

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** David A. Reid

3. **Committee** House Finance

4. **Title** Tangible personal property taxation; classifications; major energy consumer equipment upgrades.

2. **Bill Number** HB 563

House of Origin:

 X **Introduced**
 Substitute
 Engrossed

Second House:

 In Committee
 Substitute
 Enrolled

5. **Summary/Purpose:**

This bill would create a new class of tangible personal property for local tax purposes. This class would include generating equipment purchased on and after July 1, 2026, for the purposes of upgrading the backup or standby power systems of a major energy consumer. To qualify, the upgrade must transition equipment (i) from equipment that does not meet Tier 2 emission standards as set by the U.S. Environmental Protection Agency to selective catalytic reduction generators that meet or exceed Tier 4 emission standards, or (ii) to meet New Source Performance Standards.

Under current law, generating equipment is classified as either general tangible personal property or machinery and tools, depending on the nature of the business. There are currently 48 categories of property separately classified for tangible personal property tax purposes and that may be taxed at different rates than other tangible personal property.

If enacted during the regular session of the 2026 General Assembly, this bill will become effective July 1, 2026.

6. **Budget amendment necessary:** No

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

This bill may have an unknown impact on local administrative costs in localities that choose to exercise the permissive authority in the bill to tax this new class of property at a lower rate.

This bill would have no impact on state administrative costs.

Revenue Impact

This bill would have an unknown impact on local revenues in localities that choose to exercise the permissive authority in the bill to tax this new class of property at a lower rate.

This bill would have no impact on state revenues.

9. Specific agency or political subdivisions affected:

All localities

10. Technical amendment necessary: No

11. Other comments:

Classification for Rate Purposes

Currently, there are 48 categories that are separately classified for tangible personal property tax purposes and that may be taxed at different rates than other tangible personal property. Localities may elect to tax four specified categories at a rate that does not exceed the rate applicable to machinery and tools, must tax vehicles without motive power designed as manufactured homes at a rate equal to the rate applied to real property, and may tax the remaining categories of tangible personal property at a rate that does not exceed the general rate imposed on tangible personal property.

Proposal

This bill would create a new class of tangible personal property for local tax purposes. This class would include generating equipment purchased on and after July 1, 2026, for the purposes of upgrading the backup or standby power systems of a major energy consumer. To qualify, the upgrade must transition equipment from failing to meet Tier 2 emission standards to selective catalytic reduction generators that meet or exceed Tier 4 emission standards, or to meet New Source Performance Standards.

The bill would define a “major energy consumer” as a commercial, industrial, or manufacturing entity with a minimum electrical requirement of one megawatt or more per month that participates in a local electric cooperative or demand response program.

The bill would define “demand response program” as an activity, program, or initiative undertaken by an electric power supplier or its customers to reduce peak demand by shifting the timing of electricity use from peak to nonpeak demand periods.

If enacted during the regular session of the 2026 General Assembly, this bill will become effective July 1, 2026.

cc : Secretary of Finance

Date: 01/31/2026 AB
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