

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** Harry R. Purkey

2. **Bill Number** HB 2666

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Machinery and Tools Tax; Exemption for
Certified Pollution Control Equipment and
Facilities

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would reclassify all machinery and tools used in manufacturing, mining, water well drilling, processing or reprocessing placed in service on or after January 1, 2009, except those used by farm wineries, as intangible personal property exempt from state and local taxation. This bill would also exempt from state and local taxation all certified pollution control equipment and facilities placed in service on or after January 1, 2009.

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:**

This bill would have no impact on state revenues. As this bill would exempt certain machinery and tools and certified pollution control equipment and facilities from local taxation, this bill would have a negative impact on local revenues. The amount of this impact is unknown. According to the Auditor of Public Account's Comparative Report of Local Government Revenues and Expenditures, local revenues from the machinery and tools tax totaled \$193 million in Fiscal Year 2005.

9. **Specific agency or political subdivisions affected:**

All localities

10. **Technical amendment necessary:** No.

11. **Other comments:**

Machinery and Tools Tax

Generally, machinery and tools used in manufacturing, mining, water well drilling, processing or reprocessing, radio and television broadcasting, dairy, dry cleaning or a laundry business are segregated as a separate class of tangible personal property and are subject to local taxation only. The tax rate imposed on machinery and tools may not exceed that imposed on other classes of tangible personal property.

Intangible Personal Property

Under current law, intangible personal property is a separate class of property segregated for taxation by the Commonwealth. Localities are prohibited from taxing intangible personal property. Certain personal property, while tangible in fact, has been designated as intangible and has been 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.

Certified Pollution Control Equipment and Facilities

Under current law, certified pollution control equipment and facilities are a separate class of property. Localities may, by ordinance, exempt or partially exempt such property from local taxation.

Proposal

This bill would reclassify all machinery and tools used in manufacturing, mining, water well drilling, processing or reprocessing placed in service on or after January 1, 2009, except those used by farm wineries, as intangible personal property exempt from state and local taxation. This bill would also exempt from state and local taxation all certified pollution control equipment and facilities placed in service on or after January 1, 2009.

Other Legislation

House Bill 1937 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.

House Bill 2181, and **Senate Bill 1151** would provide a uniform statewide statutory classification and taxation for idle machinery and tools.

cc : Secretary of Finance

Date: 1/23/2007 AM
DLAS File Name: HB2666F161.doc