DEPARTMENT OF TAXATION
2023 Fiscal Impact Statement

1. **Patron** Marie E. March

2. **Bill Number** HB 1402
House of Origin:
__X__ **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. **Committee** House Finance

4. **Title** Tangible personal property taxes; Valuation of property

5. **Summary/Purpose:**

This bill would require, for purposes of the local personal property and machinery and tools taxes, that localities shall value personal property used in a trade or business and machinery and tools using the Modified Accelerated Cost Recovery System (MACRS). MACRS is the depreciation system the IRS requires to recover the basis of most business and investment property placed in service after 1986. For federal income tax purposes, MACRS is used to depreciate tangible personal property, including buildings, machinery, vehicles, furniture, and equipment and computer software.

Current law provides different methods of valuing property for different categories of tangible personal property. Machinery and tools are generally valued by means of depreciated cost or a percentage or percentages of original total capitalized cost excluding capitalized interest.

If enacted during the regular session of the 2023 General Assembly, this bill would become effective July 1, 2023, for taxable years beginning on and after January 1, 2024.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

Administrative Costs

This bill could have an unknown impact on administrative costs for localities. This bill would have no impact on state administrative costs.

Revenue Impact

This bill could impact local tax revenues to the extent that the proposal results in affected property be valued differently than under current law. 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:**

Current Law

Current law establishes 20 different classifications of property for valuation purposes for the tangible personal property tax. Current law also provides that methods of valuing property may differ among the different categories taxed by the locality, so long as each method used is uniform within each category, is consistent with the valuation methodologies for each class of property, and may reasonably be expected to determine actual fair market value as determined by the commissioner or revenue or other assessing official. The commissioner of revenue is also required to, upon request, take into account the condition of the property. The term “condition of the property” includes, but is not limited to, technological obsolescence of property where technological obsolescence is an appropriate factor for valuing such property.

For example, under current law, when valuing automobiles, localities must value automobiles by means of a recognized pricing guide if the model and year of the individual automobile are listed in the guide. If the model and year of the automobile is not listed in the recognized pricing guide, the automobile may be valued on the basis of percentage or percentages of original cost. The taxpayer may present the commissioner of the revenue proof of the original cost. The basis of the tax for purposes of the Motor Vehicle Sales and Use Tax constitutes proof of original cost. If the percentage or percentages of original cost do not accurately reflect fair market value, or if the taxpayer does not supply proof of original cost, then the commissioner may select another method which establishes fair market value.

Also, under current law, machinery and tools, other than energy conservation equipment of manufacturers, shall be valued by means of depreciated cost or a percentage or percentages of original total capitalized cost excluding capitalized interest. In valuing machinery and tools, the commissioner of the revenue shall, upon the written request of the taxpayer, consider any bona fide, independent appraisal presented by the taxpayer.

For federal income tax purposes, the Modified Accelerated Cost Recovery System (MACRS), is used to depreciate tangible personal property, including buildings, machinery, vehicles, furniture, and equipment and computer software placed in service after 1986. Depreciation is an annual income tax deduction that allows taxpayers to recover the cost or other basis of certain property over the time you use the property. It is an allowance for the wear and tear, deterioration, or obsolescence of the property.

Proposal

This bill would require localities to value personal property used in a trade or business and machinery and tools for the purposes of the local personal property tax and machinery and tools tax using Modified Accelerated Cost Recovery System (MACRS) if appropriate. However, in the event that MACRS is not applicable to the property in question, such property shall be valued according to the methods otherwise provided under current law.

cc: Secretary of Finance

Date: 1/14/2023 ADD
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