



Takoma Park City Council Meeting – February 21, 2018 Agenda Item 4

Work Session

Discussion of Personal Property Tax

Recommended Council Action

Hear information presented and give staff direction regarding next steps; staff recommends the City waive the inventory portion of the Personal Property Tax and recoup lost revenue by creating a higher real property tax rate for commercial property.

Context with Key Issues

Personal Property Tax (PPT) is a tax that is assessed on businesses based on the value of inventory, equipment, and furnishings. This tax can be levied by both the county and municipality where a business is located. Takoma Park businesses are required to pay PPT on 100% of the assessed value of the business's inventory, equipment, and furnishings to the City, as well as a nominal PPT charge on the equipment and furnishings to Montgomery County. In Tax Year 2017, the City received personal property tax revenues in the amount of \$411,000. Of this, the portion that represents a tax on inventory is about \$315,000.

Staff has identified several problems with the administration of the PPT: inadequate oversight or enforcement by the various governmental authorities involved; a disparate impact on retail businesses with inventory; a lack of awareness of the requirement among business owners; and a competitive disadvantage for Takoma Park businesses. Removal of the inventory tax is a recommendation of the Draft Housing and Economic Development Strategic Plan, as a way to attract and retain businesses in Takoma Park.

If the City takes an action that reduces the amount of PPT revenue it receives, it would be good to recoup the lost revenue.

However, projections of how much PPT the City will receive and how much of that amount is related to inventory tax are difficult to determine. Businesses are charged the taxes based on information filed with the State Department of Taxation and Assessment (SDAT). Often, however, a business receives a bill for taxes and, upon seeing the amount, corrects their information or appeals the assessment and then the amount is reduced. Of the \$411,000 the City received in Tax Year 2017, the spreadsheet showing the total amount due the City was, at least at one point, well over \$500,000, with the inventory tax portion totaling \$459,000. As we review spreadsheets of PPT information, we may need to assume that the amount the City would actually receive may be one-third less than the amounts shown.

Options Council may consider regarding the PPT:

-Waive all of the inventory tax, consistent with the practice of most surrounding jurisdictions.

-Waive a percentage of the inventory tax; for example, just tax 50% of the assessed inventory value.

-Exempt the first "x" value of inventory; for example, exempt the first \$25,000 in assessed inventory value. While exact figures are difficult to obtain, we estimate the impact to be the following (recognizing that the revenue amounts shown may need to be reduced by one-third):

- Exempting the first \$25,000 in inventory value may reduce City revenue by about \$100,000 and 411 of 570 businesses would pay no inventory tax
- Exempting the first \$50,000 in inventory value may reduce City revenue by \$148,000 and 467 of 570 businesses would pay no inventory tax
- Exempting the first \$75,000 in inventory value may reduce City revenue by \$180,000 and 488 of 570 businesses would pay no inventory tax
- Exempting the first \$100,000 in inventory value may reduce City revenue by \$210,000 and 506 of 570 businesses would pay no inventory tax.

If any changes are made to the PPT rate that cause a reduction in City revenue, the Council may wish to offset the lost revenue in some manner; one option is to increase the real property tax rate for commercial property. Staff would need to research how to set a tax rate for commercial real property that approximates the amount of the lost PPT revenue.

Council Priority

Advance Economic Development Efforts
Fiscally Sustainable Government

Environmental Impact of Action

None

Fiscal Impact of Action

A change in the way the City assesses Personal Property Tax could have an impact on revenue, depending on the approach chosen. Removal of the inventory tax without any offsetting action could reduce revenue by about \$315,000.

Racial Equity Impact of Action

We do not have many statistics to be able to judge the racial equity impact of Council action on this topic, but we are aware of many minority-owned retail businesses with large inventories in Takoma Park that are subject to the inventory tax.

Attachments and Links

None.