

**Referendum ?  
Exempt Possessory Interests in Real Property**

1 **Referendum ? proposes amending the Colorado Constitution to:**

- 2       ♦ eliminate property taxes for individuals or businesses that use  
3       government-owned property for a private benefit worth \$6,000 or less in  
4       market value.

5 **Summary and Analysis**

6       ***Property taxes and possessory interests.*** Property taxes are based on the  
7       value of land, homes, buildings, and business equipment. Individuals and businesses  
8       pay property taxes to various local governments, such as cities, counties, school  
9       districts, and special districts. Property taxes pay for a variety of local government  
10      services, including public education, police and fire services, the construction and  
11      maintenance of roads and bridges, parks and recreation facilities, hospitals, and  
12      libraries.

13      When an individual or business uses government-owned land or equipment for  
14      private purposes, a possessory interest is created. Although government-owned  
15      property is exempt from taxes, the benefit that a business or individual obtains from  
16      using that land or equipment is not. For example, some ranchers lease land from the  
17      federal government for cattle grazing. Other businesses lease land to provide a  
18      recreational activity, such as skiing or river rafting. Under current law, the value of a  
19      private benefit is considered a possessory interest and is subject to property taxes.

20      The market value of possessory interests in Colorado is about \$330 million, which  
21      is less than 0.1 percent of the total market value of all property in the state. There are  
22      approximately 220,000 possessory interests in the state, of which nearly 215,000 are  
23      leases of agricultural land. Although agricultural leases greatly outnumber the other  
24      types of possessory interests, they account for only 3 percent of the total value of all  
25      possessory interests in the state, averaging about \$51 each. Because of their  
26      relatively small value, agricultural interests are primarily affected by Referendum ?.  
27      Commercial and industrial interests account for the remainder, with about 97 percent  
28      of the total value of possessory interests. Commercial interests, such as those  
29      involving ski resorts or river rafting, have an average value of just under \$24,000.  
30      Industrial interests have an average value of about \$272,000.

31      ***How does Referendum ? change the taxation of possessory interests?***

32      Starting in 2012, a possessory interest is exempt from property taxation if the market  
33      value of the interest is \$6,000 or less. For example, most cattle grazing leases with  
34      the federal government have a market value below \$6,000 and would not be taxed. In  
35      contrast, the value of private benefits obtained by ski areas exceed the \$6,000  
36      threshold and will continue to be taxed at the full value. In budget year 2012-13, the

1 measure is expected to reduce property taxes statewide by \$X. Every two years, this  
2 threshold is increased to account for inflation.

3 **Arguments For**

4 1) Referendum ? reduces the administrative burden of collecting a tax that in many  
5 cases costs more money to collect than it brings in to local governments. For  
6 example, an agricultural possessory interest with a market value of \$51 would owe  
7 about \$1 in property taxes, depending on local tax rates. The cost of administering  
8 this tax — mailing notices, maintaining tax rolls, and collecting and enforcing the tax  
9 — will often exceed this amount.

10 **Arguments Against**

11 1) Referendum ? provides an unfair advantage for some taxpayers who use  
12 government-owned land and puts a greater tax burden on other individuals and  
13 businesses to pay for local government services. For instance, a rancher who  
14 owns grazing land will pay property taxes on that land, while another rancher who  
15 leases land from the federal government may not if the value of the interest is less  
16 than \$6,000.

17 **Estimate of Fiscal Impact**