



Takoma Park City Council Meeting – April 25, 2018 Agenda Item 3

Voting Session

Second Reading Ordinance of Proposal to Eliminate 100% of the Inventory Portion of the Personal Property Tax

Recommended Council Action

Approve Two Reading Ordinance Exempting 100% of Inventory Portion of the Personal Property Tax, effective in Tax Year 2020.

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 in order to change the PPT components to be taxed for the following tax 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 will have a significant negative impact on the City budget. The City is not able to absorb this reduction for the FY 19 budget, but will be able to consider alternative revenue sources or expense-cutting options for the FY 20 budget, including an option to craft the parameters of a real property tax on commercial properties. In the State of Maryland, municipalities, but not counties, are able to have different tax rates for different classes of properties.

At its discussion on April 11, the Council expressed its desire to proceed with exempting 100% of the inventory portion of the PPT for Tax Year 2020. A draft Ordinance to ask the State to change

how it computes the Personal Property Tax for the City of Takoma Park, effective for the Tax Year 2020, has been prepared for consideration by the Council.

Council Priority

Community Development for an Improved and Equitable Quality of Life
Fiscally Sustainable Government

Environmental Impact of Action

None

Fiscal Impact of Action

Removal of the inventory tax will reduce Personal Property Tax revenue by about \$315,000 per year.

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

Draft Ordinance

Introduced by: Councilmember Dyballa

First Reading: April 18, 2018

Second Reading:

Effective Date:

**CITY OF TAKOMA PARK, MARYLAND
ORDINANCE NO. 2018-14**

**REQUESTING REMOVAL OF ASSESSMENT OF INVENTORY
AS PART OF THE PERSONAL PROPERTY TAX ASSESSMENT
IN THE CITY OF TAKOMA PARK, EFFECTIVE FOR TAX YEAR 2020**

- WHEREAS, Takoma Park has traditionally taxed inventory, as well as equipment and furnishings, as a component of the Personal Property Tax on businesses located within the City of Takoma Park; and
- WHEREAS, the Council Priority to advance Community Development for an Improved and Equitable Quality of Life includes support for local businesses; and
- WHEREAS, after research and discussion over several years, the City Council has decided to cease taxing inventory since most surrounding jurisdictions do not tax inventory, putting Takoma Park at a competitive disadvantage in attracting businesses to locate within the City, and due to problems with the taxing process itself in the State of Maryland; and
- WHEREAS, removing the inventory component of the Personal Property Tax reduces the amount of Personal Property Tax revenue to be received by the City by approximately 75%, or by about \$320,000 in the current year; and
- WHEREAS, due to the need to determine alternate revenue sources or budget savings, the City Council wishes to wait until Tax Year 2020 for the elimination of the inventory component of the Personal Property Tax to become effective; and
- WHEREAS, the City of Takoma Park must notify the Maryland State Department of Assessment and Taxation of its decision to change the elements of the Personal Property Tax to be assessed on businesses within the City well in advance of the tax year in which it is to be effective.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF TAKOMA PARK, MARYLAND THAT:

SECTION 1. The Council directs the City Manager to notify the Maryland State Department of Assessment and Taxation that, effective beginning Tax Year 2020, the inventory component of the Personal Property Tax is to be eliminated for businesses within the City of Takoma Park.

SECTION 2. By early January 2019, the Council will specify a definition of commercial real property that may receive a different tax rate during the FY 2020 budget process.

SECTION 3. The Council will consider how to address the funding gap due to removal of the inventory portion of the personal property tax; including but not limited to assessing (1) the commercial tax rate and (2) the impact current development projects might have on future tax revenue.

SECTION 4. This Ordinance shall become effective upon adoption.

Adopted this XXth day of April, 2018 by Roll Call vote as follows:

AYE:

NAY:

ABSTAIN:

ABSENT: