



Takoma Park City Council Meeting – February 8, 2017 Agenda Item 5

Work Session

Discussion Concerning a Personal Property Tax Bill for a Particular Business

Recommended Council Action

Hear information presented and give direction regarding next steps, if any.

Context with Key Issues

Most businesses in Takoma Park, other than banks, are required to pay Personal Property Taxes on fixtures, equipment and inventory. (Banks are exempt by State law.) Businesses are required to submit documentation to the State Department of Assessment and Taxation (SDAT), then SDAT identifies the amount of Personal Property Tax owed and notifies a county to bill the business owner and pay the county and municipality the appropriate amounts. Most counties and municipalities collect taxes on fixtures but waive all or most of the taxes on inventory and equipment. Takoma Park taxes all three components at 100%. Takoma Park expects to receive about \$350,000 in Personal Property Tax revenue each year.

There have been complaints about the City's tax on inventory by several businesses that typically have a large amount of inventory on hand so that customers may choose from a large selection. The actual amount sold may not be much and the value of the inventory itself can vary greatly from store to store. The City Council has been considering reducing or eliminating the inventory tax as part of its economic development support efforts, so as to keep businesses in the city. While the revenue is needed, it may be fairer to have it assessed through a different mechanism than the inventory tax.

Complicating the matter is that the records kept by SDAT are replete with errors and there is no process in place to check accuracy or make corrections. The State does not receive any of the tax revenue so may not put a high priority on ensuring accuracy. Forms to be completed by the businesses are very confusing, so errors can easily be made. Many businesses do not even know they are to complete the forms and pay Personal Property Tax, and some may simply choose not to file. The SDAT records often have businesses located in the wrong jurisdiction so Personal Property Taxes may be paid to the wrong county or municipality at the wrong rates. City staff have discovered numerous location errors affecting businesses in and near Takoma Park.

In Takoma Park, one business, Priti's Fashion and Jewelry, LLC, is facing a very unfortunate situation. The business had been located in the Takoma-Langley area of Prince George's County for many years before moving across University Boulevard into Takoma Park in Montgomery County in 2012. Although SDAT changed the address of the business, it continued to identify the business as being in Prince George's County, a jurisdiction that does not charge the inventory and equipment portions of the Personal Property Tax. After several years, the business noticed that the records still showed it as being located in Prince George's County and tried to get SDAT to make the correction. With the help of Melanie Isis, Executive Director of the Takoma/Langley Crossroads Development Authority, SDAT changed the listing and then Montgomery County sent the business a Personal

Property Tax bill of \$162,000, covering the years of 2013, 2014 and 2015. Before that time, their Personal Property Tax bills were less than \$1,000 per year. They immediately requested more information, checked with their accountant and tax attorney and determined that they had filed their information correctly. Unfortunately, their business has a large inventory of very expensive jewelry. Some of the jewelry is purchased by the business for resale and some is displayed but not yet owned by the business. Insurance covers all of the jewelry and so the value of all of the jewelry is shown on the forms submitted to SDAT. It is this value upon which the inventory tax is assessed. Because the owners of the business are accurate, honest and have expensive inventory, their Personal Property Tax amount is over twice the amount of any other business in Takoma Park and represents 27.5% of the amount of the total Personal Property Tax revenue reported owed to the City.

The business owners request that past-due tax amounts be waived, as they did not know of the amounts due. They also request that the City adjust how it assesses Personal Property Tax so that they may afford to remain in their location within the City boundaries of Takoma Park. While the business and City staff were investigating the facts of the situation, the City Manager requested that Montgomery County suspend its Personal Property Tax collection process for this business. Such a suspension should not continue indefinitely, so direction from Council as to how to proceed is desired. This Work Session is to inform the Council of the facts and issues related to this case.

Council Priority

Advance Economic Development Efforts
Fiscally Sustainable Government

Environmental Impact of Action

None.

Fiscal Impact of Action

Waiver of amounts of Personal Property Tax due from Priti's Fashion and Jewelry, LLC prior to 2016 would mean the City would forego \$161,638. These are funds the City did not expect to receive and were not included in the projected budgets for those years. The amount due for 2016 is \$57,798.

A change in the way the City assesses Personal Property Tax could have an impact on revenue, depending on the approach chosen.

Attachments and Links

None