

## Proposed Bill Aims to Provide Temporary Solution to Inventory Tax Debate

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### An McV Tax Alert

November 14, 2019

For many years, the business community has been promoting the repeal of the personal property tax on inventories. However, mayors have been opposed to its elimination because the inventory tax is an important source of revenues for the municipalities.

**House Bill 2336** (“H.B. 2336”) was introduced on November 12, 2019. It aims to provide a temporary relief to taxpayers, while a special committee (to be designated in the future) will evaluate potential alternatives to substitute the inventory tax. If enacted, H.B. 2336 would provide that for years 2019 through 2023, the personal property tax on inventory would be calculated on the average inventory valuation for the prior three years using the tax rate for year 2019-20.

For existing businesses, taxpayers would have the option to elect to be taxed on the average inventory valuation as of January 1<sup>st</sup> of years 2017, 2018 and 2019, using the tax rate in effect for the government’s fiscal year 2019-20. The election will be irrevocable, except in cases of a reduction in the inventory valuation. In such cases, the taxpayer may elect to pay the tax on the frozen average valuation or on the actual valuation, whichever is lower, at the 2019-20 tax rate. Businesses that have been paying personal property taxes for less than three years will be taxed on the actual inventory valuation using the 2019-20 tax rate, until the three-year average valuation can be calculated.

H.B. 2336 creates a special committee to evaluate mechanisms to substitute the inventory tax. The committee will present a final report on or before the temporary five-year period. If said report does not provide a solution acceptable to all parties (including mayors), the inventory tax system proposed by this bill will be extended for an additional five-year term.

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