



STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	02/22/02	Bill No:	AB 2714
Tax:	Property	Author:	Aanestad
Board Position:	Support Concept	Related Bills:	AB 1380 (2001)

BILL SUMMARY

This bill would prohibit the use of minimum percent good factors that are determined in an arbitrary manner in assessing implements of husbandry.

Current Law

Under existing assessment practices, some counties do not depreciate personal property that is still in productive use beyond some “minimum percent good.” Current law does not discuss or direct assessors in their use of minimum percent good factors.

Minimum percent good factors are factors used to estimate the lowest value that an item of personal property will attain during its useful life. The factors are applied to replacement or reproduction cost new estimates to compute the fair market value of property for property tax purposes as it reaches the end of its economic life.

Proposed Law

This bill would add subdivision (b) to Section 413 to prohibit an assessment practice whereby the county assessor depreciates the value of implements of husbandry by the use of a minimum percent good factor that is determined in an arbitrary manner. Assessors could still use minimum percent good factors, but the factors used must be based on some factual support.

In General

Implements of Husbandry. Article 1.3 of Chapter 3 of Part 2 of the Revenue and Taxation Code, “Assessment of Implements of Husbandry” (Sections 410 – 414), was enacted in 1970¹.

- Section 410 provides that the intent of the Legislature in enacting the article was to provide for a uniform system of assessment for implements of husbandry in the state regardless of where they are physically located.

¹ As introduced, this legislation sought to establish an in lieu fee on “implements of husbandry” at the rate of 1.5%. At that time, a 1.5% rate would have resulted in tax savings and the agricultural interests were seeking property tax relief.

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- Section 411 defines an "implement of husbandry" as including, but not limited to, any tool, machine, equipment, appliance, device or apparatus used in the conduct of agricultural operations, except where such implements are intended for sale in the ordinary course of business. It also includes those implements of husbandry as defined in the Vehicle Code.
- Section 413 provides that in assessing implements of husbandry, the county assessor will determine its value in accordance with "standards and guides to the full cash value."

Implements of husbandry are generally subject to the same valuations methods as other personal property used in a business, as discussed below. With respect to agricultural mobile equipment, such as tractors or harvesters, (as opposed to other types of implements of husbandry) the Board suggests using the comparative sales approach, if possible. Several commercial valuation guides are available for this purpose.² If the valuation guides are not used, the acquisition cost approach discussed below can be used.

Business Personal Property. Personal property used in a trade or business is generally taxable, and its cost must be reported annually to the assessor on a business property statement, as provided by Revenue and Taxation Code Section 441.

Personal property is not subject to the valuation limitations of Proposition 13. Personal property is valued each lien date at current fair market value. However, it is not administratively possible to individually determine the fair market value of every item of personal property used by all of the businesses in California every year. Consequently, mass appraisal techniques are necessary to complete the annual reassessment process.

Valuation Process. Generally, the valuation of personal property 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 reproduction cost new. The reproduction cost new is then multiplied by a depreciation index, also called percent good tables, to provide an estimate of the depreciated reproduction cost of the property (reproduction cost new less depreciation). The reproduction cost new less depreciation value becomes the taxable value of the property for the fiscal year.

The Board annually publishes Assessors' Handbook 581, "Equipment Index and Percent Good Factors." This handbook section contains several tables of equipment index, percent good, and valuation factors that aid in the mass appraisal of various types of personal property. Separate tables are specifically provided for agricultural equipment, which are excerpted below. The following example, using the "price index

² *Used Tractor Price Guide*, Intertec Publishing Corporation; *Official Guide - Tractors and Farm Equipment, Irons Solutions*; and *Farm Equipment Guide*, Heartland Ag Business Group.

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factors” and “percent good” tables currently recommended by the Board illustrates how this valuation process works.

The estimated value of agricultural equipment acquired new in 1998 at an acquisition cost of \$100,000 would be \$59,740 for the January 1, 2002 lien date.

Year Acquired	Cost New	Index Factor	Reproduction Cost New	Percent Good	RCLND
1998	100,000	1.03	103,000	58	\$59,740

Price Index Factor. The index factor is an inflation trending factor based on the year of acquisition. The Board of Equalization recommends the following factors for agricultural equipment.

Year Acquired	Index Factor Percent						
2001	100	1991	124	1981	168	1971	411
2000	101	1990	128	1980	187	1970	427
1999	102	1989	132	1979	208	1969	445
1998	103	1988	138	1978	227	1968	466
1997	104	1987	142	1977	244		
1996	106	1986	142	1976	265		
1995	109	1985	143	1975	287		
1994	114	1984	144	1974	337		
1993	116	1983	148	1973	384		
1992	120	1982	156	1972	396		

Percent Good. The Board recommends the following percent good factors.

Purchased New

Purchased Used

Year Acquired	Age	Other than Harvesters	Harvesters	Year Acquired	Age	Other than Harvesters	Harvesters
2001	1	78	74	2001	1	92	90
2000	2	70	64	2000	2	82	78
1999	3	64	57	1999	3	75	69
1998	4	58	50	1998	4	68	60
1997	5	52	43	1997	5	62	53
1996	6	47	38	1996	6	56	46
1995	7	42	33	1995	7	50	40
1994	8	38	29	1994	8	45	35
1993	9	34	25	1993	9	40	30
1992	10	30	21	1992	10	36	26
1991	11	27	19	1991	11	32	23
1990	12	25	17	1990	12	30	21
1989	13	23	15	1989	13	28	18
1988	14	22		1988	14	26	16

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1987	15	20		1987	15	23	14
1986	16	18		1986	16	21	14
1985				1985	17	19	
1984				1984	18	17	

Minimum Percent Good. While the tables provided by the Board above do not provide percent good factors for equipment beyond certain ages, they do **include a disclaimer that no minimum percent good is intended.** Board staff has found in its audits of the counties that some assessors have a practice of establishing a minimum percent good factor beyond which they do not depreciate equipment. Where it appears the minimum percent good factor used is not based upon any *factual support*, such as the historical practice of the county, the Board recommends that the practice be discontinued.

Background

Related Bills. During the 2001 Legislative Session, Assembly Bill 1380 (Aanestad) would have exempted implements of husbandry and farm vehicles from property tax. When the bill was heard in the Assembly Revenue and Taxation Committee on May 14, 2001, the testimony of various witnesses representing the Farm Bureau raised concern with the committee over the assessment practices of agricultural equipment by various assessors. Specifically, testimony was given to the committee that in one county the value of a new tractor for property tax purposes would be depreciated by only 4% in the first year and that its assessed value would never drop below 20% of its original purchase price. The bill failed to pass out of the committee, but the committee asked that the Board of Equalization investigate and respond. With respect to the depreciation issue, the Board found that while the assessor’s office had stated in a conversation that the depreciation was only 4% after the first year; upon review this was incorrect. The actual depreciation used in that county was 15% (the 15% came from averaging the percent good factors for new and used agricultural mobile equipment above: $(92 + 78)/2 = 85$ percent good). With respect to the minimum percent good issue, the county confirmed that it used a 20% minimum percent good.

Repealed Property Tax Rule Provision. Prior to 1977, subdivision (f) of Property Tax Rule 6 made reference to minimum percent goods. It provided:

If the assessor adopts a practice of depreciating property to a minimum percent good, that minimum may be any percentage up to but no higher than 25 percent of reproduction or replacement cost new.

This subdivision was amended, deleting the wording referencing minimum percent good, following *Bret Harte Inn, Inc. v. City & County of San Francisco* (16 Cal.3d 14, 1976). In this case, the court held that the Constitution commands that all property be assessed at full cash value and requires that depreciation formulas meet a standard of "reasonable accuracy." It appears that the 25 percent maximum formerly outlined in Rule 6 was considered arbitrary, and therefore unsupportable.

COMMENTS:

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1. **Sponsor and Purpose.** This bill is sponsored by the California Farm Bureau in an effort to provide clarity that minimum percent good factors used by county assessors must be factually supportable.
2. **The tables provided by the Board to county assessors do not provide percent good factors for equipment beyond certain ages.** However the tables include a disclaimer that no minimum percent good is intended. Board staff has found in its audits of the counties that some assessors have a practice of establishing a minimum percent good beyond which they do not depreciate equipment. Where it appears the minimum percent good used is not based upon any factual support, such as the historical practice of the county, the Board recommends that the practice be discontinued and a review of the evidence be evaluated and substantiated.
3. **When are minimum percent good factors used?** They are used to estimate the value of property that
 - is at the **end or at a late stage** of its useful life, and/or
 - has been determined to have reached its lowest value (i.e., the property has **"fully depreciated"** and the value is not expected to decline any further).
4. **Why are minimum percent factors used?** Property in use (and generating income) still has utility and value. Because property in use continues to have value it is possible that well-maintained used equipment could be undervalued without minimum percent goods. It is not administratively possible to individually determine the fair market value of every item of personal property used in all businesses in California every year. Consequently, mass appraisal techniques must necessarily be used. Minimum percent factors are typically used because:
 - they provide administrative practicality.
 - they enhance the equalization process between similarly-situated property owners by assigning a similar percent good factor to like items of personal property as required by Section 410, which provides that there should be a uniform system of assessment for implements of husbandry regardless of where they are physically located in the state.
 - they can produce a value that fairly reflects the value of the property being appraised.
5. **The Board of Equalization published a publication on the issue of Minimum Percent Good Factors in November 1999.** This publication (a Special Topics Survey) discusses the issue in depth as well as contains various county assessors opinions on the use of minimum percent good factors. The document is available at <http://www.boe.ca.gov/proptaxes/sptscont.htm>.
6. **This bill does not prohibit the use of minimum percent goods.** Rather it prohibits the use of a percent good that is arbitrarily established or unreasonable. The use of minimum percent good factors would be permitted where the development of the factors is based on factual support or some evidence. For

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instance, arms length sales data information can support a minimum or floor value for used equipment.

7. **Minimum percent good factors are a necessary administrative practicality for mass appraisal programs and, when used properly, provide guidelines rather than absolutes.** Minimum percent good factors are not believed to be appropriate or accurate in all situations. Exceptions may be dealt with on an individual basis, and values can be altered. Additionally, taxpayers may indicate to assessors where values are not appropriate and provide additional information if necessary.
8. **Because this bill is limited to implements of husbandry, it is possible that it creates an implication that an arbitrary minimum percent good is permissible in assessing other types of personal property.** Consequently, the Board suggests that the bill's provisions apply to all types of personal property.

COST ESTIMATE

The Board would incur some minor absorbable costs in informing and advising county assessors, the public, and staff of the change in law.

REVENUE ESTIMATE

Existing law requires that implements of husbandry be taxed at their full value. Under this proposal, the minimum percent good factors used in obtaining the full value of such property may not be determined in an arbitrary manner. This proposal has no revenue effect.

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