

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 491 (Senator Benson)
Budget and Taxation

Property Tax - Taxation of Business Property - Tax Rates, Exemptions, and Credits

This bill alters the taxation of personal property in the State beginning in fiscal 2023. **The bill takes effect June 1, 2022, and applies to taxable years beginning after June 30, 2022.**

Fiscal Summary

State Effect: General fund expenditures increase by \$250,000 in FY 2023 for computer programming at the State Department of Assessments and Taxation (SDAT). Special fund revenues and expenditures increase by a commensurate amount in FY 2023.

Local Effect: County and municipal property tax revenues may decrease by an estimated \$320 million in FY 2023 for taxes paid in past years, to the extent a personal property tax credit is granted. County and municipal property tax revenues decrease by an estimated \$400 million annually beginning in FY 2023 due to the business personal property tax exemption. Local expenditures increase by \$250,000 in FY 2023. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill alters the taxation of personal property in three ways. First, the bill exempts personal property from the county and municipal property tax except for personal property of a health club, fitness club, fitness center, or health spa.

Second, the bill caps county and municipal personal property tax rates at \$2.00 per \$100 of assessment. Under current law, local personal property tax rates cannot exceed 2.5 times the local real property tax rate.

Third, the bill authorizes counties and municipalities to grant a property tax credit up to 80% of personal property taxes paid in fiscal 2019 through fiscal 2022. The credit may only be claimed for a single taxable year. Local governments may provide for (1) the amount of the property tax credit; (2) additional eligibility criteria for the property tax credit; (3) regulations and procedures for the application and uniform processing of requests for the tax credit; and (4) any other provision necessary to carry out the tax credit.

Finally, SDAT must identify provisions of the Annotated Code of Maryland or the Code of Public Local Laws that are rendered inaccurate or obsolete as a result of specified provisions of the bill and must submit a report to the General Assembly, by December 1, 2022, on its findings with recommendations for any amendments to the Annotated Code of Maryland or the Code of Public Local Laws.

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, 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. All tax returns are currently 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.

Chapter 102 of 2018 established an exemption from personal property valuation and taxation if the total original cost of the personal property was less than \$2,500. Personal property used in connection with a home business is exempt from personal property valuation and taxation if the total original cost was less than \$10,000.

Personal Property Tax Collections

County governments (including Baltimore City) collected around \$753.9 million in personal property tax revenues in fiscal 2022. The personal property assessable base is almost evenly split between business personal property and utility operating property. The county tax rate applicable to personal property and the operating real property of a public utility may not exceed 2.5 times the rate for real property. Personal property tax rates range from \$2.1125 per \$100 of assessment in Worcester County to \$5.62 per \$100 of assessment in Baltimore City. SDAT reports that seven counties (Caroline, Dorchester, Frederick, Garrett, Kent, Queen Anne's, and Talbot) do not impose personal property taxes on business property.

State Fiscal Effect: SDAT advises that the department does not have an inventory of specified health and fitness facility property as identified in the bill. As a result, the department will have to create a new subclass of business personal property in its database, which will require computer programming changes at an estimated cost of \$500,000 in fiscal 2023.

Under current law, the State and county governments share the cost for SDAT's assessment operations (both real property and personal property) as well as the department's information technology operations. Based on the estimated expenditures for computer programming, general fund expenditures increase by \$250,000 in fiscal 2023. Special fund revenues and expenditures from county government reimbursements increase by a commensurate amount in fiscal 2023.

Local Revenues:

Local Property Tax Exemption

The bill exempts all personal property from county and municipal taxation, except for personal property of a health club, fitness club, fitness center, or health spa.

As a result, local personal property tax revenues will decrease by a significant amount beginning in fiscal 2023. SDAT estimates that the county business personal property assessable base will total approximately \$13.0 billion in fiscal 2022, as shown in **Exhibit 1**. Based on current personal property tax rates, county and municipal personal property tax revenues may decrease by approximately \$400 million beginning in fiscal 2023. This estimate takes into account the personal property owned by various health clubs, fitness clubs, fitness centers, or health spas.

Exhibit 1
Business Personal Property Tax Revenues - Fiscal 2022

County	Population	Tax Rate	Business Personal Property	Estimated Revenues	Per Capita Revenues	Per Capita Ranking
Allegany	68,106	\$2.4375	\$170,000,000	\$4,143,750	\$61	11
Anne Arundel	588,261	2.3320	1,600,000,000	37,312,000	63	7
Baltimore City	585,708	5.6200	1,250,000,000	70,250,000	120	2
Baltimore	854,535	2.7500	1,950,000,000	53,625,000	63	8
Calvert	92,783	2.2300	125,000,000	2,787,500	30	17
Caroline	33,293	2.4500	0	0	0	18
Carroll	172,891	2.5150	330,000,000	8,299,500	48	13
Cecil	103,725	2.5697	250,000,000	6,424,250	62	10
Charles	166,617	3.0125	240,000,000	7,230,000	43	14
Dorchester	32,531	0.0000	6,500,000	0	0	18
Frederick	271,717	0.0000	6,000,000	0	0	18
Garrett	28,806	0.0000	123,000,000	0	0	18
Harford	260,924	2.5698	720,000,000	18,502,560	71	5
Howard	332,317	3.1250	1,010,000,000	31,562,500	95	4
Kent	19,198	0.0000	0	0	0	18
Montgomery	1,062,061	2.4763	2,250,000,000	55,715,625	52	12
Prince George's	967,201	3.4350	1,750,000,000	60,112,500	62	9
Queen Anne's	49,874	0.0000	19,500,000	0	0	18
St. Mary's	113,777	2.1195	183,000,000	3,878,685	34	16
Somerset	24,620	2.5000	120,000,000	3,000,000	122	1
Talbot	37,526	0.0000	0	0	0	18
Washington	154,705	2.3700	430,000,000	10,191,000	66	6
Wicomico	103,588	2.1715	200,000,000	4,343,000	42	15
Worcester	52,460	2.1125	240,000,000	5,070,000	97	3
Total	6,177,224		\$12,973,000,000	\$382,447,870	\$62	

Source: State Department of Assessments and Taxation; Department of Legislative Services

Personal Property Tax Rate Cap

The bill caps the county and municipal personal property tax rate for personal property of a health club, fitness club, fitness center, or health spa at \$2.00 per \$100 of assessment. As a result, local personal property tax revenues will decrease to the extent a jurisdiction has a personal property tax rate in excess of \$2.00 per \$100 of assessment. However, the amount of the revenue decrease cannot be reliably estimated as SDAT does not have an inventory of specified health and fitness facility property as identified in the bill.

Local Property Tax Credit

Local governments are also authorized to grant up to an 80% property tax credit for personal property taxes paid in fiscal 2019 through fiscal 2022. However, the property tax credit may only be claimed for a single taxable year. Based on the data in Exhibit 1, local property tax revenues may decrease by approximately \$320 million in fiscal 2023 for taxes paid between fiscal 2019 through fiscal 2022, to the extent the property tax credit is granted.

Local Expenditures: As noted, county governments are required to reimburse SDAT for 50% of the department's real and personal property assessment costs. Therefore, county expenditures increase by \$250,000 in fiscal 2023.

Small Business Effect: Beginning in fiscal 2023, small businesses will not be subject to county and municipal personal property taxes with regard to certain business personal property. As a point of reference, in fiscal 2018, there were approximately 354,900 personal property tax reports filed with SDAT, of which 106,100 had assessed personal property. The average personal property assessment was \$104,400, resulting in an average tax amount of \$2,600.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Baltimore City; Calvert, Caroline, Howard, Montgomery, and Prince George's counties; Maryland Association of Counties; cities of Annapolis, Bowie, and Takoma Park; Maryland Municipal League; towns of Elkton and Thurmont; State Department of Assessments and Taxation; Department of Legislative Services

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