ASSEMBLY BILL NO. 26–COMMITTEE ON TAXATION

(ON BEHALF OF THE NEVADA LEAGUE OF CITIES AND MUNICIPALITIES)

PREFILED DECEMBER 20, 2012

Referred to Committee on Taxation

SUMMARY—Reduces the statutory rate of depreciation applicable to improvements made on real property for the purpose of determining the taxable value of the property. (BDR 32-258)

FISCAL NOTE: Effect on Local Government: No.
Effect on the State: No.

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EXPLANATION – Matter in ***bolded italics*** is new; matter between brackets ~~[omitted material]~~ is material to be omitted.

AN ACT relating to the taxation of property; reducing the statutory rate of depreciation applicable to improvements made on real property for the purpose of determining the taxable value of the property; making an appropriation for a study; and providing other matters properly relating thereto.

Legislative Counsel's Digest:

Under current law, the taxable value of an improvement made on real property must be determined by subtracting from the cost of replacement of the improvement all applicable depreciation and obsolescence. That depreciation is required to be calculated at the rate of 1.5 percent of the cost of replacement of the improvement for each year that the improvement has aged, up to a maximum of 50 years. (NRS 361.227) The application of this formula for the entire 50-year period results in a maximum rate of depreciation of 75 percent of the cost of replacement.

Section 1 of this bill reduces the future rate of depreciation for an improvement made on real property to 1 percent of the cost of replacement of the improvement for each year that the improvement ages after 2012. **Section 1** does not affect the maximum rate of depreciation allowed under current law. The change in the rate of depreciation pursuant to **section 1** does not affect the determination of the taxable value of any improvements for the purposes of any property taxes imposed before July 1, 2014.

Section 1.5 of this bill makes an appropriation for the purpose of conducting a study of the effect of reducing the depreciation rate applicable to improvements made to real property for property tax purposes.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. NRS 361.227 is hereby amended to read as follows:

361.227 1. Any person determining the taxable value of real property shall appraise:

(a) The full cash value of:

(1) Vacant land by considering the uses to which it may lawfully be put, any legal or physical restrictions upon those uses, the character of the terrain, and the uses of other land in the vicinity.

(2) Improved land consistently with the use to which the improvements are being put.

(b) Any improvements made on the land by subtracting from the cost of replacement of the improvements all applicable depreciation and obsolescence. Depreciation of an improvement made on real property must be calculated at ***:***

(1) The rate of 1.5 percent of the cost of replacement for each year of adjusted actual age of the improvement ~~[,]~~ ***that ends on or before December 31, 2012; and***

(2) The rate of 1 percent of the cost of replacement for each year of adjusted actual age of the improvement that ends on or after January 1, 2013,

➥ up to a maximum ***rate of depreciation*** of ~~[50 years.]~~ ***75 percent of the cost of replacement of the improvement.***

2. The unit of appraisal must be a single parcel unless:

(a) The location of the improvements causes two or more parcels to function as a single parcel;

(b) The parcel is one of a group of contiguous parcels which qualifies for valuation as a subdivision pursuant to the regulations of the Nevada Tax Commission; or

(c) In the professional judgment of the person determining the taxable value, the parcel is one of a group of parcels which should be valued as a collective unit.

3. The taxable value of a leasehold interest, possessory interest, beneficial interest or beneficial use for the purpose of NRS 361.157 or 361.159 must be determined in the same manner as the taxable value of the property would otherwise be determined if the lessee or user of the property was the owner of the property and it was not exempt from taxation, except that the taxable value so determined must be reduced by a percentage of the taxable value that is equal to the:

(a) Percentage of the property that is not actually leased by the lessee or used by the user during the fiscal year; and

(b) Percentage of time that the property is not actually leased by the lessee or used by the user during the fiscal year, which must be determined in accordance with NRS 361.2275.

4. The taxable value of other taxable personal property, except a mobile or manufactured home, must be determined by subtracting from the cost of replacement of the property all applicable depreciation and obsolescence. Depreciation of a billboard must be calculated at 1.5 percent of the cost of replacement for each year after the year of acquisition of the billboard, up to a maximum of 50 years.

5. The computed taxable value of any property must not exceed its full cash value. Each person determining the taxable value of property shall reduce it if necessary to comply with this requirement. A person determining whether taxable value exceeds that full cash value or whether obsolescence is a factor in valuation may consider:

(a) Comparative sales, based on prices actually paid in market transactions.

(b) A summation of the estimated full cash value of the land and contributory value of the improvements.

(c) Capitalization of the fair economic income expectancy or fair economic rent, or an analysis of the discounted cash flow.

➥ A county assessor is required to make the reduction prescribed in this subsection if the owner calls to his or her attention the facts warranting it, if the county assessor discovers those facts during physical reappraisal of the property or if the county assessor is otherwise aware of those facts.

6. The Nevada Tax Commission shall, by regulation, establish:

(a) Standards for determining the cost of replacement of improvements of various kinds.

(b) Standards for determining the cost of replacement of personal property of various kinds. The standards must include a separate index of factors for application to the acquisition cost of a billboard to determine its replacement cost.

(c) Schedules of depreciation for personal property based on its estimated life.

(d) Criteria for the valuation of two or more parcels as a subdivision.

7. In determining, for the purpose of computing taxable value, the cost of replacement of:

(a) Any personal property, the cost of all improvements of the personal property, including any additions to or renovations of the personal property, but excluding routine maintenance and repairs, must be added to the cost of acquisition of the personal property.

(b) An improvement made on land, a county assessor may use any final representations of the improvement prepared by the architect or builder of the improvement, including, without limitation, any final building plans, drawings, sketches and surveys, and any specifications included in such representations, as a basis for establishing any relevant measurements of size or quantity.

8. The county assessor shall, upon the request of the owner, furnish within 15 days to the owner a copy of the most recent appraisal of the property, including, without limitation, copies of any sales data, materials presented on appeal to the county board of equalization or State Board of Equalization and other materials used to determine or defend the taxable value of the property.

9. The provisions of this section do not apply to property which is assessed pursuant to NRS 361.320.

Sec. 1.5. 1. There is hereby appropriated from the State General Fund to the Legislative Fund the sum of $150,000 for the purpose of contracting with a consultant to conduct a study of the effect of reducing the statutory rate of depreciation applicable to improvements made on real property for the purpose of determining the taxable value of property.

2. Any remaining balance of the appropriation made by subsection 1 of this act must not be committed for expenditure after June 30, 2015, and any portion of the appropriated money remaining must not be spent for any purpose after September 18, 2015, and must be reverted to the State General Fund on or before September 18, 2015.

Sec. 2. The amendatory provisions of section 1 of this act do not apply to or affect the determination pursuant to NRS 361.227 of the taxable value of any property for any fiscal year beginning before July 1, 2014.

Sec. 3. 1. This section and sections 1.5 and 2 of this act become effective upon passage and approval.

2. Section 1 of this act becomes effective:

(a) Upon passage and approval for the purposes of adopting regulations and determining the taxable value of real property for the fiscal year beginning on July 1, 2014; and

(b) On July 1, 2014, for all other purposes.