

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 357 CS  
Valorem Taxation

Assessment of Obsolete Agricultural Equipment for Purposes of Ad

**SPONSOR(S):** Poppell and others

**TIED BILLS:**

**IDEN./SIM. BILLS:** SB 1074

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REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Agriculture Committee</u>	<u>10 Y, 0 N, w/CS</u>	<u>Kaiser</u>	<u>Reese</u>
2) <u>Finance &amp; Tax Committee</u>	<u></u>	<u></u>	<u></u>
3) <u>Agriculture &amp; Environment Appropriations Committee</u>	<u></u>	<u></u>	<u></u>
4) <u>State Resources Council</u>	<u></u>	<u></u>	<u></u>
5) <u></u>	<u></u>	<u></u>	<u></u>

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### SUMMARY ANALYSIS

The bill provides for agricultural equipment no longer used in agricultural production to be considered obsolete and therefore assessed at salvage value for ad valorem tax purposes. In addition, the taxpayer claiming the right of this assessment must state so in a return filed as provided by law. The property appraiser may require the taxpayer to produce additional information as necessary in order to establish the taxpayer's right to have said property classified as obsolete.

The 2005 Revenue Estimating Conference projected that the reduced assessment for obsolete agricultural equipment would result in a loss of General Revenue on an annualized basis of \$.9 million for FY 2005-06 and \$.9 million on a cash basis for FY 2006-07. As of the publication date of this analysis, the 2006 Revenue Estimating Conference had not met to assess the impact of this legislation.

The effective date of this legislation is January 1, 2007.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. HOUSE PRINCIPLES ANALYSIS:

The bill does not implicate any House Principles.

#### B. EFFECT OF PROPOSED CHANGES:

For ad valorem tax purposes, taxpayers owning agricultural equipment must file an annual return to report equipment owned as of January 1<sup>st</sup> of each year. The county property appraiser is required to assess the value of property at a just valuation, which has been held to mean 100% of fair market value. The Florida Department of Revenue adheres to life expectancy guidelines that establish a 10 year life for agricultural machinery and equipment, which results in agricultural equipment being assessed at salvage value after it is ten years old. Agricultural equipment that is less than ten years old but is not commonly used by the taxpayer for a variety of reasons is supposed to be assessed at fair market value rather than salvage value.

Currently, in s. 193.621, F.S., relating to pollution control devices, the law provides “...*facilities installed for the purpose of eliminating or reducing industrial air or water pollution shall be deemed to have value for purposes of assessment for ad valorem property taxes no greater than its market value as salvage.*” However, two circuit court cases<sup>1</sup> have found this law to be unconstitutional, while one<sup>2</sup> found it to be constitutional.

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#### C. SECTION DIRECTORY:

**Section 1:** Provides for obsolete agricultural equipment to be assessed at its salvage value for purposes of ad valorem tax; defines the term “agricultural equipment”; provides a procedure for a taxpayer to claim the right of assessment; and, authorizes the property appraiser to require information establishing a taxpayer’s right to the classification.

**Section 2:** Provides an effective date of January 1, 2007.

### II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

#### A. FISCAL IMPACT ON STATE GOVERNMENT:

##### 1. Revenues:

See Fiscal Comments.

##### 2. Expenditures:

See Fiscal Comments.

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<sup>1</sup> FPC v. Schultz, Citrus County, April 27, 1998 and Lake Cogen v. Havill, Lake County, February 3, 2004

<sup>2</sup> FP&L v. Putnam, St. Lucie County, July 24, 1998

**B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

1. Revenues:

See Fiscal Comments.

2. Expenditures:

See Fiscal Comments.

**C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

See Fiscal Comments.

**D. FISCAL COMMENTS:**

The 2005 Revenue Estimating Conference projected that the reduced assessment for obsolete agricultural equipment would result in a loss of General Revenue on an annualized basis of \$.9 million for FY 2005-06 and \$.9 million on a cash basis for FY 2006-07. As of the publication date of this analysis, the 2006 Revenue Estimating Conference had not met to assess the impact of this legislation.

**III. COMMENTS**

**A. CONSTITUTIONAL ISSUES:**

1. Applicability of Municipality/County Mandates Provision:

2. Other:

Section 4, Article VII of the Florida Constitution states that "By general law regulations shall be prescribed which shall secure a just valuation of all property for ad valorem taxation..." The Florida Supreme Court has consistently held that all property is subject to ad valorem taxation unless it is constitutionally exempted, and that "just valuation" of property for ad valorem tax purposes is synonymous with 100% of "fair market value." Since the terms of this bill would establish a limitation on the market value of obsolete farm equipment, the issue of its constitutionality is evident.

**B. RULE-MAKING AUTHORITY:**

None

**C. DRAFTING ISSUES OR OTHER COMMENTS:**

None

**IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES**

On January 25, 2006, the Committee on Agriculture adopted an amendment to HB 357, which added the words "wherever purchased" to the definition of agricultural equipment.