

**DEPARTMENT OF TAXATION  
2007 Fiscal Impact Statement**

1. **Patron** Harry R. Purkey

3. **Committee** House Finance

4. **Title** Intangible Personal Property; Classification for Idle Equipment, Software and Hardware, of a Research and Development, Technology, High Technology, or Nanotechnology Business

2. **Bill Number** HB 1937

**House of Origin:**

       **Introduced**

  X   **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

5. **Summary/Purpose:**

**TAX understands that the patron of this bill will be introducing a substitute bill. This impact statement addresses the substitute bill.**

This bill would create a classification of intangible personal property for idle equipment, hardware or software, of a research and development, technology, high technology, or nano-technology business.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

Administrative Costs

As the role of TAX would be limited to issuing guidelines and advisory opinions, TAX would incur minimal costs implementing this bill.

Revenue Impact

This bill would have no impact on state revenues. The revenue impact on localities is unknown. To the extent that this bill allows idle equipment, hardware and software, of a research and development, technology, high technology, or nano-technology business to be exempted from the tangible personal property tax, this bill would decrease local revenues.

## 9. Specific agency or political subdivisions affected:

All localities

Research and development, technology, high technology, and nano-technology businesses

## 10. Technical amendment necessary: No.

## 11. Other comments:

### Intangible Personal Property

Under current law, intangible personal property is a separate class of property segregated for taxation by the Commonwealth. The Commonwealth does not currently tax intangible personal property. Localities are prohibited from taxing intangible personal property. Certain personal property, while tangible in fact, has been designated as intangible and thus exempted from state and local taxation. For example, tangible personal property used in manufacturing, mining, water well drilling, radio or television broadcasting, dairy, dry cleaning or laundry businesses has been designated as exempt intangible personal property.

In the case of a manufacturing business, all personal property except machinery and tools, motor vehicles and delivery equipment used in the manufacturing business are considered to be intangible personal property. Additionally, idled machinery and tools are generally considered intangible personal property because they are not used in the manufacturing business.

### Proposal

This bill would create a separate classification of intangible personal property, while tangible in fact, for idle equipment, hardware or software, of a research and development, technology, high technology, or nano-technology business. Equipment, hardware or software, would be idle if it:

- Has been discontinued in use continuously for at least one year prior to tax day, and there is no reasonable prospect that such equipment, hardware and software, will be returned to use during the tax year, or
- On and after January 1, 2007, has been specifically identified in writing by the taxpayer to the commissioner of revenue or other assessing official, on or before April 1 of such year, as equipment, hardware or software, that the taxpayer intends to withdraw from service not later than the next succeeding tax day.

### Similar Legislation

**House Bill 2181** and **Senate Bill 1151** would provide that when valuing machinery and tools for purposes of the local machinery and tools tax, the locality must, upon written request of the taxpayer, consider any bona fide, independent appraisal submitted by the

taxpayer and provide an additional definition of "idle machinery and tools" for machinery and tools.

cc : Secretary of Finance

Date: 1/23/2007 JEM  
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