

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1317 (Delegate Holmes)
Rules and Executive Nominations

Property Tax - Vehicles Valued as Stock in Business - Alteration of Tax Credit

This bill requires a county or municipality to provide a 100% property tax credit for vehicles valued as stock in business, instead of a 50% property tax credit. **The bill takes effect June 1, 2019, and applies retroactively to taxable years beginning after June 30, 2016.**

Fiscal Summary

State Effect: None.

Local Effect: Personal property tax revenues will decrease in some municipalities beginning in FY 2020 to the extent there are vehicles valued as stock in business. Municipal expenditures increase in FY 2020 to pay refunds for personal property taxes collected in FY 2017, 2018, and 2019. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Meaningful. Small businesses that have vehicles valued as stock will realize a reduction in personal property taxes.

Analysis

Current Law: A county or municipality must grant a property tax credit against the applicable county or municipal property tax imposed on vehicles valued as stock in business in an amount equal to 50% of the tax imposed on those vehicles.

Background: County and municipal governments impose property taxes on business-owned personal property. **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 2019.

Local Fiscal Effect: The State Department of Assessments and Taxation advises that county governments currently exempt commercial inventory from taxation, which is how vehicles valued as stock in business are classified. As a result, the bill will only affect municipalities that impose personal property taxes on commercial inventory. Due to the enhanced property tax credit, personal property tax revenues in some municipalities will decrease beginning in fiscal 2020 to the extent there are vehicles valued as stock in business located in the municipality. The amount of the revenue decrease depends on the assessed value of the vehicles and the municipal personal property tax rate.

Municipal expenditures increase in fiscal 2020 to pay refunds to certain businesses for personal property taxes collected for vehicles valued as stock in business for fiscal 2017, 2018, and 2019.

The City of Westminster reports that the city would realize a reduction in personal property tax revenues but cannot quantify the amount of the reduction as the city does not track the value of vehicles held as stock.

Additional Information

Prior Introductions: None.

Cross File: SB 478 (Senator Peters, *et al.*) - Budget and Taxation.

Information Source(s): Baltimore City; Kent, Montgomery, Washington, and Worcester counties; cities of Salisbury and Westminster; Maryland Municipal League; towns of Bel Air, Leonardtown, and Riverdale Park; State Department of Assessments and Taxation; Department of Legislative Services

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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 value 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 business 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. Most counties offer exemptions for 100% of all three of these categories, but tax other types of business personal property. In addition, six counties (Dorchester, Frederick, Garrett, Kent, Queen Anne's, and Talbot) have elected to exempt all business personal property from county taxation. Garrett County does not tax business personal property, however the county does tax property of non-utility generators at the county personal property tax rate.

Chapter 102 of 2018 provides an exemption from personal property valuation and taxation if the total original cost of the personal property was less than \$2,500.

Personal Property Tax Rates and Assessable Base Amounts

As shown in **Exhibit 2**, the statewide assessable base for business personal property totals \$11.5 billion in fiscal 2019. Among counties that impose the business personal property tax, the assessable base ranges from a high of \$1.9 billion in Montgomery County to a low of \$58.0 million in Caroline County. On a per capita basis, business personal property ranges from \$1,323 in Charles County to \$3,714 in Worcester County. Tax rates on business personal property range from \$2.0875 in Worcester County to \$5.62 in Baltimore City.

Exhibit 2
County Business Personal Property Base
Fiscal 2019

County	Personal Property Tax Rate	Business Personal Property	Per Capita Amount
Allegany	\$2.4375	\$196,000,000	\$2,737
Anne Arundel	2.2550	1,480,000,000	2,582
Baltimore City	5.6200	1,260,000,000	2,060
Baltimore	2.7500	1,625,000,000	1,952
Calvert	2.2300	135,000,000	1,475
Caroline	2.4500	58,000,000	1,747
Carroll	2.5150	280,000,000	1,669
Cecil	2.6035	370,000,000	3,601
Charles	3.0125	211,250,000	1,323
Dorchester	0.0000	0	0
Frederick	0.0000	0	0
Garrett	0.0000	0	0
Harford	2.6049	710,000,000	2,816
Howard	2.9750	810,000,000	2,522
Kent	0.0000	0	0
Montgomery	2.4818	1,875,000,000	1,771
Prince George's	3.4350	1,500,000,000	1,643
Queen Anne's	0.0000	0	0
St. Mary's	2.1195	155,000,000	1,376
Somerset	2.5000	96,000,000	3,704
Talbot	0.0000	0	0
Washington	2.3700	361,000,000	2,397
Wicomico	2.1715	190,000,000	1,846
Worcester	2.0875	192,000,000	3,714
Total		\$11,504,250,000	\$1,901

Source: State Department of Assessments and Taxation