

Department of Legislative Services  
 Maryland General Assembly  
 2022 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 215 (Delegate Parrott)  
 Ways and Means

Personal Property Tax - Depreciation of Assessed Value

This bill requires the State Department of Assessments and Taxation (SDAT) to use the depreciation method provided under the Internal Revenue Code (IRC) when determining the assessment for personal property. Specifically, the bill requires that the original cost of the personal property be depreciated using the same method provided under the IRC for the same type of property. **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 \$57,400 in FY 2022 and by \$255,300 in FY 2026. Special fund revenues and expenditures increase by a commensurate amount. Future years reflect annualization and inflation.

(in dollars)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
SF Revenue	\$57,400	\$302,300	\$241,900	\$248,700	\$255,300
GF Expenditure	57,400	302,300	241,900	248,700	255,300
SF Expenditure	57,400	302,300	241,900	248,700	255,300
Net Effect	(\$57,400)	(\$302,300)	(\$241,900)	(\$248,700)	(\$255,300)

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

**Local Effect:** County expenditures increase by \$57,400 in FY 2022 and by \$255,300 in FY 2026. Local government personal property tax revenues may be affected beginning in FY 2023 depending on the differences between the current depreciation schedules used by SDAT and the IRC schedules.

**Small Business Effect:** Potential meaningful. Personal property tax payments for small businesses may be affected beginning in FY 2023 depending on the differences between the current depreciation schedules used by SDAT and the IRC schedules.

## 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, 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. 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 value of \$100. Inventory is valued at its fair average value using the cost or market value, whichever is lower.

**State Fiscal Effect:** Internal Revenue Service (IRS) Publication 946 details the various depreciation procedures that SDAT will need to follow for depreciating personal property beginning in fiscal 2023. Generally, IRC rules for depreciation allow for many types of schedules, and multiple methods are available depending on the type of property. SDAT indicates that due to the complexity of establishing new personal property depreciation methods, the department will need additional personnel to comply with the requirements of the bill. Currently, 22 individuals work in the Business Personal Property and Utility Valuation units that handle depreciation for business personal property assessments, appeals, and audits. In addition, the department advises that it will take approximately six months to get the new process operational.

To implement the bill, the department's expenditures increase by \$114,800 in fiscal 2022 and by \$604,700 in fiscal 2023, which accounts for the bill's June 1, 2022 effective date. The estimate reflects the cost of hiring (1) three revenue administrators to oversee the new procedures for the depreciation of personal property, including learning IRS methods and

keeping up with future changes; (2) one program manager responsible for a third business personal property team of advanced assessors as well as to oversee the current business personal property assessment teams; (3) one administrator to supervise the additional revenue administrators, as well as day to day operations of the unit, including training, system changes, new manuals, and instructions; and (4) one office services clerk to provide clerical support. In addition, the department advises that two contractual computer programmers will be needed for six months to make major updates to the department's computer system to include the IRC depreciation methods. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses, including travel.

Positions	6.0
Salaries and Fringe Benefits	\$455,160
Contractual Computer Programming	141,011
Operating Expenses	<u>8,522</u>
<b>Total FY 2023 SDAT Expenditures</b>	<b>\$604,693</b>

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses. Ongoing activities are anticipated as the IRS updates its publication over time.

However, the counties and Baltimore City are required to reimburse SDAT for 50% of the costs of real property and business personal property valuation as well as 50% of the costs incurred by the department with regard to information technology. As a result, total general fund expenditures will increase by \$57,400 in fiscal 2022 and by \$255,300 in fiscal 2026, while special fund revenues and expenditures increase by a commensurate amount from reimbursements from county governments to administer the program.

**Local Fiscal Effect:** County expenditures increase by \$57,400 in fiscal 2022 and by \$255,300 in fiscal 2026 to reimburse SDAT for the staffing costs needed to administer the program. Local government personal property tax revenues may be affected beginning in fiscal 2023 depending on the differences between the current depreciation schedules used by SDAT and the IRC schedules used.

### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Property Tax Assessment Appeals Board; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - January 31, 2022  
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