DEPARTMENT OF TAXATION
2014 Fiscal Impact Statement

1. Patron Glenn R. Davis

2. Bill Number HB 617

House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

3. Committee Senate Finance

4. Title Personal Property Tax; Separate Classification for New Business Property

Second House:
X **In Committee**
_____ **Substitute**
_____ **Enrolled**

5. Summary/Purpose:

This bill would create a separate classification for tangible personal property of a business in its first two taxable years of operation, provided the business and its related entities had no more than $100,000 in total gross revenues for the taxable year. Localities would be authorized to impose the tangible personal property tax on these items at a lower rate than that applicable to the general class of tangible personal property.

Under current law, much of the tangible personal property of a business falls under the general class of tangible personal property. Localities must tax this property at the same rate as imposed on all other tangible personal property in the general class.

The effective date of this bill is not specified.

6. Budget amendment necessary: No.

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

8. Fiscal implications:

To the extent that a locality elects to tax tangible personal property of a business in its first two years of operation at a lower rate than that imposed on property in the general class of tangible personal property, this bill would decrease local revenues by an unknown amount. The bill would have no impact on state revenues.

9. Specific agency or political subdivisions affected:

All localities

10. Technical amendment necessary: No.

11. Other comments:

Currently, there are forty-three categories of property that are separately classified for purposes of the Tangible Personal Property Tax, thirty-eight of which can be taxed at a rate not to exceed the general rate imposed on tangible personal property, four of which can be taxed at a rate not to exceed the general rate imposed on machinery and tools, and one that may be taxed at a rate equal to the general rate imposed on real property.

A number of items used for business purposes are separately classified under current law. These classifications include, for example:

- Computer hardware used by businesses primarily engaged in providing data processing services to other nonrelated or nonaffiliated businesses;
- Some tangible personal property employed in a trade or business;
- Programmable computer equipment and peripherals employed in a trade or business;
- Boats and watercraft used solely for business purposes, with separate classifications depending upon the watercraft's weight; and
- Computer equipment and peripherals used in a data center.

Localities may impose the tangible personal property tax on these items at a rate not to exceed that applicable to the general class of tangible personal property.

Proposal

This bill would create a separate classification for tangible personal property of a business in its first two taxable years of operation, provided the business and its related entities had no more than $100,000 in total gross revenues for the taxable year. Localities would be authorized to impose the tangible personal property tax on these items at a lower rate than that applicable to the general class of tangible personal property. "Related entities" would be defined as "all entities in which the business has at least 50 percent ownership or there exists a commonality of ownership of at least 50 percent.

The business's first year's total gross revenue would be the amount the business estimates to pay the Business, Professional, and Occupational License ("BPOL") Tax, to the extent that tax is imposed, added to the total gross revenues of its related entity. If neither the business nor the related entity is subject to the BPOL tax, then the total gross revenue is the amount the business and related entity reasonably estimate. If the related entity is not in its first year of operation, it would use the total revenues for its most recently completed tax year.

If, after the first year of operations, it is determined that the business and related entities had total gross revenue in excess of $100,000, the business would need to remit to the locality any unpaid taxes that would have been due had the property not qualified for the separate classification. Further, the business would not be eligible for the lower tax rate in the second year. Similarly, the business would need to refund to the locality any unpaid tax if after the second year of operations, it is determined that the business and related entities had total gross revenue in excess of $100,000.

The effective date of this bill is not specified.

Similar Legislation

House Bill 589 would add electronic communication and processing devices and peripheral equipment, such as cell phones, personal computers, and printers to the list of household goods that a locality may elect to exempt from the tangible personal property tax.

cc : Secretary of Finance

Date: 02/12/2014 KP
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