

INSTRUCTIONS FOR FORM 2

SOLE PROPRIETORSHIP AND GENERAL PARTNERSHIPS

Business Personal Property Tax Return

General Information and Requirements



Maryland State Department of Assessments and Taxation, Business Services Unit
Business Personal Property Division, 301 West Preston Street Room 801, Baltimore Maryland 21201 1052

1) WHO MUST FILE A RETURN

A Maryland personal property return (Form2) must be filed by all sole proprietorships and general partnerships if they possess (own, lease, rent, use or borrow) business personal property or need a business license. A business which fails to file this return will likely receive an estimated assessment. Limited partnerships, limited liability companies and limited liability partnerships that are registered with the Department's Charter Division are required to file a Form 1.

2) WHEN AND WHERE TO FILE

At the beginning of each year, the Department makes the business personal property return available on its website. It is the responsibility of the entity to obtain and file the return on time. The due date for filing is April 15, of filing year. Should April 15 fall on a weekend, the return will be due on the Monday immediately following.

The Department encourages all customers to file through the online portal, Maryland Business Express (MBE) at <https://egov.maryland.gov/BusinessExpress/>

If mailing your return please send to Department of Assessments and Taxation, Personal Property Division, P.O. Box 17052, Baltimore, MD 21297-1052.

Amended returns or second filings are to be sent to the Department of Assessments and Taxation, Personal Property Division, 301 W. Preston Street, Baltimore, MD 21201-2395.

3) EXTENSION OF TIME TO FILE

The Department may grant a 2 month extension to file the return.

All preparers and taxpayers with Internet access should use the Department's website to ensure prompt and accurate recording of an unlimited number of requests free of charge.

You will receive a confirmation number and a printed list as proof of your submission. Always print and keep a copy of the confirmation page. The Department will automatically accept it as evidence of a valid approved extension in case there is ever a problem.

You may request a 60 day extension of the filing deadline, at no cost, by visiting <http://pprextensions.dat.maryland.gov/>. Extension requests must be made on or before April 15th. Increased use of this site is anticipated as April 15th approaches so the Department suggests you apply for extensions as soon as the site opens in December. Please note that Department of Assessments and Taxation does not accept paper extensions. No additional extension to file will be allowed after the 2 months. Extensions approved by the Internal Revenue Service or Maryland Comptroller of the Treasury for income tax returns will not be accepted.

4) FORMS

To ensure proper posting to your account always provide the business name and your Department ID number. Please use this number in all communications with the Department.

5) MAILING ADDRESS CHANGES

Make necessary address corrections on the form and check the address correction box on page 1 of the return.

6) LATE FILING PENALTIES

A business which files an annual return postmarked after the due date of April 15 of filing year (or June 15 if an extension is approved) will receive an initial penalty of 1/10 of one percent of the county assessment, plus interest at the rate of two percent of the initial penalty amount for each thirty (30) days or part thereof that the return is late. If returns are filed late, you cannot pre-pay penalties at time of filing return. They will be assessed at a later date.

7) PERIOD COVERED

All returns shall cover the calendar year regardless of any fiscal year. All information required in this return shall be given as of January 1, except line items 2 and 4, which refer to the twelve calendar months of prior year). There may be times when supporting detail should be provided with the return. Please see **Form SD1**, Supplemental Details. Information supplied on the return and enclosures are not open to public inspection.

8) WHAT MUST BE REPORTED

Generally all tangible personal property owned, leased, consigned or used by the business and located within the

State of Maryland on January 1, must be reported. Property not in use must still be reported. All fully depreciated and expensed personal property must also be reported. Personal property includes but is not limited to office and plant furniture, machinery, equipment, tools, furnishings, inventory, and all other property not considered part of the real estate.

Personal property in this State (other than operating property of railroads and public utilities) falls into two subclasses:

Stock in business or inventory--goods held by a taxpayer for sale and goods placed on consignment to another for sale in the expectation of a quick turnover. Stock in business does not include goods manufactured by the taxpayer but held by the taxpayer for purposes other than sale or goods manufactured by the taxpayer but placed in possession and control of another as in the case of leased property. Stock in business is assessed at cost or market value whichever is lower. LIFO method of valuation is prohibited.

All other personal property includes all personal property other than inventory and is assessed at full cash value. Taxpayers shall report such property which has been acquired by purchase at cost in the year of acquisition. Taxpayers shall report such property which has been acquired other than by purchase (including property manufactured by the taxpayer) at what the property would have sold for in the year of acquisition. To assess "all other personal property" the Department generally applies a 10% rate of depreciation per annum to the reported property. Exceptions to the 10% rate can be found on the **Depreciation Rate Chart**. Normally, property will not be depreciated below 25% of the original cost.

All questions must be answered in full. If the reporting taxpayer does not own the class of property covered by any question, the word "**none**" or the figure "**0**" should be written in the appropriate blank space. Estimated assessments may be issued when questions remain unanswered or the answers are incomplete, evasive or unclear. Real property is not to be reported on the return.

9) EXEMPTIONS

Property tax exemptions provided by statute shall be strictly construed. Before an exemption can be obtained the taxpayer must show affirmatively that the exemption is clearly allowed.

Businesses may file amended returns to correct reporting errors or claim missed exemptions (except for missed manufacturing exemptions) within three years of the April 15 date that the return was originally due.

For manufacturing exemption requests, an application must be submitted on or before September 1, of the initial assessment year or within 6 months after the date of the first assessment notice for the taxable year that includes the manufacturing personal property in order to qualify for the current tax year. Section 7-104 of the Tax- Property Article of the Annotated Code of Maryland has been revised to include the following subsection (d) that allows the owner of manufacturing personal property to file an application within 6 months after the date of the first assessment notice for a taxable year that includes the manufacturing personal property. If the application is approved, the exemption shall be granted for the taxable year. The exception to the September 1 deadline is applicable to taxable years beginning after June 30, 2009. No manufacturing exemption can be granted unless a timely application is filed. Once filed, no additional manufacturing applications are required in subsequent years. Exemption applications can be found on the website, <https://dat.maryland.gov/businesses/Pages/Business-Personal-Property.aspx>.

In addition, state law requires that certain types of personal property be fully exempt throughout Maryland from any assessment and taxation. These include aircraft, farming implements, residential (non-business) property, most registered vehicles, boats not more than 100 feet in length, customized computer software, intangible personal property (e.g., stocks, bonds, patents, goodwill, trademarks, etc.).

Businesses owning exempt personal property described above should report the total cost of that property on **Form SD1, Supporting Detail**.

Full or partial exemptions may apply depending on the location of the property for: manufacturing/R&D machinery and equipment, manufacturing/R&D inventory and commercial inventory. Contact the Department's web site for a complete listing of these exemptions.

The law specifically includes the following activities as part of the manufacturing process: (1) the identification, design or genetic engineering of biological materials for research or manufacture; and (2) the design, development or creation of computer software for sale, lease or license.

The personal property of certain home-based businesses is exempt if: 1) it is owned by a sole proprietorship; 2) it is located at the owner's principal residence; and 3) its total original cost, including inventory and excluding licensed vehicles, is less than \$10,000. **An initial return must be filed to receive this exemption.** Partnerships and other legal entities are not eligible for this exemption.

Low Assessments Tax Property Article § 7-245 A person's personal property is not subject to valuation or to property tax if all of the person's personal property statewide had a

**SPECIFIC INSTRUCTIONS FOR FORM 2
SOLE PROPRIETORSHIP AND GENERAL PARTNERSHIPS**

please contact your county's Clerk of the Court at <https://www.courts.state.md.us/pia/clerks>. Maryland Annotated Code, Business Regulation Article §17-1808 allows counties and municipalities to adopt a Uniform Trader's License Fee."

total original cost less than \$2500. This exemption shall take effect July 1, 2018, and shall be applicable to all taxable years beginning after December 31, 2018.

ROUNDING

Round cents to the nearest whole dollar. Fifty cents and above should be rounded to the next highest dollar.

10) AUDIT OF RETURN

All personal property assessments, and any information and figures reported on the personal property return, accompanying schedules and related documents are subject to audit. As a result of such audits, the Department may issue corrected assessments.

11) TRANSFER OF PROPERTY

If a business transfers, sells, or disposes of all personal property on or after January 1, and before July 1, it must notify the Department in writing on or before October 1, of the applicable assessment year. The notification must contain an itemized description of the property involved, the date and manner of transfer and name(s) and address of the new owner(s) of the property, the consideration received, and a copy of the sales agreement (if available). Upon proper notification and compliance with Section 10-402 of the Tax Property Article, the assessment shall be transferred to the new owner(s). See Form 21.

12) OUT OF BUSINESS

If a business discontinues operations or goes "out of business" prior to January 1 of filing year, a return or letter of explanation detailing the date the business ceased operations and what happened to the property must be filed. Failure to provide this information will result in an estimated assessment being made against the business.

13) AMENDED RETURNS

Amended returns can be filed to correct reporting errors or claim a missed exemption (except for missed manufacturing exemptions see item 9) within 3 years of the April 15 date that the return was originally filed.

Amended returns must be accompanied by information explaining why the amended return is being filed and reconciling the differences with the original return. Write the word "AMENDED" across the top of page 1 of the return.

14) TRADER'S LICENSE

Sometimes businesses requiring a trader's license experience problems in obtaining one. Most of these problems are the result of one or more of the following five situations:

- 1) Failure to file a personal property return (previous year).
- 2) Failure to report commercial inventory on the personal property return (previous year).
- 3) Unpaid personal property taxes (previous year).
- 4) Unpaid late filing penalty owed to SDAT.
- 5) Failure to register with SDAT.
- 6) *"If you are unsure of whether this applies to you,*

SECTION I

return, please comment in remarks section.

1. Check one: Sole Proprietorship (one owner) or General Partnership (two or more owners)
2. Provide the name of owner or owners.
3. Provide the complete mailing address for the business. If this is a new mailing address, check the box to the left.
4. Provide the SDAT Department ID number. To obtain the Department ID, go to Maryland Business Express, <http://egov.maryland.gov/BusinessExpress/EntitySearch> The ID number is necessary to ensure proper credit to the account.
5. List federal employee ID# (FEIN). If none, provide social security number of owner.
6. List federal principal business code. It can be found on IRS Schedule C or Form 1065.
7. Provide the nature of business activity in Maryland(e.g., restaurant, legal services, construction, etc.)
8. Total gross sales must include sales in Maryland and sales by the Maryland location to out of state purchasers as well as transfers from the Maryland location of the reporting business to out of state locations.

SECTION II

- A. Please provide the actual physical location of all personal property in Maryland. P.O. Boxes are not acceptable. Indicate if this is a change of location. Only an individual who owns a business should answer questions B and C
- B. Answer yes, if the location in number 3 above is the principal residence of the business owner.
- C. Answer yes, if the total original cost of the property, including inventory and excluding licensed vehicles, is less than \$10,000. If both questions A and B are answered yes, the business is exempt from personal property assessment and taxation. Skip to signature line on page 3.
- D. Indicate whether business owns, uses or leases any personal property in Maryland.
- E. Answer yes, if the business requires a license to operate with any county/town in Maryland.
- F. Indicate whether or not business is conducted in Maryland. If yes, specify date began.
- G. If the business operates on a fiscal year, provide the start/ end dates. If it operates on a calendar year, you may leave this item blank.
- H. Does the business own or use any property that is fully depreciated and/or expensed? If yes, is it reported on this return? If the business owns or uses this type of property but does not report it on the

I. Has the business disposed of or transferred any assets in or out of Maryland? If yes, please comment in remarks and/or complete Form SD1 (Supplemental Details).

SECTION III

LINE ITEM 1

1. Furniture, fixtures, tools, machinery and equipment not used for manufacturing or research and development.

Includes but is not limited to office furniture, fixtures and equipment, factory equipment and machinery, shelves, signs, counters, etc.

This form allows detailed reporting of property which falls under the different rates of depreciation. All property is to be reported under Category A unless specifically listed in another category.

Refer to the Depreciation Rate Chart to determine where property owned by the business should be reported (see sample below). Property reported in columns B through G requires a detailed description (e.g., Column C - Vending Machines, Copiers, etc.). Failure to provide the required detail will result in the reported property being assessed at 10% rate of depreciation.

This property shall be reported at original cost in the year of acquisition without deduction of depreciation, investment credit or trade-in of previously owned property. Include all fully depreciated personal property and property expensed under IRS Rules.

EXAMPLE

Property reported on this line item should be placed under the proper depreciation rate column by the year of acquisition. An example of the correct method of filling out this section is provided for reference. Property reported in categories B through G require an explanation on the lines provided below the box. If additional space is needed to show the necessary detail, attach a supplemental schedule.

ORIGINAL COST BY YEAR OF ACQUISITION							
	SPECIAL DEPRECIATION RATES B-G (See chart)						TOTAL COST
	A	B	C	D	E	F	G
2014							
2013	1150				12800		13,750
2012	3104				8400		11,504
2011	1500			5261			6,761
2010							
2009			2500				2,500
2008	9127		500				9,627
2007 & prior							
Totals	14881		3000	5261	21200		44,142

Describe property identified in B - G above: Category D2011 Personal Computer; Category E-2012,2013 Rental DVDs and Video Tapes, 2008 Vending Machine; Category C- 2009 Copier \$2,000, Fax \$500

LINE ITEM 2

Commercial Inventory is merchandise and stock in trade available for sale. This includes manufactured products sold at retail by the manufacturer. An average of twelve (12) monthly inventories should be reported including two (2) physical inventories. Book inventories may be used for months when physical inventories were not taken. Values are to be reported at cost or market value. The LIFO method is prohibited in computing values. If there are multiple locations of inventory in Maryland they must be reported by each location. **Businesses that need a Trader's License must report commercial inventory.**

"If you are unsure of whether this applies to you, please contact your county's Clerk of the Court at <https://www.courts.state.md.us/pia/clerks>. Maryland Annotated Code, Business Regulation Article §17-1808 allows counties and municipalities to adopt a Uniform Trader's License Fee."

Rental equipment including but not limited to video tapes, stereos, televisions, tools, appliances and furniture is not considered commercial inventory. These assets must be reported in Part B item.

Leased property and off rent equipment are not considered commercial inventory and should be reported on a separate schedule showing the names and addresses of lessees, lease numbers, description of property, installation date and original cost by year of acquisition for each location. Schedule should group leases by county where the property is located.

LINE ITEM 3

Supplies. Supplies are consumable items not held for sale (e.g., contractor's supplies, office supplies, etc.). Report the average cost.

LINE ITEM 4

Manufacturing/R&D Inventory is raw materials, supplies, goods in process and finished products used in and resulting from manufacturing by the business. Include manufactured products sold at retail by the manufacturer under line item, commercial inventory. An average of twelve (12) monthly inventories should be reported including two (2) physical inventories. Book inventories may be used for months when physical inventories were not taken. Values are to be reported at cost or market value. The LIFO method is prohibited in computing values. If there are multiple locations of inventory in Maryland they must be reported by each location.

INFORMATION AND ASSISTANCE

General questions regarding valuation and assessment procedures : 410-767-1170, Toll Free within Maryland: 1-888-246-5941 Maryland Relay Service - 1-800-735-2258 TT/VOICE

(Maryland Relay Service for speech and hearing impairment) Email: sdatt.persprop@maryland.gov

Online Services: Filing Extensions, Online Filing & Forms: <https://dat.maryland.gov>

LINE ITEM 5

Tools, machinery and equipment used for manufacturing or research and development. Answer this question in detail even though such property may by law or resolution be exempt. Reporting property on this line item is not a substitute for a manufacturing application. If exemption is claimed for the first time, a manufacturing/research & development exemption application must be submitted **on or before September 1 of filing year before the exemption can be granted**, or within 6 months after the date of the first assessment notice for the taxable year that includes the manufacturing personal property in order to qualify for the current tax year. Section 7-104 of the Tax-Property Article of the Annotated Code of Maryland has been revised to include subsection (d) that allows the owner of manufacturing personal property to file an application within 6 months after the date of the first assessment notice for a taxable year that includes the manufacturing personal property. If the application is approved, the exemption shall be granted for the taxable year. The exception to the September 1 deadline is applicable to taxable years beginning after June 30, 2009. No manufacturing exemption can be granted unless a timely application is filed. Once filed, no additional manufacturing applications are required in subsequent years. Contact the Department or visit our web site at www.dat.maryland.gov to obtain an application. This property shall be reported at original cost in the year of acquisition without deduction of depreciation, investment credit or trade-in of previously owned property. Include all fully depreciated personal property and property expensed under IRS rules.

For manufacturing the primary test for exemption requires substantially transforming, or a substantial step in the process of substantially transforming tangible personal property into a new and different article by use of labor or machinery. The term manufacturing does not include products mainly intellectual, artistic or clerical in nature, services, public utility services, or property used primarily in administration, management, sales, storage, shipping, receiving or any other non-manufacturing activity.

Research and development means basic and applied research in the sciences and engineering, and the design, development and governmentally required pre-market testing of prototypes, products, and processes. Research and development activities are exempt whether or not the company has a product for sale.

The following activities do not constitute research and development: market research; research in social sciences, psychology, or other nontechnical activities; routine product testing; service activities; sales; or research and development of a public utility.

6. Vehicles: Itemize motor vehicles with Interchangeable Registrations and vehicles that are unregistered (unlicensed). Vehicles registered in Maryland and classified A-P are exempt

and should not be reported on the Personal Property Tax return. Vehicles registered outside Maryland may also be exempt. Exempt vehicles include those registered in another taxing jurisdiction and of a classification (A-P) described in Title 13, Subtitle 9, Part II of the Maryland Transportation Article.

Interchangeable Registrations include: dealer plates (Class 1A, 1B, 1C); recycler plates (Class 2); finance company plates (Class 3); special mobile equipment plates (Class 4); and transporter plates (Class 5).

This property shall be reported at original cost in the year of acquisition without deduction or depreciation, investment credit, or trade-in of previously owned property. Include all fully depreciated personal property and property expensed under IRS rules.

Motor vehicles with Interchangeable Registrations and unregistered/unlicensed vehicles are not exempt and will be assessed as Category C property at 20% depreciation per annum (subject to a minimum assessment of 25% of the original cost).

7. Non-farming Livestock: Report book value and market value.

8. Other Tangible Personal Property: Include other tangible personal property not reported elsewhere on this return. Report total cost on the return and supply a separate schedule including a description, the original acquisition cost, and the date of acquisition of the property. Please see additional instruction under Other Personal Property Assessment Exemptions.

9. Property Owned by Others and Used or Held by the Business: All property that is not owned by the business but is held by the business as lessee, on consignment, or otherwise must be reported.

File separate schedule showing names and addresses of owners, lease number, description of property, installation date and separate cost in each cost.

10. Property Owned by the Business and Used or Held by Others: All property that is owned by the business but is held by others as consignee, lessee or otherwise must be reported.

All leased property must be reported, including manufacturing equipment, and property leased to taxexempt organizations.

Manufacturer lessors shall report property which has been acquired other than by purchase at the retail selling price in the year the property was manufactured (including property manufactured by a business for its own use). Manufacturing lessors may not report this property using the cost of manufacture.

A separate schedule showing the names and addresses of lessees, lease numbers, description of property, installation date and original cost by year of acquisition for each location must be supplied. Provide the physical street address of lessees. Post Office Box numbers are not acceptable.

Excel schedules of leasing data may be submitted. Verify that the entity name and ID number are prominent on the schedule. Schedule may be filed electronically and submitted to sdatt.persprop@maryland.gov

SIGNATURE AND DATE

The return must be signed by an owner or partner. This signature must be an original not a copy. The date should reflect the date the return was signed by the owner or partner and sent to the Department. Please include requested phone number and E-mail address to assist us in resolving potential discrepancies.

DEPRECIATION RATE CHART

STANDARD DEPRECIATION RATE

Category A: 10% per annum*

All property not specifically listed below.

SPECIAL DEPRECIATION RATES (The rates below apply only to the items specifically listed. Use Category A for other assets.)

Category B: 20% per annum*

Mainframe computers originally costing \$500,000 or more.

Category C: 20% per annum*

Autos (unlicensed), bowling alley equipment, brain scanners, car wash equipment, contractor's heavy equipment (tractors, bulldozers), fax machines, hotel, motel, hospital and nursing home furniture and fixtures (room and lobby), MRI equipment, mobile telephones, model home furnishings, music boxes, outdoor Christmas decorations, outdoor theatre equipment, photocopy equipment, radio and T.V. transmitting equipment, rental pagers, rental soda fountain equipment, self-service laundry equipment, stevedore equipment, theatre seats, trucks (unlicensed), vending machines, x-ray equipment.

Category D: 30% per annum**

Data processing equipment and other computer based equipment, canned software.

Category E: 33 1/3% per annum*

Blinds, carpets, drapes, shades. The following applies to equipment rental companies only: rental stereo and radio equipment, rental televisions, rental video cassette recorders and rental DVDs and video tapes.

Category F: 50% per annum*

Pinball machines, rental tuxedos, rental uniforms, video games.

Category G: 5% per annum*

Boats, ships, vessels, (over 100 feet).

Long-lived assets

Property determined by the Department to have an expected life in excess of 10 years at the time of acquisition shall be depreciated at an annual rate as determined by the Department.

* Subject to a minimum assessment of 25% of the original cost.

** Subject to a minimum assessment of 10% of the original cost.