

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6300

BILL NUMBER: SB 119

NOTE PREPARED: Jan 25, 2022

BILL AMENDED:

SUBJECT: Taxation of Farm Property.

FIRST AUTHOR: Sen. Niemeyer

FIRST SPONSOR: Rep. Slager

BILL STATUS: As Passed Senate

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: *Abatements:* This bill makes new farm equipment and new agricultural improvements eligible for local tax abatement using the same procedures for tax abatement under current law for new manufacturing equipment, new research and development equipment, new logistical distribution equipment, and new information technology equipment, or redevelopment and rehabilitation in the case of new agricultural improvements. It limits an abatement schedule for new farm equipment and new agricultural improvements to not more than five years.

Annual Adjustments: The bill also specifies how agricultural improvements shall be assessed for tax purposes.

Effective Date: July 1, 2022.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Annual Adjustments:* This provision clarifies that the annual adjustment (trending) factors used for residential, commercial, or industrial properties do not apply to agricultural improvements. This policy mirrors the current Department of Local Government Finance's administrative rule on annual adjustments. There should be no impact from this provision, except in a few places where trending factors might be in use for agricultural property. In those places, there would be a minimal reduction

in assessed value from current practice.

Abatements: Under current law, a designating body may designate a particular area as an Economic Revitalization Area (ERA) if normal development and occupancy has become undesirable or impossible. This bill allows an area to be designated as an ERA if it will be predominantly used for agricultural purposes for a period of time specified by the designating body. The impact of this provision depends on local action.

New farm equipment or new agricultural improvements located in an ERA would be eligible for a property tax abatement for up to five years. If there is an increase in new farm equipment purchased or qualifying improvements because of this proposal, the property would, at some point, be placed on the tax rolls. This could increase assessed value (AV) and could possibly reduce some tax rates. However, if one assumes that the investment would be made without the abatement, an increase in abatements could delay a shift of property taxes from all taxpayers to the owners of the new property until the property is placed on the tax rolls. If total AV increases as a result of the provision in this bill and tax rates are reduced, then exposure to property tax caps would be reduced. However, if the total AV is reduced and the tax rates increase, then additional property tax cap losses would be incurred. In all cases, the granting of an abatement is a local decision.

State Agencies Affected:

Local Agencies Affected: Local designating bodies; Civil taxing units and school corporations.

Information Sources:

Fiscal Analyst: Bob Sigalow, 317-232-9859.