$740,100 went to the State. Information for individual counties is shown in **Exhibit 1**.

Corporate Filing Fees and Inventory Certifications

SDAT is the central repository of all records for business entity formation and filings. SDAT administers the State's annual corporate filing fee, which is collected under § 11-101 of the Tax-Property Article, as well as other business transaction fees. The fee is for the privilege of maintaining the legal entity's existence in the State and is generally

equal to \$300 per year. Inventory certifications, which are required for trader's licenses, are provided under § 11-102 of the Tax-Property Article at no additional cost.

Exhibit 1
Licenses and Revenue from Trader's Licenses
Fiscal 2016

<u>Jurisdiction</u>	<u>Licenses</u>	<u>County</u>	<u>Revenue</u>	
			<u>Municipal</u>	<u>State</u>
Allegany	1,172	\$80,571	\$56,486	\$11,918
Anne Arundel	6,031	742,670	59,802	69,780
Baltimore City	6,254	1,257,203	-	109,322
Baltimore	7,926	1,877,127	-	163,228
Calvert	802	76,320	3,745	6,962
Caroline	385	15,303	19,643	3,039
Carroll	1,889	102,839	110,635	18,563
Cecil	993	50,747	50,911	8,840
Charles	1,328	182,599	22,550	17,839
Dorchester	475	14,662	32,211	4,076
Frederick	2,439	170,101	176,254	30,118
Garrett	649	56,424	23,786	6,975
Harford	2,361	196,915	100,884	25,896
Howard	2,649	414,789	-	36,069
Kent	384	13,259	27,931	3,582
Montgomery	6,860	712,913	243,048	61,019
Prince George's	5,703	662,289	237,882	78,276
Queen Anne's	752	67,463	30,947	8,557
St. Mary's	1,204	133,855	11,879	12,673
Somerset	352	14,254	12,079	2,290
Talbot	900	22,510	77,458	8,693
Washington	1,985	160,599	107,444	23,308
Wicomico	1,335	41,359	141,385	15,891
Worcester	1,507	69,348	82,334	13,190
Statewide	56,335	\$7,136,117	\$1,629,293	\$740,101

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

Source: Judiciary (Administrative Office of the Courts); Department of Legislative Services

State Expenditures: In local jurisdictions that do not establish a uniform trader’s license fee, the clerk of the court must verify the accuracy of each applicant’s business location prior to issuing the license. General fund expenditures for the Judiciary (Administrative Office of the Courts) increase by \$56,742 in fiscal 2019 for a one-time programming expense to implement this requirement.

SDAT can handle the bill’s requirements with existing budgeted resources.

State Revenues: State general fund revenue collected from trader’s licenses generally increases minimally to the extent that local governments choose to establish a uniform licensing fee. However, since local governments must forego all revenue from the trader’s license fees to establish a uniform fee, this is unlikely to occur in any local jurisdiction that collects significant revenue. The bill also specifies that a trader’s license applicant may not be required to submit an inventory certification from SDAT in specified circumstances; however, inventory certifications are provided by SDAT at no cost. Therefore, general fund revenues are not materially affected.

For illustrative purposes only, if every local jurisdiction chooses to establish a uniform fee, State general fund revenues increase by about \$176,000 annually.

Changes related to visually handicapped applicants have a negligible effect on State revenues.

SDAT advises that, although it is required to adopt regulations “on the granting of exemptions” from the annual corporate reporting requirement (and associated \$300 filing fee) under § 11-101 of the Tax-Property Article, it does not intend to grant any exemptions from the filing fee. Therefore, this provision is not anticipated to affect general fund revenues.

Local Revenues: For the same reasons as discussed above, local government revenues decrease to the extent that they choose to establish a uniform licensing fee. Again, this is unlikely to occur in any local jurisdiction that collects significant revenue. Therefore, local revenues are not materially affected. Changes related to visually handicapped applicants have a negligible effect on local revenues.

Small Business Effect: The bill allows local governments to establish uniform trader’s license fees, which are relatively low. Small businesses with significant stock-in-trade (*i.e.*, inventory) in local jurisdictions that choose to adopt the uniform fees – even though it is unlikely – benefit from reduced license fees. All small businesses in those local jurisdictions benefit from reduced complexity associated with the tiered trader’s license structure.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Judiciary (Administrative Office of the Courts); State Department of Assessments and Taxation; Montgomery, Kent, Washington, and Worcester counties; Blind Industries and Services; Department of Legislative Services

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