

DEPARTMENT OF TAXATION

2017 Fiscal Impact Statement

1. **Patron** Nick Rush

2. **Bill Number** HB 2193

3. **Committee** Senate Finance

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Personal Property Tax; Business Property

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the maximum original cost of each item of tangible personal property that localities are required to allow business taxpayers to report in an aggregate summary of all such miscellaneous and incidental tangible personal property employed in a trade or business rather than reporting each item individually from \$250 to \$500.

Under current law, localities are required to allow business taxpayers to report the original cost of business tangible personal property not classified as machinery and tools, merchants' capital, or short-term rental property on an aggregate summary of such items rather than listing each item separately if the original cost of the property is less than \$250.

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:**

Administrative Cost

The administrative cost of this bill is not available.

Revenue Impact

This bill will have no effect on state or local revenues.

9. **Specific agency or political subdivisions affected:** All localities that impose the business tangible personal property tax.

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 the general class of tangible personal property.

As established in a 1950 opinion of the Tax Commissioner, machinery and tools used in the manufacturing business are those machinery and tools (1) actually and directly used in manufacturing processes and (2) those machinery and tools used in the manufacturing business that are necessary in the particular manufacturing business and are used in connection with operation of machinery that is actually and directly used in manufacturing processes.

Merchants' Capital Tax

The Merchants' Capital Tax is a local option property tax imposed on the inventory, daily rental passenger cars, and all other personal property of merchants except for tangible personal property not for sale as merchandise. As of 2008, the tax was imposed in 46 counties and 7 towns. Localities that impose the tax are prohibited from imposing a BPOL tax on merchants. Additionally, the tax must be imposed at a rate that does not exceed the rate or ratio that was in effect in that locality on January 1, 1978.

Short-Term Rental Property Tax

Generally, short-term rental property constitutes a classification of merchants' capital that is separate from other merchants' capital. Localities may tax short-term rental property as merchants' capital or levy the short-term rental property tax in an amount not to exceed one percent on the gross proceeds from rentals, or 1.5% for heavy equipment short-term rental property. The statute defines "short-term rental property" as tangible personal property held for rental and owned by a person engaged in the short-term rental business, excluding (i) trailers, and other tangible personal property required to be licensed or registered with the Department of Motor Vehicles, Department of Game and Inland Fisheries or the Department of Aviation.

Tangible Personal Property Tax

Currently, there are forty-five categories of property separately classified for purposes of the Tangible Personal Property Tax. The majority of these categories can be taxed at a rate not to exceed the general rate imposed on tangible personal property. Four categories related to research and development, equipment that changes the energy source for manufacturing plants, equipment for manufacturing testing, and heavy motor vehicles to transport property for hire may not be taxed at a rate that exceeds that

applicable to machinery and tools. Manufactured homes may be taxed at the same rate as real property.

Proposal

This bill would increase the maximum original cost of each item of tangible personal property that localities are required to allow business taxpayers to report in an aggregate summary of all such miscellaneous and incidental tangible personal property employed in a trade or business rather than reporting each item individually from \$250 to \$500.

The effective date of this bill is not specified.

Similar Legislation

Senate Bill 1205 classifies commercial fishing vessels as a separate class of property for the purposes of the local personal property tax.

House Joint Resolution 706 is a first resolution proposing a constitutional amendment that would allow any locality may, by ordinance, exempt from taxation the first \$5,000 of value of tangible personal property used in a business.

cc : Secretary of Finance

Date: 2/6/2017 VB
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