



**STATE BOARD OF EQUALIZATION  
STAFF LEGISLATIVE BILL ANALYSIS**

Date Amended:	<b>3/28/01</b>	Bill No:	<b>AB 136</b>
Tax:	<b>Property</b>	Author:	<b>Corbett</b>
Board Position:		Related Bills:	

## **BILL SUMMARY**

This bill would increase the current property tax exemption for employee-owned hand tools from \$20,000 to \$50,000.

## **ANALYSIS**

### **Current Law**

Section 3(m) of Article XIII of the California Constitution and Section 224 of the Revenue and Taxation Code exempt from property tax household furnishings and personal effects which are not held or used in connection with a trade, profession or business.

Section 224 states:

The personal effects, household furnishings, and pets of any person shall be exempt from taxation.

The phrase "personal effects, household furnishings, and pets" does not include boats, aircraft, vehicles, or personalty held or used in connection with a trade, profession or business or pets so held or used.

For purposes of this section, "pets" mean and include any animals held for noncommercial purposes and not as an investment.

Revenue and Taxation Code Section 241 exempts from property tax the first twenty thousand dollars (\$20,000) of hand tools owned by an employee who is required, as a condition of employment, to supply his or her own hand tools. "Hand tools" means hand-held implements and equipment, including hand-held power tools, of which any one may be transported to and from the workplace and which are necessary for the ordinary and regular performance of the employee's work. The exemption also extends to appropriate storage containers for the implements and equipment.

### **Proposed Law**

This bill would amend Section 241 to increase the employee-owned hand tool exemption from \$20,000 to \$50,000.

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.*

### **In General**

The taxation of personal property which is not exempted by the California Constitution is discretionary with the Legislature. Section 2 of Article XIII of the California Constitution provides that the Legislature, two-thirds of the membership in each house concurring, may classify personal property for differential taxation or exemption.

Personal property used in a trade or business is generally taxable, and its cost must be reported annually to the assessor on the business property statement as provided for in Section 441. Personal property is not subject to the limitations of Proposition 13. Instead, it is valued annually at its current fair market value as of January 1 (the lien date). The business property statement shows all taxable property, both real and personal, owned, claimed, possessed, controlled, or managed by the person filing the property statement. The assessor may request a signed business property statement from any person owning taxable personal or real property. When the aggregate cost of the taxable personal property is \$100,000 or more, the person is required to file a signed property statement each year with the assessor.

In the annual determination of “current fair market value” of personal property, the valuation method generally used is based on the acquisition cost of the property. The acquisition cost is multiplied by a price index, an inflation trending factor based on the year of acquisition, to provide an estimate of its replacement cost new. The replacement cost new is then multiplied by a depreciation index, also called percent good tables, to provide an estimate of the depreciated replacement cost of the property (replacement cost new less depreciation). The replacement cost new less depreciation value becomes the taxable value of the property for the following fiscal year.

### **Background**

In 1994, Assembly Bill 3514 (Ch. 527, Stats. 1994, Costa) was enacted to create the hand tool exemption. AB 3514 was sponsored by the International Association of Machinists. At that time, owners of smaller independent businesses who supply their employees with tools (and thus pay taxes on the tools) had complained that they were at a competitive disadvantage. Some larger businesses required their employees to provide their own tools and therefore those businesses did not pay any taxes on the tools. Although technically the employee-owned tools were subject to property tax from the employee-owner, they had not previously been assessed. The assessment of personal property owned by an employee and used in connection with the employee’s profession, trade, or business (e.g. beauticians, plumbers, carpenters, dental hygienists) is of low priority and is not readily discoverable. The staff resources needed to locate and tax this type of property could often exceed the revenue collected. However, because of the complaints, an effort was made to begin the taxation of this property. The employees who subsequently received tax bills for their tools felt this was unfair because, while employers could pass on their property tax costs to their customers, the employees had to bear the costs themselves. AB 3514 was subsequently introduced and enacted to address their concerns.

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board’s formal position.*

## COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the California Conference of Machinists for the purpose of increasing the exemption level to reflect the increased cost of hand tools used by laborers in their employment.
2. **Amendments contained in this version of the bill.** As introduced, this bill would have, beginning on January 1, 2002, annually increased the current exemption amount by an inflation factor. The March 28 amendment would instead increase the exemption amount to \$50,000 and eliminate any annual inflation adjustments. This amendment was made to address the concerns expressed by assessors over the administrative difficulties and costs related to applying annual inflation adjustments to exemption amounts.
3. **The taxation of personal property is discretionary with the Legislature.** Section 2 of Article XIII of the California Constitution provides that the Legislature, two-thirds of the membership in each house concurring, may classify personal property for differential taxation or exemption. In contrast, real property exemptions generally require a constitutional amendment.
4. **Personal property when used in a trade, profession, or business, whether owned by an individual or a business, is subject to property tax.** While employee-owned tools are legally subject to property tax, in practice, this property generally is not assessed in most counties. In the early 1990's some counties began to assess hand tools owned by auto mechanics that were employees of automobile repair businesses. In response, the exemption was created. As a result of the exemption, some of those counties discontinued actively discovering employee owned hand tools.

## COST ESTIMATE

With respect to property taxes, the Board would incur some minor absorbable costs in informing and advising local county assessors, the public, and staff of the change in the exemption amount.

## REVENUE ESTIMATE

### Background, Methodology, and Assumptions

The exemption for hand tools was enacted in 1995. At that time, only a few counties were assessing hand tools. In discussions with a number of counties, we found that very few counties are assessing hand tools currently, regardless of the value. All the counties that we spoke to agreed that the revenue impact of this proposal would not be significant. We do not believe that the revenue loss associated with this proposal would exceed \$100,000 annually.

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.*

**Revenue Summary**

The revenue loss from increasing the current \$20,000 property tax exemption for hand tools to \$50,000 is not expected to exceed \$100,000 annually.

Analysis prepared by:	Rose Marie Kinnee	445-6777	3/29/01
Revenue estimate by:	Aileen Takaha Lee	445-0840	
Contact:	Margaret S. Shedd	322-2376	

im

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.*