STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	**5/3/01**	Bill No:	**AB 1380**
Tax:	**Property**	Author:	**Aanestad**
Board Position:	**Neutral**	Related Bills:	

BILL SUMMARY

This bill would exempt agricultural equipment and farm vehicles from property tax.

Current Law

Article XIII, Section 2 of the California Constitution provides that the Legislature may, two-thirds of the membership of each house concurring, classify any personal property for differential taxation or for exemption. Currently, there are no special assessment provisions or exemptions for agricultural equipment.

Proposed Law

This bill would add Section 201.21 to the Revenue and Taxation Code to exempt agricultural equipment and farm vehicles from property tax.

“Agricultural equipment” is defined as an implement of husbandry, as defined in Revenue and Taxation Code Section 411, including equipment used in forestry, dairy, cattle, pork, poultry, or winegrowing operations. 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. Section 411 additionally defines it to include implements as defined in the Vehicle Code. Section 36000 therein, defines an "implement of husbandry" as a vehicle used exclusively in the conduct of agricultural operations.

“Farm vehicles” are defined by reference to those vehicles described in Section 36101 and 36102 of the Vehicle Code, relating to vehicles that are exempt from registration.

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

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 the business property statement as provided in Revenue and Taxation Code Section 441. Personal property is not subject to the valuation limitations of Proposition 13. It is valued each lien date at current fair market value.

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 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 fiscal year.

Examples of current exemptions provided for personal property include: business inventories, employee-owned hand tools, personal household furnishings, personal effects, and pets. For the most part, only businesses are subject to the property taxation of their business personal property holdings. With the exception of boats and planes, personal property owned by individuals is exempt from personal property taxes.

Background

Related Bills. During the 2000 Legislative Session, SB 1553 (Monteith) would have exempted from property tax the amount attributable to any sales and use tax paid on personal property used in agriculture, forestry, dairy, pork, poultry, or winegrowing operations. This bill failed to pass out of the Senate Revenue and Taxation Committee. The Board was neutral on SB 1553.

COMMENTS:

1. **Sponsor and Purpose.** This bill is sponsored by the author in an effort to provide reasonable relief to agricultural industries that face increasing fees, assessments, and mandates.

2. **Amendments**. The May 3 amendment clarifies that certain farm vehicles, specifically automatic bale wagons and other vehicles used for hauling feed for livestock, which are specifically excluded from the definition of an "implement of husbandry" in Vehicle Code 36102, would qualify for the proposed exemption. The April 16 amendment clarifies that certain farm vehicles, which are specifically excluded from the definition of an "implement of husbandry" in Vehicle Code 36101, would also qualify for the proposed exemption.

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 exempt any personal property from taxation. In contrast, real property exemptions generally require a constitutional

amendment. Proposed Section 201.21 creates such an exemption for agricultural, forestry, dairy, cattle, pork, poultry and wine growing equipment.

4. **What is agricultural equipment?** Equipment is defined as an implement of husbandry, which is in turn defined as an item used in the "conduct of agricultural operations." It could be argued that most personal property owned by a business in these industries can be used in the conduct of agricultural operations. Would computer systems and office equipment used in managing and operating the business qualify? Would the processing equipment in a poultry processing plant qualify? Clarification would be helpful to reduce the likely conflict between tax practitioners and taxpayers over the possible interpretations of this phrase.

5. **Real Property Fixture or Personal Property?** A fixture is an item of personal property that when affixed to the real property shifts in classification from personal property to real property. A tool, machine, equipment, appliance, device or apparatus used in the conduct of agricultural operations that is classified as a real property fixture would not be exempt under this bill. The line of demarcation between a real property fixture and personal property is not always clear and often requires the exercise of judgment. Classification is an area of frequent dispute in instances where the classification results in different tax treatment. The exemption of only property classified as personal property will likely increase such disputes.

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

Background, Methodology, and Assumptions

For the 1998-99 fiscal year, the total assessed value of locally assessed personal property amounted to $127,954 million. However, county assessors do not report personal property by property type. From the study done in conjunction with establishing the 4-R Act Equalization Ratio, estimated assessed value for commercial and industrial property amounted to $116,820 million. For that study commercial/industrial property includes all taxable properties except single family residences, multiple family residences of four or fewer units, vacant residential lots, condominium, cooperative, and timeshare residential or recreational units, and properties used primarily for agricultural purposes or primarily for growing timber. Subtracting the commercial/industrial personal property from the total leaves $11,134 million for residential and agricultural properties.

Most residential personal property is not subject to property tax. However, we still need to subtract the assessed value of boats and aircraft. The assessed value of boats and aircraft amounted to $7,449 million for 1998-99. Subtracting this amount leaves $3,685 million in agricultural personal property subject to the property tax.

Revenue Summary

Exempting agricultural equipment from the basic 1 percent property tax rate could reduce property tax revenue by as much as $36.9 million annually.

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