Taxing Simply

District of Columbia Tax Revision Commission

Taxing Fairly

Full Report

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CHAPTER F

Tangible Personal Property Taxation

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A fundamental question concerning personal property taxation is whether it should remain a part of the District's tax system. Several states have already exempted personal property from taxation. A recent study published by the Brookings Institution recommends elimination of the District's tax.[1] Mark, McGuire, and Papke (1997) found the tax to have adverse economic development effects and to pose problems of enforcement.

Recent trends in taxation of personal property

Tangible personal property became part of the base of the American general property tax during the mid-19th century. All forms of property — tangible and intangible personal, as well as real — were brought under a common tax structure, on the presumption that different forms of property ownership were equally representative of the ability to pay taxes. Soon after the broad, uniform, ad valorem general property tax was in place in the mid-1800s, however, it started to unravel. Today, much personal property lies outside the tax base, classification systems often impose different effective tax rates on different uses of property, and regardless of whether or not different classes are identified within each of these property types, the rates imposed on personal property often differ from those on real property.

Many items of personal property have come to be excluded from the property tax base for various reasons, including basic policy concerns and more practical ones. Most intangible property, for example, now is outside the property tax base.[2] In part, this widespread exclusion reflects the difficulty of locating many intangibles, but another consideration has been the fact that intangibles often represent paper claims to real and tangible personal properties that are in the tax base. When this is the case, taxation of the intangibles constitutes double taxation of some properties. Administrative and policy considerations have also combined to remove inventories from the property tax base in many states. From a policy perspective, if the property tax is viewed as a tax on ability to pay, the taxation of inventories is suspect. Inventories tend to rise when business unexpectedly declines, and the firm is left with more in inventory than it desires; conversely, when business picks up, inventories tend to be drawn down. From a practical standpoint, many firms are able to manipulate inventory levels to minimize tax liability, although often at added costs

— costs that constitute a wasteful activity induced by the tax, in violation of tax neutrality. A recent study found that personal property declined from about one-fifth of the local property tax base to about one-tenth over the 30-year period from 1956 to 1986.[3] The same study found that 10 states no longer taxed tangible personal property by 1986, up from four in 1961.[4]

States still taxing tangible personal property differ in terms of the categories of such property that are taxed (Figure F-1), and reasons for exclusion also differ by type of property.[5] Most often excluded is household personal property, removed from the tax base largely for administrative reasons. Based on data for 1991 — the most recent interstate comparison — 34 states exempt such property, and nine more tax it only when used in generating income; five states provide partial exemptions, and in only one is household personal property listed as fully taxable. Because they can be located and valued more readily, motor vehicles, boats, and similar items of tangible personal property used by individuals for nonbusiness purposes are often taxed. As shown in Figure F-1, although 32 states exempt motor vehicles, 18 states do tax them, but at local option in two, and with partial exemption in three. In one other state, there is a special tax in lieu of the general property tax. Business inventories, for reasons noted above, are exempt in 33 states; in the other 18, they are taxed — at local option in three and with partial exemption in another three. Depreciable fixed assets of business — "other commercial and industrial" — are fully taxable in 26 states (two at local option), taxable with partial exemption in 16, and wholly exempt in nine.[6]

At the start of the 1956–1986 period, the District was close to the U.S. average, although a bit below — personal property was 16.5 percent of the District's property tax base in 1956, compared with a national average of 17.3 percent (Figure F-2). Thirty years later, personal property was only about one-half as significant in the District's property tax as for the national average situation. If just the taxing states are considered, personal property tax is, of course, more significant than for the average of all states; moreover, the decline in significance has been less pronounced. For this group of states, which includes the District, the personal property tax share of the base declined from 21.7 percent in 1956 to 14.1 percent in 1986; for the District, the drop was from 16.5 percent to 5.5 percent. Thus, compared to other taxing states, the personal property has been a less important tax base, and its relative decline has been greater in the District.

Personal property taxation in the District

The District's personal property tax is similar to that found in many states, in that it applies only to property used in business and, of business personal property

Figure F-1

Tax Status of Major Categories of Tangible Personal Property
1991

Washington Metropolitan Area

State	Business Inventories	Other Commercial and Industrial	Agricultural	Household Personal Property	Motor Vehicles
D.C.	Exempt	Partially taxable	Exempt	Exempt	Exempt
Maryland*	Taxable at local option	Taxable at local option	Taxable at local option	Exempt	Exempt
Virginia	Taxable	Taxable	Taxable at local option	Taxable at local option	Taxable

All States

	Number of States				
Taxable	12	24	12	1	12
Partially taxable[1]	3	16	17	4	3
Taxable at local option[2]	3	2	3	2	2
Partially taxable at local option[3]	–	–	–	1	–
Taxable if income-producing	–	–	–	8	–
Partially taxable if income-producing[4]	–	–	–	1	–
Special tax[5]	–	–	–	–	1
Exempt	33	9	19	34	32

[1] Partial exemption as to type and/or value level.
[2] Option to exempt employed by most jurisdictions.
[3] Partial exemption as to type and/or value level.
[4] Partial exemption as to type and/or value level.
[5] Rather than general ad valorem taxation.
**As of 1991, 13 Maryland counties and the city of Baltimore had fully exempted commercial and industrial inventories, as well as manufacturing machinery.*

Source: U.S. Census Bureau.

Figure F-2

Personal Property as Percent of Net Locally Assessed Taxable Value
Selected Years, 1956–1986

State	1956	1961	1966	1971	1976	1981	1986
D.C.	16.5	15.0	14.4	12.9	5.4	4.6	5.5
Maryland	3.1	2.1	1.4	0.8	0.5	0.6	0.8
Virginia	20.2	19.3	15.4	14.0	14.3	7.8	9.2
U.S. total	17.3	16.0	13.1	12.7	12.2	9.6	10.1
State mean	20.3	17.9	16.6	15.2	14.3	12.8	11.6
Taxing-state mean	21.7	19.5	18.0	16.9	15.8	15.2	14.1

Source: *Taxation of Business Property: Is Uniformity Still a Valid Norm?*

items, it excludes inventories. The tax on inventories was phased out over a three-year period completed in fiscal year 1975. Although that was the last significant change in the base of this tax, there have been three rate increases since — from 2.4 percent to 2.82 percent in fiscal year 1977, then to 3.1 percent in fiscal year 1980, and to the current rate of 3.4 percent in fiscal year 1992.[7]

TAX BASE

More specifically, the District imposes a tangible personal property tax on railroad rolling stock and on other business personal property other than inventories.[8] The tax applies to items that a taxpayer owns, leases, or rents. In the case of rolling stock, a distinction is made between that which is "primarily located in the District of Columbia" and that which is "not primarily located in the District of Columbia." The value of the former category is fully taxable in the District, while the portion of the latter taxable in the District is based on the proportion of miles traveled within the District to total miles traveled in the preceding year. Just as rolling stock not permanently in the District is subject to the tax, so is other property that is in the District on a temporary basis, such as construction equipment. Moreover, the law provides that "real property improvements that do not become an integral part of the realty shall be subject to the personal property tax."[9]

Other business personal property includes all manner of things, as can be seen best by reference to the tax return forms.[10] Included are such things as air conditioning equipment; amusement arcade machines; brain scanners, CAT scanners, MRI

scanners, and dialysis equipment; carpets and rugs; cement, gravel, and sand bins; conveyors; emergency power generators; fabricated metal products machinery and equipment; furniture and fixtures, in various categories of business; libraries; linens; mail chutes; microfilms, movie films, and video movie tapes; music boxes; outdoor Christmas decorations; pianos and organs; portable toilets; safes; signs; television, stereo, radio, and recorder equipment; trailers; vending machines; watercraft, docks, slips, wharves, piers, and floating equipment (boats, ships, barges); wax museum figures; wood pallets; and X-ray and diagnostic equipment. The list is much longer, but these few examples may give a reasonable feel for the sorts of things taxed.

Unlike the real property tax, the base of the tangible personal property tax is "current value," which is depreciated "full and true value." More fully, "the original cost of the tangible personal property in an arms-length transaction, … less … straight line depreciation … [but] … items with a useful life of 1 year or less shall be reported at cost. … In no event shall the current value reported be less than 25% of the original cost or exchange value of the tangible personal property."[11]

The personal property tax return lists six schedules of property for which depreciation rates range anywhere from zero to 6.67 percent.[12] No depreciation is allowed for items in category F, which includes such things as cleaning, office, and other supplies; chemicals; linens in reserve; and antiques, oriental rugs, certain art objects, and other items deemed to be appreciating in value. (Inclusion of supplies is an exception to the rule that inventories are not subject to tax.) Other rates of depreciation are:

- 50 percent (category E) — e.g., amusement arcade machines; linens in service; small hand tools;
- 20 percent (category D) — e.g., brain scanners, CAT scanners, MRI scanners, and dialysis equipment; computers; portable toilets; telephone answering equipment;
- 12.5 percent (category C) — e.g., car wash equipment; construction, road paving, and road maintenance equipment; music boxes; vending machines;
- 10 percent (category A) — e.g., asphalt, cement, and slurry plants and equipment; bakery equipment; intercom systems; libraries; signs; X-ray and diagnostic equipment; and
- 6.67 percent (category B) — e.g., cement, gravel, and sand bins; pianos and organs; safes.

Some of the distinctions seem relatively fine. For example, 10 percent annual depreciation applies to "X-ray and diagnostic equipment," while various sorts of scanners and dialysis equipment are depreciated twice as fast, at 20 percent per year. Similarly, telephone answering equipment, including beepers, is depreciated at 20 percent while intercom systems receive 10 percent depreciation. As a final example, asphalt, cement, and slurry plants *and equipment* (emphasis added) are depreciated

Figure F-3

Personal Property Tax Rate, Revenue, and Bases
Fiscal Years 1987–1996

		Reported Revenue		Calculated Base	
Year	Rate per $100 of Assessed Value	($ Thousands)	Percent Change	($ Thousands)	Percent Change
1987	$3.10	$55,362		$1,785,871	
1988	3.10	58,411	5.5%	1,844,226	5.5%
1989	3.10	63,404	8.5	2,045,290	8.5
1990	3.10	62,584	-1.3	2,018,839	-1.3
1991	3.10	69,899	11.7	2,254,806	11.7
1992	3.40	65,609	-6.1	1,929,676	-14.4
1993	3.40	67,085	2.2	1,973,088	2.2
1994	3.40	62,437	-6.9	1,836,382	-6.9
1995	3.40	61,305	-1.8	1,803,088	-1.8
1996	3.40	65,201	6.4	1,917,676	6.4

Source: D.C. Office of Tax and Revenue and author's calculations.

at 10 percent, while cement, gravel, and sand bins — which might be construed to be part of the equipment of the former category — are depreciated more slowly, at 6.67 percent annually. The point is simply that administrative judgments have to be made, and there might be some disagreement as to where the lines should be drawn.

REVENUE YIELD

Personal property taxation produced $65.2 million for the District in fiscal year 1996, making it the third-highest annual total in the 10-year period from 1987 through 1996 (Figure F-2). That some earlier years produced higher revenue totals suggests that growth has been uneven. In fact, the percent change from one year to the next has ranged from a 6.9 percent decline in 1994 to growth of 11.7 percent in 1991, making this a rather unstable revenue source. The compound annual average growth rate for that interval was a bit more than 1.8 percent. Figure F-3 also shows the calculated tangible personal property tax base, derived by dividing the tax rate into the revenue yield. Because there was only one rate change in the interval shown, the percent changes in the base are estimated to have been the same as those in revenues — except for that one year.

Figure F-4

Tangible Personal Property Tax Revenue as Percent of Various Revenue Measures
Fiscal Years 1987–1996

Fiscal Year	Real Property	All Taxes	All Own Sources	All General Fund
1987	11.5%	3.0%	2.6%	1.8%
1988	10.7	2.9	2.5	1.7
1989	9.9	2.9	2.5	1.8
1990	9.4	2.7	2.4	1.7
1991	8.7	2.9	2.6	1.8
1992	8.0	2.8	2.4	1.6
1993	7.2	2.6	2.3	1.6
1994	8.5	2.5	2.2	1.4
1995	9.4	2.6	2.2	1.4
1996	10.4	2.6	2.3	1.5
1996 index as percent of 1987 index	**90.6%**	**89.1%**	**88.9%**	**81.6%**

Source: D.C. Office of Tax and Revenue and author's calculations.

The rather slow average growth in personal property tax revenues resulted in a decline in its standing relative to various components of District general fund revenues (Figure F-4). Index values were calculated to compare this revenue source to the real property tax, all general fund taxes, all own-source general fund revenues, and all general fund revenues over the 1987–1996 period. These values express personal property revenue as a percentage of each of the other revenue measures. The index numbers show that the tangible personal property tax was a relatively small source of revenue throughout the period; moreover, its relative importance was never higher in the following nine years than it was in 1987. Personal property tax revenues were equal to 11.5 percent of real property tax revenue in 1987, and amounted to no more than 3 percent of any of the other revenue measures that year. Ten years later, personal property tax had declined approximately 10 percent relative to the first three revenue measures, and over 18 percent relative to total general fund revenues. Thus, personal property taxation represents a small and increasingly less significant source of revenues.

ADMINISTRATION

Values of taxable personal property are obtained from returns filed by taxpayers. Since 1977, returns have been due by July 31, with the tax due to be remitted with the return (District of Columbia, *District of Columbia Tax Facts, Fiscal Years 1993 and 1994,* p. 52). The 1998 returns were due by July 31, 1997; if an extension was sought, the tax still was due by July 31 (District of Columbia, *Instructions for Filing 1998 D.C. Personal Property Tax Return*). The depreciated original cost value ("current value") figures reported on the return, using depreciation guidelines discussed above, provide the basis for the tax. Thus, while the real property tax is *taxpayer-passive*, the personal property tax is *taxpayer-active.* In the former, the District is responsible for determining the tax base, calculating the tax due, and sending a bill to the taxpayer. In the latter, the taxpayer determines the tax base using a form provided by the District — but relying heavily on the taxpayer's own records — and calculates the tax due, to be remitted with the return.

Discussion

Although the personal property tax is often lumped with real property taxation as part of "the" property tax, there are significant differences. "Neither assessment process nor appraisal standard for personal property matches those used for real property … . The accounting records of business drive the typical personal property assessment through a mechanistic application of a narrow cost approach."[13] Current market-value information on tangible personal property is generally not available, as active markets in used machinery and equipment often do not exist. Moreover, the sales that do occur often are liquidation sales, which would not meet the standard usually imposed for valuing real property — i.e., an arm's-length transaction between a willing buyer and a willing seller, with neither party under pressure to make the transaction.[14] Thus, direct comparisons between real and personal property are difficult, and perhaps not appropriate. To a considerable extent, the fate of the personal property tax need not be linked to the real property tax.

The District's 3.4 percent tangible personal property tax rate is higher than for any real property class other than vacant property (Class 5). It is probable that the effective rate (tax as a percentage of market value) is lower for much of the tangible personal property base, but there are no data to permit ready comparison. Taxing personal property on its depreciated original cost will often result in a relatively low-value figure. In many instances, however, the reverse will be true for several reasons. First, straight-line depreciation may depreciate original cost too slowly early in the life of an asset, relative to what the property could be sold for once it has been put into use. Also, the depreciation period may be too long — i.e., the annual

Figure F-5

Annual Growth Rates of Various Revenue Sources
Fiscal Years 1988–1996

Fiscal Year	Personal Property	Real Property	All Taxes	All Own Sources	All General Fund
1988	5.5%	13.3%	7.9%	11.7%	10.1%
1989	8.5	17.3	9.0	6.5	3.7
1990	-1.3	4.1	3.4	3.8	5.5
1991	11.7	20.7	4.1	5.2	8.3
1992	-6.1	2.4	0.5	0.7	2.6
1993	2.2	13.1	7.3	5.6	5.2
1994	-6.9	-21.3	-3.4	-2.5	3.3
1995	-1.8	-10.5	-3.2	-3.6	-2.3
1996	6.4	- 4.6	3.6	2.1	1.5

Source: D.C. Office of Tax and Revenue and author's calculations.

rate of depreciation may be too low. Another factor that may make depreciation too slow is the floor that establishes 25 percent of initial cost as the minimum taxable value. An important example of a class of personal property that may be depreciated too slowly is computers, which District rules depreciate at 20 percent per year, despite the rapid pace of technological advancement and declining prices. Finally, a given type of property may be assigned to an inappropriate depreciation category. Some instances were noted above in which seemingly similar types of personal property are depreciated at significantly different rates.

Potential inequities of the sort noted are important, but other considerations center on revenue productivity. The personal property tax is not a major source of revenue for the District, and its relative significance has been declining. As noted, in fiscal year 1996, this tax accounted for only 1.5 percent of all general fund revenues, and only 2.6 percent of all taxes. Of course, this does not mean that the tax would not be missed if repealed. In fiscal year 1995, for example, all major sources of revenue for the District's general fund declined, and in fiscal year 1996 general fund revenues increased by only 1.5 percent (Figure F-5). Also in fiscal year 1996, the personal property tax was equal to 1.5 percent of general fund revenue (Figure F-4). Thus, fiscal year 1996 growth would have been wiped out had the personal property tax been repealed effective that year, and in fiscal year 1995, its repeal would have resulted in a still larger decline than was experienced.

Reliance on tangible personal property taxes varies widely. In 1986, such property accounted for over 20 percent of the local property tax base in 11 states, but was outside the tax base in another 11 states.[15] Over the 1956–1986 period, its share of the local property tax base declined in both Maryland and Virginia, as well as in the District. By 1986, the share was 9.2 percent in Virginia, 0.8 percent in Maryland, and 5.5 percent in the District (Figure F-2, page 206).

Although the District is about midway between its two neighboring states, the Virginia figure overstates the importance of personal property taxation on business property. The largest category of personal property in Virginia consists of motor vehicles, boats, and the like, principally those used for nonbusiness purposes. This category accounts for more than 80 percent of locally taxed personal property values, and more than half of the sum of such values plus the property of public service corporations. Business machinery and tools and merchants' capital account for the remainder of local personal property values — and roughly 10 percent of the total, including public service corporation property.[16] Moreover, merchants' capital, which is roughly 1.5 percent of the local personal property tax base statewide (and about 1 percent of the total, including public service corporations), is taxed at local option. Much of the personal property tax in Virginia is not imposed on the sorts of property taxed by the District.

As shown in Figure F-6, none of the Virginia jurisdictions in the Washington metropolitan area levies the personal property tax on inventories. In fact, among the three Maryland and seven Virginia localities to which the District compares itself — Charles, Montgomery, and Prince George's counties in Maryland and, in Virginia, the independent cities of Alexandria, Fairfax, and Falls Church plus the counties of Arlington, Fairfax, Loudoun, and Prince William — there is no inventory tax at the county or independent city level, though some towns in two of the three Maryland counties impose the tax (Figure F-6).[17] Business machinery and equipment, taxed by the District at 3.4 percent, also is taxed only at the subcounty level in the three Maryland counties. All seven of the Virginia jurisdictions tax machinery and equipment at nominal rates ranging from 2.0 percent to 4.86 percent. All the units in the metropolitan area start from original cost, from which depreciation is subtracted in arriving at taxable value. As noted earlier, the District uses straight-line depreciation over various asset-life periods, but sets 25 percent of original cost as the minimum taxable value. Maryland law specifies depreciation at 10 percent per year in most instances, and also makes 25 percent of original cost the floor for taxable value.[18] Virginia allows localities to select different valuation approaches, but all seven in Figure F-6 start from original cost.[19] However the depreciation schedules of Virginia localities differ significantly. In five of the seven, first-year depreciation is 20 percent, while in one it is 15 percent, and in the other, 50 percent. Minimum taxable values of 20 percent (in four of the localities) or 10 percent (in three localities) are reached

Figure F-6

Tax Treatment of Tangible Personal Property in D.C. Metropolitan Area

by Type of Property

	Property Category and Tax Status 1993–1994 Rates			Machinery and Equipment—Percentage Taxed After Depreciation**	
Location	**Inventories**	**Motor Vehicles***	**Machinery and Equipment**	**First Year**	**Lowest (Year)**
District of Columbia	No tax	No tax	3.40%	Varies	25% (varies)
Maryland†					
Charles Co.	No tax	No tax	2.28	Varies	25
Montgomery Co.	No tax	No tax	1.917	Varies	25
Prince George's Co.	No tax	No tax	2.433	Varies	25
Virginia‡					
City of Alexandria	No tax	4.75 (4.09)	4.50	80	20 (7)
Arlington Co.	No tax	4.40 (3.39)	4.40	80	20 (7)
City of Fairfax	No tax	3.29 (2.83)	3.29	80	10 (8)
Fairfax Co.	No tax	4.57 (3.93)	4.57	80	20 (7)
City of Falls Church	No tax	4.86 (4.18)	4.86	80	20 (7)
Loudoun Co.	No tax	4.20 (3.23)	2.75	50	10 (5)
Prince William Co.	No tax	3.70 (3.18)	2.00	85	10 (9)

**Virginia localities tax various book values of motor vehicles — e.g., trade-in value, loan value. The figures in parentheses after the nominal rates are the estimated effective tax rates.*

***All jurisdictions reported start from original cost. The District specifies straight-line depreciation over various numbers of years for different types of property. Maryland generally requires depreciation at 10 percent per year but, like the District, specifies various depreciation rates for different types of property. Virginia localities differ as to depreciation schedules; the figures in parentheses in the last column show the year in which the minimum taxable portion of original cost is reached.*

†The Maryland state property tax rate does not apply to personal property. In general, all inventories are exempt, and manufacturing machinery and equipment is exempt effective in 1997, but municipal units within the counties may tax; nonmanufacturing machinery and equipment remains subject to tax [Maryland Code 7-222, 7-225]. Rates shown in column 3 are county rates for nonmanufacturing property.

‡The Virginia machinery and tools tax does not apply to manufacturing [Virginia Code 58.1-3507].

Source: D.C. Office of Tax and Revenue; Center for Public Service; *Taxation of Business Property: Is Uniformity Still a Valid Norm?*; and tax codes and regulations.

in anywhere from five to nine years. Finally, only the Virginia localities tax motor vehicles. Their nominal tax rates range from 3.29 percent to 4.86 percent — allowing for the different values used (e.g., loan, trade-in, retail). Effective tax rates range from 2.83 percent to 4.18 percent. As already noted, such vehicles comprise the bulk of the personal property tax base in Virginia — over 80 percent when public service corporation property is omitted, as it is in the Figure F-6 comparison.

In summary, the District's personal property tax share of the property tax base — although a smaller percentage than in the average state where such property is taxed — is high relative to those in the two neighboring states, when considering business property. The District's 5.5 percent share compares with 0.8 percent in Maryland, and approximately 2 percent in Virginia (under one-fifth of the 9.2 percent figure for 1986 in Figure F-2, page 206).

Summary and conclusions

In changing its tangible personal property tax, the District reasonably might consider either expanding or shrinking the tax. In addition to revenue production, arguments for expansion of the tax include both neutrality and equity. On the other hand, these arguments are diminished by the fact that the trend, both nationally and regionally, is away from tangible personal property taxation.

Although the District's personal property tax is of relatively small and declining significance, at 1.5 percent of total general fund revenue it is not totally insignificant. Especially in comparison with recent general fund and tax growth rates (Figures F-4 and F-5, pages 209 and 211), the personal property tax's share of total revenues may argue for its retention.

If the personal property tax is retained, base broadening would seem desirable, and there is a case for including motor vehicles. Vehicles above a certain value represent taxpaying ability, as their owners are relatively well-off. Motor vehicles are typically the second most valuable asset of most households, after the home. Moreover, unlike many items of tangible personal property, motor vehicles can be located through licensing requirements, and readily available market data make valuation relatively easy. Adding motor vehicles would broaden the base significantly, and could help to hold down tax rates — a plus for economic development — while enhancing equity by bringing in valuable assets that now escape taxation. Currently, the personal property tax yield is less than 10 percent of that for real property. A 1 percent tax on motor vehicles would amount to $100 on a car worth $10,000. The first several thousand dollars of value could be exempt from taxation, if equity concerns made this desirable. Motor vehicles are taxable under property tax provisions in 18 states, including Virginia (Figure F-1, page 205).

Virginia's experience may not be a plus for this tax. The 1997 Virginia gubernatorial election reportedly turned on the issue of abolishing the motor vehicle part of the personal property tax. An end to the car tax was pledged by the victor and, in 1998, the state adopted a multiyear phase-out on vehicles worth less than $20,000. For the District to impose such a tax now would clearly be a move against the trend nationally and in this region. However, in Virginia motor vehicles typically are taxed at a rate several times that applied to real estate. The tax might be less of an issue at a lower rate. If the District were to give serious consideration to taxing motor vehicles, it would seem advisable to try to keep the rate close to 1 percent of value.

The long-term trend, however, is clearly toward narrowing the base of the tangible personal property tax (Figure F-2, page 206). Moreover, while the District taxes the component of tangible personal property most commonly taxed — business depreciable assets — at least nine states wholly exempt such property, another 16 provide partial exemption, and two more leave it to local option (Figure F-1, page 205). Among those wholly exempting are several states close to the District, including Delaware, New Jersey, and Pennsylvania.[20] The discussion in Chapter B of this volume identifies the tangible personal property tax as a significant negative factor in the District's economy.

All the local units in the metropolitan area shown in Figure F-6 (page 213) tax nonmanufacturing machinery and equipment, but exclude manufacturing machinery and equipment and all inventories. From this standpoint, the District's tax is not out of line. The District's 3.4 percent rate, however, is higher than the rates in the three Maryland counties and in two of the seven Virginia localities, about the same as that in Fairfax City, and lower than the rates in the other four Virginia localities. Comparison across jurisdictions, however, is complicated by differences in definition of taxable and exempt property and in depreciation provisions. Consider, for example, the fact that Loudoun County's first-year effective tax rate on machinery and equipment would be lower than that in Prince William County — 1.375 percent and 1.7 percent, respectively — despite the fact that the nominal rate in Loudoun is more than one-third higher. The difference is due to the more generous depreciation allowed in Loudoun County. The varied depreciation provisions by type of property found in the District and in Maryland make simple comparison impossible.[21]

Regardless of the relative level of the District's tax, the trend is clearly away from taxation of business personal property. In part, this is because the tangible personal property tax necessitates compromising tax principles to fit available information and, in so doing, poses problems for compliance and administration. There is a lack of market-value data, so taxable values are cost-based. Legal requirements differ from state to state, and sometimes (as in Virginia) within a state. The District uses original cost figures reduced by straight-line depreciation, to a floor value of 25 percent. Different requirements in different areas increase the workload on businesses

operating in more than one area. Taxpayers are required to determine their District tax base, compute the tax, and remit it. Administrative efforts come in developing rules, depreciation categories, forms, and the like; establishing and maintaining a list of taxpayers; and auditing filed returns.

Depreciated original cost values do not accord well with those used for the real property tax and likely result in many inequities within the personal property tax. Moreover, so much personal property has already been exempted that equity via uniform treatment of all forms of property — held by some to be an important criterion — has already been sacrificed.

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Endnotes

[1] O'Cleireacain (1997), p. 11 and p. 15.
[2] Bowman, Hoffer, and Pratt (1990).
[3] Mikesell (1995), pp. 162–164.
[4] Those exempting in 1961 were Delaware, Hawaii, New York, and Pennsylvania; added later were Illinois, Iowa, New Hampshire, New Jersey, North Dakota, and South Dakota. Its extremely slight use of the tax essentially makes Minnesota the 11th exempting state.
[5] Mikesell (1995), pp. 164–167.
[6] The tallies presented here from the Census (1994) enumeration differ to some extent from the Mikesell (1995) finding that 10 states exempt all tangible personal property, and nearly all is exempted in an 11th state.
[7] *District of Columbia Tax Facts, Fiscal Years 1993 and 1994*, p. 52; and D.C. Code 47-1522.
[8] D.C. Code 47-1512 and D.C. Code, 47-1522.
[9] D.C. Code 47-1522(d).
[10] District of Columbia, *Instructions for Filing 1998 D.C. Personal Property Tax Return.*
[11] D.C. Code 47-1523.
[12] District of Columbia, *Instructions for Filing 1998 D.C. Personal Property Tax Return.*
[13] Mikesell (1995), p. 167.
[14] Eckert (1990), p. 127.
[15] Mikesell (1995), pp. 163–164.
[16] Virginia Department of Taxation (1995), p. 61.
[17] D.C. Office of Tax and Revenue, *A Comparison of Tax Rates and Burdens in the Washington Metropolitan Area,* 1996.
[18] Maryland tax regulation 18.03.01.02. Some specified categories of assets are depreciated at other than 10 percent, ranging from 5 percent to 50 percent.
[19] Knapp (1993), pp. 107–130.
[20] Mikesell (1995), pp. 166–167.
[21] Probably the most satisfactory way to compare the taxes in the various jurisdictions is to take the same financial statements — income and balance sheets — for businesses of the sort the District wishes to attract or retain, and apply the tax provisions of several locations to them to determine the differences in tax liabilities, by type of tax and overall, and to compare state-local taxes to financial flows. Such an undertaking is beyond the scope of this chapter.