SB09-085

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL
REVISED FISCAL IMPACT

(replaces fiscal note dated February 3, 2009)

Drafting Number:	LLS 09-0410	**Date:**	April 15, 2009
Prime Sponsor(s):	Sen. Scheffel; Williams Rep. Lambert; Priola	**Bill Status:**	Senate Second Reading
		Fiscal Analyst:	Todd Herreid (303-866-2633)

TITLE: CONCERNING A PROPERTY TAX EXEMPTION FOR BUSINESS PERSONAL PROPERTY.

Fiscal Impact Summary	FY 2009-2010	FY 2010-2011	FY 2011-2012	Fully Phased-In Exemption
State Revenue - General Fund	$0	$52,500	$105,000	$17,100,000
State Expenditures General Fund - School Finance Act*	$0	$0	$2,169,000	$350,700,000
FTE Position Change	0.0 FTE	0.0 FTE	0.0 FTE	0.0 FTE
Effective Date: 90 days after final adjournment of the General Assembly (August 4, 2009, if adjournment is May 6, 2009), unless a referendum petition is filed.				
Appropriation Summary for FY 2009-2010: None required.				
Local Government Impact: Decrease in local property taxes.				

* *The increase in School Finance Act expenditures could be from the General Fund, State Education Fund, or a combination of both.*

Summary of Legislation

Under current law, a business is exempt from paying property taxes on its personal property if the actual value of its equipment is less than $4,000 in a county. The threshold for the exemption rises to $7,000 in tax years 2013 and 2014.

This bill, *as amended by the Senate Appropriations Committee on April 15, 2009*, provides a further exemption for business personal property. Beginning in tax year 2011 and continuing through 2047, this bill increases the percentage of business personal property that is exempt from taxation from 1 percent to 100 percent. The amended bill also includes state assessed personal property in the exemption, not just locally assessed. In addition, some counties are excluded from the tax exemption if more than 30 percent of the county's assessed value is comprised of business personal property.

State Revenue and Expenditures

General Fund Revenue. A decrease in property tax liability may increase a company's income tax liability if the company has an income tax liability. This is because of a lower property tax deduction from taxable income. The increase in state income taxes is estimated at $105,000 in FY 2011-12. On an accrual accounting basis, one-half of this amount would be recorded in FY 2010-11. If the personal property exemption were fully phased-in as of 2011, the annual increase in income taxes would be estimated at $17.1 million.

School Finance Act. The bill will increase expenditures under the school finance act by approximately $2.2 million in FY 2011-12 and increasingly higher amounts in following years. The assessed value of personal property will drop under the bill, reducing school district operating property taxes, which the state is required to backfill. In 2011, the assessed value of personal property is estimated at $11.6 billion. Exempting 1 percent of personal property will result in a loss of assessed value of about $105 million, excluding the assessed value of personal property in eight counties that currently exceed the 30 percent threshold. At an average school operating mill levy of 20.566, the state would be required to backfill $2.2 million in FY 2011-12. If the business personal property exemption were fully phased-in as of 2011, the school backfill requirement would be about $350.7 million.

Local Government Impact

Local governments will lose property tax revenue because of the bill's provision to exempt an increasing percentage of business personal property. For local governments that do not reach their revenue limit or have voted to exempt themselves from revenue limits, the bill will reduce property taxes. If no local governments reach their revenue limit, the bill will reduce property taxes by $7.6 million in FY 2012, $7.8 million in FY 2013, and $8.1 million in FY 2014. If the exemption were fully phased-in as of 2011, the annual property tax loss for all local jurisdictions, including school districts, would be up to $1.2 billion.

For local governments that consistently reach their revenue limit due to high assessed value growth, the bill will not reduce property taxes. Instead, the impact will be felt through smaller decreases in the mill levy. A portion of the money that would have been received from taxpayers will instead be spread out over the remaining tax bills in the form of higher mill levies than would have occurred without the bill.

Departments Contacted

Local Affairs