

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 331
 Finance

(Senator Kramer)

Economic Matters

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, 2019, 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 2020 for a one-time programming expense. State revenues are not expected to be materially affected, as discussed below.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
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 expected to be 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 review 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 and Blind Industries and Services of Maryland.

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 application 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 2018, there were approximately 55,500 trader's licenses issued by the clerks of the court with revenues totaling \$9.4 million across State and local government. Of that amount, \$7.1 million went to counties, \$1.6 million went to municipalities, and \$734,000 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

\$300 per year. Inventory certifications, which are required for traders' 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 2018

<u>Jurisdiction</u>	<u>Licenses</u>	<u>County</u>	<u>Revenue</u>	
			<u>Municipal</u>	<u>State</u>
Allegany	1,147	\$72,160	\$52,849	\$10,870
Anne Arundel	5,809	716,974	59,305	67,503
Baltimore City	6,119	1,238,653	-	107,709
Baltimore	7,725	1,800,895	-	156,600
Calvert	762	81,754	3,717	7,432
Caroline	356	17,114	18,936	3,135
Carroll	1,791	102,000	108,171	18,276
Cecil	918	50,265	48,602	8,597
Charles	1,284	169,451	23,118	16,745
Dorchester	464	16,301	32,593	4,252
Frederick	2,407	171,349	186,368	31,106
Garrett	641	56,052	22,964	6,871
Harford	2,252	193,347	95,852	25,148
Howard	2,716	423,197	-	36,800
Kent	371	10,755	27,026	3,285
Montgomery	7,010	724,259	249,305	62,142
Prince George's	5,887	694,977	247,548	81,959
Queen Anne's	733	67,991	30,290	8,546
St. Mary's	1,185	138,452	11,960	13,079
Somerset	405	15,343	10,114	2,214
Talbot	889	25,241	74,480	8,671
Washington	1,908	163,696	104,368	23,310
Wicomico	1,319	43,067	144,966	16,351
Worcester	1,433	72,734	79,856	13,269
Statewide	55,531	\$7,066,026	\$1,632,388	\$733,868

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

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

State Expenditures: General fund expenditures for the Judiciary (Administrative Office of the Courts) increase by \$56,742 in fiscal 2020 for a one-time programming expense to include the optional uniform license fee in its system.

In local jurisdictions that do *not* establish a uniform trader's license, the clerk of the court must review the accuracy of each applicant's business location prior to issuing the license. The Judiciary advises that this requirement generally conforms to existing practices and can be handled through existing budgeted resources.

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 application may not be required to include 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 \$168,000 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 annual corporate report and associated 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: HB 459 of 2018, a similar bill, passed the House but received an unfavorable report from the Senate Finance Committee.

Cross File: HB 34 (Delegate Carr) - Economic Matters.

Information Source(s): Judiciary (Administrative Office of the Courts); State Department of Assessments and Taxation; Blind Industries and Services of Maryland; Cities of Bowie and Takoma Park; Department of Legislative Services

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Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510