

# DEPARTMENT OF TAXATION

## 2016 Fiscal Impact Statement

1. **Patron** R. Lee Ware, Jr.

2. **Bill Number** HB 15

3. **Committee** Senate Finance

**House of Origin:**

           **Introduced**

           **Substitute**

           **Engrossed**

4. **Title** Tangible Personal Property Tax; Rates for  
Property Falling Within Multiple  
Classifications

**Second House:**

  X   **In Committee**

           **Substitute**

           **Enrolled**

### 5. **Summary/Purpose:**

This bill would require localities to apply the lowest tax rate applicable to any item of tangible personal property that falls under multiple classifications for purposes of the local Tangible Personal Property Tax.

Under current law, localities are authorized to establish different classes of property for purposes of the Tangible Personal Property Tax and assign a different tax rate to each classification. Localities must apply the lowest rate applicable to any computer equipment and peripherals used in a data center, as well as any motor vehicle, if the property falls under multiple classifications. Current law does not specify the tax rate of other items of tangible personal property that fall under multiple classifications.

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 the bill decreases the rate at which tangible personal property subject to multiple classifications is taxed, the bill would decrease revenues in the locality by an unknown amount. In Fiscal Year 2014, counties, cities and towns collected a total of \$1,778,902,000 in general personal property tax revenue.

This 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:

### Background

Currently, there are forty-six categories of property that are separately classified for purposes of the Tangible Personal Property Tax and that may be taxed at different rates than other tangible personal property. Localities may elect to tax four specified categories at a rate that does not exceed the rate applicable to machinery and tools, must tax vehicles without motive power, designed as manufactured homes at a rate equal to the rate applied to real property, and may tax the remaining forty-one categories of tangible personal property at a rate that does not exceed the general rate imposed on tangible personal property.

Several business and computer-related items are classified among the forty-one categories that may be taxed at a rate that does not exceed the general rate imposed on tangible personal property. These include:

- Computer hardware used by businesses primarily engaged in providing data processing services to other nonrelated or nonaffiliated businesses;
- Tangible personal property employed in a trade or business, except certain boats, aircraft, motor vehicles, and certain other specified equipment;
- Programmable computer equipment and peripherals employed in a trade or business; and
- Computer equipment and peripherals used in a data center.

Under current law, if computer equipment and peripherals used in a data center could fall under any of these four classifications, the locality must impose the tangible personal property tax at the lowest rate applicable to these categories. Similarly, localities must apply the lowest rate applicable to motor vehicles that are subject to multiple classifications.

### Proposal

This bill would extend the tax treatment applicable to computer equipment and peripherals used in a data center to other classes of tangible personal property by requiring localities to apply the lowest tangible personal property tax rate applicable to all items of tangible personal property that could fall under multiple local Tangible Personal Property Tax classifications.

As an example, equipment used in harvesting forest products may be classified under *Va. Code* § 58.1-3506(A)(26) as tangible personal property employed in a trade or business, or *Va. Code* § 58.1-3506(A)(33) as forest harvesting equipment. Under the terms of the bill, if a locality applies a different Tangible Personal Property Tax rate to these classifications, the locality would be required to apply the lowest of the two tax rates to the harvesting equipment.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 1/30/2016 KP  
DLAS File Name: HB15FE161