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Bill Analysis
Legislative Service Commission

H.B. 333

123rd General Assembly
(As Introduced)

Reps. Callender, Taylor, Hollister, Young, Opfer

BILL SUMMARY

- States that the legislative intent in valuing electricity generation property at only 50% of cost for tax purposes is to make allowance for the difficulty of placing a value on some of the engineering costs embodied in that property.
- States that any further deduction of those engineering costs in determining the property value has the effect of erroneously permitting the allowance to be duplicated.

CONTENT AND OPERATION

Valuing electricity production equipment for tax purposes

(secs. 5727.06(A)(3) and 5727.11(A), (E), and (F)--not in the bill)

Tangible personal property used by a public utility to generate electricity is taxed on 100% of its "true value."¹ Under statute, the true value of electric production equipment is the cost of the property as capitalized on the utility's books, minus 50% of that cost "as an allowance for depreciation and obsolescence." The true value does not include any allowance for funds used during construction ("AFUDC") or interest during construction that has been capitalized on the utility's books as part of the property's cost. The Tax Commissioner has authority to adopt rules governing how true value is determined.

¹ This property is referred to as "production equipment"--it includes all taxable steam, nuclear, hydraulic, and other production plant equipment, and all taxable station equipment located at an electricity production plant.

Statement of legislative intent

(Section 1 of the bill)

The bill states that the legislative intent in valuing electric production equipment at only 50% of capitalized cost is to allow for the difficulty of placing a value on drawings, patterns, jigs, dies, and similar property that may be capitalized on a utility's books. The bill states that in light of this intent, any finding providing for a deduction for the cost of such property in valuing electric production equipment is erroneous, and has the effect of duplicating the allowance for the same cost. (See **COMMENT.**)

COMMENT

The bill responds to a recent decision by the Ohio Board of Tax Appeals, *Duquesne Light Co. v. Tracy*, BTA Nos. 95-K-40, 95-K-71, and 95-K-72 (November 1998), regarding the valuation of the Perry Nuclear Power Plant. Among other issues, the BTA decided that engineering drawings used in the design, construction, and operation of the Perry plant were not tangible personal property, and so could not be considered to be part of the taxable tangible personal property of the plant. Accordingly, the BTA ruled that the cost of the drawings should be deducted from the cost that is capitalized on the utility's books, thus reducing the true value of the plant and the amount of property taxes due.

HISTORY

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