

Fiscal Estimate Narratives

DOR 2/6/2014

LRB Number	13-3878/2	Introduction Number	AB-0731	Estimate Type	Original
Description Property tax exemption for rented personal property					

Assumptions Used in Arriving at Fiscal Estimate

CURRENT LAW

Under current law, rented personal property is exempt from personal property taxation if it meets the following qualifications: (1) it is rented for periods of one month or less to multiple users for their temporary use, (2) it is rented without an operator, (3) the owner is not a subsidiary or affiliate of another enterprise which is engaged in any business other than personal property rental, (4) the owner is classified under industry group 7359 (equipment rental and leasing, not elsewhere classified) under the 1987 standard industrial classification manual published by the U.S. Office of Management and Budget, and (5) the property is equipment, including construction equipment, party supplies, appliances, tools, dishes, silverware, tables, or banquet supplies. Certain types of property are specifically excluded, such as automotive and computer-related equipment, television sets, video recorders and players, cameras, photographic equipment, audiovisual equipment, photocopying equipment, sound equipment, and public address systems and video tapes.

PROPOSED LAW

The bill creates a new exemption for rented personal property that meets the following conditions: (1) the property is held primarily for rental periods of 364 days or less to multiple users for their temporary use, (2) the property is not rented with an operator, (3) the owner is not a subsidiary or affiliate of another enterprise which is engaged in any business other than personal property rental, (4) the owner is classified under 532412 (rental of heavy equipment used in construction, mining, and forestry) of the North American Industrial Classification System, 2012 edition, and (5) the property is heavy equipment used for construction, mining, or forestry, including bulldozers, earthmoving equipment, well-drilling machinery and equipment, or cranes.

LOCAL FISCAL EFFECT

The personal property exempted under the bill would generally be classified as "furniture, fixtures, and equipment", whose equalized value for 2013 was \$5.057 billion. Reports by local assessors to the Department of Revenue (DOR) do not contain sufficient detail to accurately estimate the amount of property that could be exempt under the bill. In addition, since mining is deemed a manufacturing activity for property assessment purposes, equipment rented and used for mining should already be exempt (under the exemption for manufacturing machinery and specific processing equipment). For purposes of this estimate, based on sales of potentially qualifying companies, it is assumed the bill would exempt about \$25 million in property from property taxes. At the estimated statewide net tax rate for 2013/14 of \$21.05 per \$1,000 equalized value, the bill would have shifted about \$525,000 ($\$25,000,000 \times 0.2105$) in property taxes from the exempted property to the remaining taxable property.

STATE FISCAL EFFECT

Revenue from the state-imposed property tax for forestation purposes, whose rate is about \$0.1697 per \$1,000 equalized value, would decline under the bill by about \$4,240 ($\$25,000,000 \times 0.0001697$).

ADMINISTRATIVE COSTS

The DOR would incur costs to change its administrative procedures and to notify local assessors of the change in the law. These costs can be absorbed within current budgetary resources.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Property tax exemption for rented personal property			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$	\$
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S (Forestry)		-4,240
	TOTAL State Revenues	\$	\$-4,240
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-4,240	\$
Agency/Prepared By		Authorized Signature	
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		Date	
		2/6/2014	