

STATEMENT OF PURPOSE

RS27824C1 / H0590

The purpose of this proposed legislation is to make more uniform and fair the provisions of Idaho law regarding the valuation of property for property tax purposes. Under current law, assessors can value business property using income or market approaches, as well as the cost approach. The income and market approaches often result in an estimate of value for the entire business, including goodwill and any other intangible property associated with the business.

Although Section 63-602L provides that such intangible property is exempt from taxation, it is difficult to determine that value as part of the ongoing business value in a way that results in the value of only the tangible assets. Usually, assessors do not even try to value the business. For businesses such as franchise restaurants, car dealerships, and many others, there is no attempt to use the income from the business or otherwise to value the business operation and then deduct intangible value. For centrally assessed property, section 63-602L provides that owners of such property can elect to require the use of a valuation method that does not include intangible or business value in the first place. That method is usually a cost approach. That method is also most used for business personal property, where the current depreciated cost of the property is determined using methods and tables provided by Tax Commission. For residential property, appraisers typically rely on the cost and market approaches, but the market approach is often difficult to apply where properties that have sold are not truly comparable to the subject property, and subjective adjustments have to be made to make them more comparable as a measure of value for the subject property.

This bill is intended to promote clarity and uniformity by amending Section 63-208 to provide that the cost approach shall establish a ceiling on value. This recognizes a basic principle of appraisal that no reasonable buyer of property would pay more for that property than it would cost to build or acquire the same property. Since this method is used for most commercial personal property and real property improvements, it is equitable to require its use as a maximum value for all property owners.

FISCAL NOTE

This legislation should not the General Fund, and would not affect county budgets. Any modest decrease in assessments of property owners who are being unfairly taxed at the current time will be absorbed by the rest of the tax base that already enjoys the freedom of assessment on values that are excessive intangible or business value.

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DISCLAIMER: This statement of purpose and fiscal note are a mere attachment to this bill and prepared by a proponent of the bill. It is neither intended as an expression of legislative intent nor intended for any use outside of the legislative process, including judicial review (Joint Rule 18).