

HB 4111

Property Tax Exemption: Farm Machinery & Equipment

House Committee on Revenue

LRO | February 27, 2024

State of Oregon

LEGISLATIVE REVENUE OFFICE





Presentation Outline

- Taxable Farm Property
- Current Exemption
- HB 4111
- Background
- RIS Considerations
- Implications for Counties





Taxable Farm Property

			Type of Property		
			Tangible		Intangible
			Real	Personal	
Taxpayer	Household		Taxed	Exempt ¹	Exempt
	Business	Non-Farm	Taxed	Taxed ²	Taxed ³
		Farm	Taxed ⁴	Exempt	Exempt

- ¹ Floating homes and some manufactured structures are considered taxable personal property
- ² If value is above \$20,000 for FY 2022-23 (indexed to inflation)
- ³ If centrally assessed
- ⁴ Most property is specially assessed, at farmland use value instead of highest and best use value





Current Exemption

- Machinery and equipment (M&E) classified as personal property and used primarily in certain farm operations are property tax exempt (ORS 307.394).
 - Crop farming
 - Animal farming
 - Implementing a remediation plan
 - Certain other farm operations
 - On-farm M&E upkeep
- Estimated revenue loss of \$98.7M in 2023-25 (TER 2.034).
- Statute does not explicitly state a purpose for this expenditure.





HB 4111

What the measure does:

- Expands farm M&E exemption to real property. Exempts M&E used primarily in the preparing for storage or shipping of farm crops.

Effect of -2 amendment:

- Deletes the exemption of M&E used primarily in the preparing for storage or shipping of farm crops.
- Clarifies that exemption does not apply to land or buildings.
- Aligns the implementation date with the tax year (on or after July 1, 2025).





Background

- Oregon court cases have found that hay compressors, conveyers and sorting/cleaning/packing lines are not farm M&E as construed by the Oregon Supreme Court in *King Estate Winery, Inc. v. DOR* (1999).
 - *Dinsdale v. Marion County Assessor* (2011)
 - *Pollock and Sons, Inc. v. Umatilla County Assessor* (2013)
 - *Farmers Direct, Inc. v. DOR* (2023)
- ODA certifies property for the food processing M&E exemption. OAR 603-025-0010 (11) specifies that food processing “does not mean the sorting, cleaning or water-rinsing of a food”.





Background (cont.)

- Recent bills attempted to expand farm M&E exemption to certain real property:
 - 2017 (1)
 - 2019 (3)
 - 2021 (1)
 - 2023 (2)
 - 2024 (1)
- 2019 Work Group
- HREV Informational Meeting 9/28/23
- HREV Public Hearing 2/8/24

} Overarching goal: Clarify what is exempt





RIS Considerations

- Real vs. personal
- Farming vs. processing
- Differences in assessor protocol by county
- Self-reported real property return. Buildings, M&E and land are usually on separate accounts.
- Real vs. real (M&E vs. buildings). Aerial discovery of omitted property
- Assessor data availability/sharing. What is on the rolls?





RIS Considerations (cont.)

Clear Form

Form OR-RP Real Property Return 2024
Declaration of Property Costs, Operations, and Other Related Information

— Confidential —
File this return on or before March 15, 2024 with the assessor of the county in which the property is located.

County use only
Date received

Business name
Doing business as (DBA)
Mailing address
City State ZIP code
Account number Type of plant Location (situe)

Annual report required
Oregon law [ORS 306.290(1)(b)] requires that each company must file this annual return with the county assessor on or before March 15. Failure to file will subject the company to a late-filing penalty [ORS 306.295]. **This return is subject to audit.**

Accounting records location
Street address City State ZIP code

Contact person for audit
Name Phone Fax
Mailing address Email
City State ZIP code

Taxpayer declaration—invalid if not signed
I declare, under penalties for false swearing [ORS 305.990(4)], that this return, including enclosed schedules, has been examined by me and, to the best of my knowledge and belief, it is true, correct, and complete.

Full legal name (if incorporated)

Sign here Signature of: owner officer authorized agent Date
Typed or printed name of person signing above Title

Name of preparer (if other than taxpayer) Title
Phone Fax Email

Be sure to read the instructions on pages 6–8 before completing this return. →

150-301-031 (Rev. 11-16-23) Form OR-RP

2024 Real Property Schedules
Reporting period is January 1, 2023–December 31, 2023

You must complete a Real Property Schedule for each real property account listed on the front of this return. Include a listing where space is insufficient.

Company name: _____ Real property account number: _____
(Only one account per page)

Schedule 1: Buildings, structures, and yard improvements
(If building is leased, use this schedule to report leasehold improvements)

Schedule 1-A: Completed additions (See instructions, page 8)

1. Description	2. Starting date	3. Completion date	4. Costs reported in prior years	5. Costs for current reporting period not previously reported	6. Total completed cost

Schedule 1-B: Retirements (See instructions, page 8)

1. Description	2. Date of construction or acquisition	3. Date retired	4. Status of property	5. Total original cost

Schedule 1-C: Under construction on January 1 (See instructions, page 8)

1. Description	2. Starting date	3. Estimated completion date	4. Costs reported in prior year returns	5. Costs for current reporting period not previously reported	6. Estimated total completed cost

Photocopies can be used

150-301-031 (Rev. 11-16-23) 2 Form OR-RP

Real property account number: _____
(Only one account per page)

Company name: _____

Schedule 2: Machinery and equipment

Schedule 2-A: Completed additions (See instructions, page 8)

1. Asset no.	2. Description (name, model, location within plant)	3. Starting date	4. Completion date	5. Costs reported in prior years	6. Costs for current reporting period not previously reported	7. Total completed cost

Schedule 2-B: Retirements (See instructions, page 8)

1. Asset no.	2. Description (name, model, location within plant)	3. Date of construction or acquisition	4. Date retired	5. Status of property	6. Total original cost

Schedule 2-C: Being Installed on January 1 (See instructions, page 8)

1. Asset no.	2. Description (name, model, location within plant)	3. Starting date	4. Estimated completion date	5. Costs reported in prior year returns	6. Costs for current reporting period not previously reported	7. Estimated total completed cost

Photocopies can be used

150-301-031 (Rev. 11-16-23) 3 Form OR-RP



RIS Considerations (cont.)

Potential Revenue Impacts to Local Governments Per Biennium (DRAFT)

Bill	Potential Revenue Impacts	Exemption Expanded To
HB 3379 (2023)	-\$2.9M	Real farm M&E and real farm processing M&E (e.g., hay compressors, sorting/cleaning/packing lines)
HB 2429 (2019)	- -\$0.4M	Hay compressors
HB 4111-2 (2024)	-\$2.5M	Real farm M&E

Currently, the only assessor data for estimating revenue impacts are from 2019 and 2023.

← Potentially smaller since sorting / cleaning / packing lines have not been subtracted yet.

Potentially larger since 3379 data was limited to M&E on farmland.

The above impacts are based on property on the rolls. The amount of real farm M&E that is taxable, but not taxed by the assessors, is unknown.

In the Census of Ag, permanently installed equipment such as dairy equipment, feeders and feed mixers, animal hoists, or equipment that is an integral part of a building are included in the value of land and buildings.





Presentation Outline

- County Exposure to Dairy M&E
- Information from Counties
- Information from County Assessors





County Exposure to Dairy M&E

Five counties are particularly exposed to budget risks associated with exemption of real farm M&E, particularly for the dairy industry (milk cows).

Five counties account for approximately three-fourths of both milk cow inventory and cow milk sales in Oregon:

County	Share of milk cows in the State (2022)	Share of cow milk sales in the State (2017)
Marion	10%	10%
Morrow	38%	33%
Polk	4%	4%
Tillamook	20%	19%
Yamhill	6%	8%
Five county total	79%	74%

Source: 2022 Census of Agriculture, Table 2 and Table 11. Sales data for 2017 are used because 2022 data for Morrow County was not available.





Information from Counties

- AOC believes the following counties, all of which have a significant dairy industry, will be most impacted:
 - Marion - Supports the bill.
 - Morrow
 - Polk
 - Tillamook – Most concerning due to their very tight budget situation.





Information from County Assessors

- HB 4111-2 can be administered. An associated fiscal impact will be reported, at least partially due to educating assessors and tax filers about the change.
- HB 4111-2 is not expected to cripple any county budgets.
- Careful to point out the potential for cumulative impacts that are beyond the dairy industry and are unknown currently.
- Careful to point out that other taxing districts could be impacted.
- For DOR's part, they said it might just be one small rule update, just to make it conform to the new statute.





Information from County Assessors (cont.)

- Developed **worst case scenarios** from the exemption of specific types of farm M&E. The most extreme case is with dairy equipment in Morrow County.

Morrow County is home to a number of very large, very modern dairies, with some of the most expensive farm M&E in the state. It's also a county that has a small overall tax base.





Information from County Assessors (cont.)

Morrow Dairy

Affected Dairy M&E RMV \$50,000,000

Average Tax Rate (\$13/1000) 1.3%

Estimated Countywide Tax Loss \$650,000

Taxes to K-12: 25% (GF Backfilled) \$162,500

Total Non K-12 Revenue Loss \$487,500

County Perm Rate Loss (25%) \$162,500

Fire District Loss (Rates & Bonds = 13%) \$84,500

Morrow County's total property tax revenue is roughly \$40,000,000 per year. A loss of \$650,000 represents a **1.6% reduction in total property tax revenue**, which *roughly* carries through as a 1.6% loss to each district, except for K-12 which sees backfill via the State GF. Due to the significant uncertainties associated with the estimation of impacted RMV, the percentage loss could be anywhere between 1% and 2.3%.





Information from County Assessors (cont.)

Tillamook Dairy

Affected Dairy M&E RMV \$13,000,000

Average Tax Rate (\$11/1000) 1.1%

Estimated Countywide Tax Loss **\$143,000**

Taxes to K-12: 47% (GF Backfilled) \$67,210

Total Non K-12 Revenue Loss \$75,790

County Perm Rate Loss (12.5%) \$17,875

Fire District Loss (Rates and Bonds = 9%) \$12,870

Tillamook County's total property tax revenue is almost double that of Morrow's. A loss of \$143,000 represents a 0.2% loss in total property tax revenue, with a possible range of roughly 0.1%-0.4%.





Information from County Assessors (cont.)

- Based on other assumptions, the impact in Umatilla County may be a larger percent of total property tax revenue than in Tillamook County.
- Impact on total property tax revenue in Marion County is expected to be negligible.
- Not aware of any other county in which the impact of dairy would have a relative impact that approaches Morrow, Umatilla, or perhaps even Tillamook.



For More Information

- Legislative Revenue Office
- ~~900 Court St. NE, Room 160~~
- 255 Capitol St NE, 5th Floor
 - Public Services Building
- Salem, OR 97301
- 503-986-1266
- <https://www.oregonlegislature.gov/lro>

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