SB 488

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 488 (Senator Jennings)
Budget and Taxation Ways and Means

Manufacturing Business Personal Property Tax - Optional Exemption

This bill authorizes counties and municipalities to exempt all personal property, including manufacturing inventory, in the possession of a person engaged in a manufacturing business that employs 50 or fewer employees from the county or municipal property tax. Counties and municipalities may provide for regulations, procedures, and any other provision necessary to carry out the exemption. **The bill takes effect June 1, 2025, and applies to taxable years beginning after June 30, 2025.**

Fiscal Summary

State Effect: None.

Local Effect: County and municipal property tax revenues may decrease beginning in FY 2026 to the extent personal property tax exemptions are granted. Based on available data, Worcester County property tax revenues may decrease by approximately $502,800 and municipal property tax revenues decrease by approximately $4.8 million annually to the extent tax exemptions are granted.

Small Business Effect: Potential meaningful. Small manufacturing businesses will pay less in personal property taxes to the extent personal property tax exemptions are granted.

Analysis

Current Law:

Personal Property Taxation

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.

Personal Property Assessment Process

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. The assessment is calculated using the cost less depreciation method. Once the assessment is completed, it is certified to the county or municipality in Maryland. SDAT shares the certifications for the current assessment year by July 1 when the jurisdictions can start billing. If a business entity wants to appeal the assessment, they have 45 days from the date of notice to appeal. 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.

The operating property of a utility or railroad is assessed by SDAT's Utility Valuation Department using the unit valuation method. The operating property of a utility includes all real property and personal property used to operate the utility. SDAT calculates the value (operating unit) of the public utility using the required annual return filings, regulatory filings (federal and State), and other publicly available information. A portion of the company's operating unit is allocated to Maryland based on the amount of the utility's property located in the State. The allocation to Maryland is then further divided into real and personal property values and apportioned to the counties and municipalities where the property is located. The Utility Valuation Department also completes the personal property assessments of non-utility electric generators and cable companies following the procedures set by the business personal property unit and the Code of Maryland Regulations.

The assessment process for personal property does not differ for counties and municipalities. However, there may be differences in exemptions and/or the taxable nature of certain property between jurisdictions that may affect an assessment because counties and municipalities may exempt different types of personal property from personal property taxes. The certification of assessments and notification to the jurisdictions is the same for all counties and municipalities as well as the appeal period.

Property Classification for Assessment Purposes

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 2 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. Several county governments do not impose a personal property tax on business property.

Prior to fiscal 2025, State and county governments were not authorized to set separate property tax rates among different subclasses of property. However, Chapter 277 of 2024 authorized Baltimore City and county governments, beginning July 1, 2024, to establish, by law, a subclass of real property consisting of vacant lots or improved property cited as vacant and unfit for habitation or other authorized use on a housing or building violation notice. Baltimore City and county governments are authorized to set a special property tax rate for a vacant lot or improved property cited as vacant and unfit for habitation or other authorized use on a housing or building violation notice. An annual reporting requirement was included for jurisdictions that enact a special property tax rate.

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.

Establishing Personal Property Tax Rates

Prior to July 1, 2013, State law required the county personal property tax rate to be set at 2.5 times the county real property tax rate. Beginning July 1, 2013, the county personal property tax rate was decoupled from the county real property tax rate by authorizing county governments to set a personal property tax rate at no more than 2.5 times the county real property tax rate.

Under Tax-Property Article Section 6-303, municipal governments are granted authority to set municipal tax rates. Chapter 80 of 2000 could have been interpreted to require that counties and municipalities set personal property tax rates at 2.5 times their rates of real property tax, in order to ensure revenue neutrality when the valuation of real property went from 40% to 100%. However, unlike counties, municipalities have historically had broader authority to set different tax rates on classes of property. When Section 6-303 was amended by Chapter 80, it failed to recognize the ability of municipal governments to set different tax rates for different classes of property. Chapter 37 of 2001 clarified that municipal governments may set differing tax rates among classes of property that are not tied to the real property tax rate.

Local Fiscal Effect: County and municipal personal property tax revenues may decrease by a significant amount beginning in fiscal 2026, to the extent personal property tax exemptions are granted. As shown in **Exhibit 1**, Worcester County could realize a $502,800 annual revenue loss, while municipalities could realize a $4.8 million annual revenue loss, if exemptions are granted.

The estimate reflects all manufacturing personal property as reported by SDAT, rather than only those that employ 50 or fewer employees.

Worcester County Fiscal Impact

Based on data provided by SDAT, Worcester County is the only county that taxes manufacturing personal property. For fiscal 2023, the county had a manufacturing personal property base of approximately $23.8 million and a personal property tax rate of $2.1125 per $100 of assessment. As a result, Worcester County personal property tax revenues could decrease by approximately $502,775 beginning in fiscal 2026 to the extent a personal property tax exemption is granted.

Municipal Fiscal Impact

SDAT reports that for fiscal 2023, 57 municipalities reported business personal property for manufacturing equipment with the corresponding personal property base totaling approximately $358.6 million. Based on the current municipal personal property tax rates, municipal personal property tax revenues could decrease by approximately $4.8 million beginning in fiscal 2026, to the extent personal property tax exemptions are granted. The most significant impact on municipal revenues occurs in the Eastern Shore counties of Caroline, Dorchester, and Wicomico, where municipalities in those counties could lose over $1.0 million in property tax revenue. To the extent there are other municipalities that tax manufacturing personal property, the total municipal revenue loss could be greater.

Exhibit 1
Potential Fiscal Impact of Personal Property Tax Exemption

County	County Revenue Loss	Municipal Revenue Loss
Allegany	$0	($98,724)
Anne Arundel	0	0
Baltimore City	0	0
Baltimore	0	0
Calvert	0	0
Caroline	0	(1,069,706)
Carroll	0	(1,763)
Cecil	0	(491,937)
Charles	0	(961)
Dorchester	0	(1,329,093)
Frederick	0	(85,720)
Garrett	0	(15,170)
Harford	0	(1,648)
Howard	0	0
Kent	0	0
Montgomery	0	(389)
Prince George’s	0	(343,421)
Queen Anne’s	0	0
St. Mary’s	0	0
Somerset	0	(75,373)
Talbot	0	0
Washington	0	(26,664)
Wicomico	0	(1,050,443)
Worcester	(502,775)	(189,065)
Total	**($502,775)**	**($4,780,078)**

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

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 1018 of 2024.

Designated Cross File: HB 168 (Delegate Qi) - Ways and Means.

Information Source(s): Dorchester, Kent, Queen Anne's, and Worcester counties; Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

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