

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 450
Ways and Means

(Delegates J. Lewis and Harrison)

Property Tax – Municipal Corporation Business Personal Property Tax Rate –
Alterations

This bill alters the personal property tax rate that may be imposed by a municipality so that the rate may not exceed 2.5 times the sum of the average municipal real property tax rate in the respective county and the county real property tax rate in the respective county. **The bill takes effect June 1, 2023, and applies to taxable years beginning after June 30, 2023.**

Fiscal Summary

State Effect: None.

Local Effect: Municipal personal property tax revenues may decrease beginning in FY 2024 to the extent the municipal personal property tax rate exceeds the property tax rate cap imposed by the bill. Municipal expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful. Beginning in FY 2024, small businesses may realize reduced personal property taxes depending on the municipality within which the business is located.

Analysis

Current Law:

Personal Property Taxes

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. 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.

Local Property Tax Rate Setting Authority

Title 8 of the Tax Property Article establishes the methods of property valuation and assessments and lists those classifications of property created by the General Assembly. For assessment purposes, property is divided into two classes – real property and personal property. Real property is divided into 11 subclasses and personal property is divided into 7 subclasses. The State only imposes a property tax on real property, whereas county governments impose separate tax rates for real and personal property. State and county governments are not authorized to set separate property tax rates among different subclasses of property.

Unlike the State and county governments, municipalities have broader discretion to impose property tax rates on different classes of property. Municipalities may impose property taxes on those classes of property that it selects to be subject to the municipal property tax. In addition, municipalities retain the authority to classify property for local purposes and to impose different tax treatment on those classes. Furthermore, municipalities have the express power to exempt classes of property from taxation. Moreover, because municipalities may select the classes of property to be taxed and may set special rates for

any class of property that is subject to the municipal property tax, municipalities retain the authority to levy different tax rates on selected classes of property.

Local Fiscal Effect: The bill caps municipal personal property tax rates so that the personal property tax rate in a municipality cannot exceed 2.5 times the sum of the average municipal real property tax rate in the respective county and the county real property tax rate in the respective county. As a result, municipal personal property tax revenues will decrease to the extent a municipality has a personal property tax rate more than the cap imposed by the bill. SDAT advises that, as drafted, the bill will only affect the Town of Seat Pleasant in Prince George’s County, which has a fiscal 2023 personal property tax rate of \$12.00 per \$100 of assessment. Based on the town’s current fiscal 2023 personal property tax rate, SDAT estimates the town will have to reduce the tax rate by approximately \$5.12 per \$100 of assessment under the bill.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 116 (Senator Benson) - Budget and Taxation.

Information Source(s): City of Havre de Grace; Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

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js/hlb

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