



Takoma Park City Council Meeting – April 11, 2018 Agenda Item 3

Work Session

Discussion of Proposal to Eliminate 100% of the Inventory Portion of the Personal Property Tax

Recommended Council Action

Staff recommends the City waive the inventory portion of the Personal Property Tax beginning in FY2020 and recoup lost revenue by creating a higher real property tax rate for commercial property that would also be effective in FY2020.

Context with Key Issues

On February 21, the City Council discussed issues related to personal property tax (PPT) and, in a straw vote, indicated interest in eliminating the inventory portion of the tax that the City of Takoma Park collects from its businesses. PPT is a tax that is assessed on businesses based on the value of equipment and furnishings and on inventory. 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 equipment and furnishings and inventory 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 had identified several problems with the PPT: inadequate oversight or enforcement by the State of Maryland; a disparate impact on retail businesses with inventory; a lack of awareness of the PPT requirements among business owners; significant confusion about how to complete the State PPT forms; and a competitive disadvantage for Takoma Park businesses, since most surrounding jurisdictions do not tax the inventory portion of the PPT. 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.

The State needs to receive official communication from the City of Takoma Park before May 1, 2018 in order to change the PPT components to be taxed for the coming year.

While there was support for eliminating the inventory portion of the City's personal property tax, the loss of more than \$300,000 in inventory revenue would have a significant negative impact on the City budget. To recoup these funds, there was interest in raising the real property tax on commercial properties in Takoma Park. In the State of Maryland, municipalities, but not counties, are able to have different tax rates for different classes of properties.

Montgomery County includes the billing for Takoma Park's personal property and real property taxes on the bills they issue. With lead time and a definition of the parameters, the County is able to program their system to bill commercial properties at a different real property tax rate than is charged residential properties in Takoma Park. However, the County is not able to do the programming change in time for the FY 19 billing.

If the Council wishes, it could exempt 100% or a lesser percentage of the inventory portion of the PPT for the FY19 year and address the loss of funds through raising the general real property tax rate, finding other funds and/or cutting expenses.

Staff advises against cutting the inventory tax by less than 100%. Because of the administrative problems with the inventory portion of the PPT, it would be extremely hard to communicate with individual businesses exactly how they might be affected. Individual businesses may very well not realize there was a cut in taxes for them, while the City would simply lose revenue from that source.

For FY 20 or later, if the Council decides to subject commercial real property to a higher tax rate, the Council will need to choose how to define "commercial" and may choose to fully or partially recoup the amount of funds estimated to come from the inventory portion of the PPT. The setting of each of the various tax rates is an important part of the Council's discussion as it approves its budget each year.

Council Priority

Community Development for an Improved & Equitable Quality of Life
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. We are not aware of demographic information related to commercial land ownership.

Attachments and Links

None.