



## Takoma Park City Council Meeting – September 19, 2018 Agenda Item 3

### **Work Session**

Takoma Park Property Tax Structure for Commercial Properties

### **Recommended Council Action**

Discuss issue; give direction to staff

### **Context with Key Issues**

On April 25, 2018 the Council voted to remove the assessment of inventory as part of the Personal Property Tax assessment in Takoma Park, beginning in Fiscal Year 2020, to be consistent with taxing practices of surrounding jurisdictions in Maryland. This action was identified in the draft Housing and Economic Development Strategic Plan as a way to help retain and attract local businesses in Takoma Park. However, removing the inventory component of the Personal Property Tax may result in an annual loss of approximately \$320,000 in tax revenue for the City.

When the Council discussed removal of the inventory tax, there was discussion of taxing commercial property at a different rate to help make up some or all of the lost revenue. Several steps were to be taken related to this proposal. By early January 2019, the Council is to specify a definition of commercial real property that may receive a different tax rate during the FY 2020 budget process. Before that action, however, there is to be outreach to the business community to hear concerns and discuss options.

In Maryland, municipalities have the authority to define specific categories for property tax rates. Takoma Park currently has three categories: Real Property, Personal Property, Railroads and Public Utilities. The Real Property Tax rate is assessed to all real property that is not owned by railroads or public utilities. What is being proposed is to have a Commercial Real Property Tax rate, presumably set at a higher level than Residential Real Property, to help offset the removal of the inventory component of the Personal Property Tax. A base level of Personal Property Tax is assessed on most businesses, whether or not they own real property.

A Commercial Real Property Tax would be assessed on owners of real property deemed “commercial.” These property owners may operate a business on their land and/or they may rent out space to businesses under lease terms which assume a portion of the rent goes towards property taxes. Leases may be for multiple year terms. If a significantly-increased tax rate is assessed on commercial real property, it may be years before the owner can change the terms of the lease to cover a larger amount of tax.

If commercial real property were defined in the way Montgomery County does for statistical purposes, it would include retail and office space as well as apartment buildings. In Takoma Park, nearly half of the properties classified as commercial are apartment buildings. The Maryland State Department of Assessment and Taxation breaks down commercial and residential into six categories for their purposes. Takoma Park has the authority to define the category of commercial real property as it wishes, provided Montgomery County can identify the properties for billing purposes.

To obtain \$320,000 in additional revenue from commercial property that includes apartment buildings, the tax rate for those properties would need to increase by \$0.0745 (per \$100 assessed value) over the current \$0.5291 rate. If apartment building properties were removed from this category, the increase would be \$0.1403. As an example, a commercial property with a stand-alone restaurant on University Boulevard has a property value of \$1,554,700. The current Takoma Park taxes are \$8,226. With the rate increased by \$0.0745, the owner would pay an additional \$1,158; with an increase of \$0.1403, it would be an additional \$2,176.

Discussions with commercial property owners could include topics such as the definition of "commercial," identification of elements that may warrant higher or lower tax rates, discussion of the timing of increases, etc. Outreach to commercial property owners should be done in conjunction with the Old Takoma Business Association, the Takoma Langley Crossroads Development Authority, and other stakeholders as they are identified. Outreach should begin soon in order to have information for the FY20 budget discussions.

### **Council Priority**

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

### **Environmental Considerations**

Not applicable

### **Fiscal Considerations**

The loss of assessing inventory as a portion of the Personal Property Tax is estimated at \$320,000 annually, at current levels. A Commercial Real Property Tax could be assessed at a rate to regain that amount of revenue.

### **Racial Equity Considerations**

Many of Takoma Park's business and commercial property owners are people of color and/or immigrants. Different racial equity impacts may occur depending on the taxing option chosen by Council. The overall goal of these changes to the tax structure is to assist and retain local businesses in Takoma Park while taxing them at a fair rate to provide the governmental services needed by businesses and residents alike.

### **Attachments and Links**

- Ordinance 2018-14