

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** Passed House and Senate

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

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would create a separate classification for the tangible personal property of a business for its first two taxable years. Under the terms of the bill, the business must meet the requirements of a “qualifying business” for purposes of a local business incentive program, even if the locality at issue does not currently provide such a program. A “qualifying business” is one that locates for the first time in the locality adopting a business license incentive program ordinance, excluding businesses that first locate in the locality as a result of a merger, acquisition, similar business combination, name change, or a change in business form. Localities would be authorized to impose the tax on this tangible personal property 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.

Local Incentive Programs

Current law allows localities to adopt business license incentive programs that provide qualifying businesses with exemptions, refunds, rebates, or other business license tax relief. A "qualifying business" is defined as a business that locates for the first time in the locality adopting the program. Businesses established in a locality based on merger, acquisition, similar business combination, name change, or a change in business form are not deemed to locate in the locality for the first time.

Proposal

This bill would create a separate classification for the tangible personal property of a business for its first two taxable years. Under the terms of the bill, the business must meet the requirements of a "qualifying business" for purposes of a local business incentive program, even if the locality at issue does not currently provide such a program. Localities would be authorized to impose the tax on this tangible personal property at a lower rate than that applicable to the general class of tangible personal property.

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, tablets, 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: 3/6/2014 KP
DLAS File Name: HB617FER161