HB11-1141

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number:	LLS 11-0522	**Date:**	January 31, 2011
Prime Sponsor(s):	Rep. Holbert Sen. Scheffel	**Bill Status:**	House Finance
		Fiscal Analyst:	Marc Carey (303-866-4102)

TITLE: CONCERNING AN ECONOMIC STIMULUS THROUGH A PROPERTY TAX EXEMPTION FOR BUSINESS PERSONAL PROPERTY.

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015
State Revenue				
General Fund		up to $910,000	up to $1.8 million	up to $3.8 million
State Expenditures				
School Finance Impact*			$37.5 million	$76.3 million
General Fund		$23,455	$23,455	$23,455
FTE Position Change		0.4 FTE	0.4 FTE	0.4 FTE
Effective Date: August 11, 2011, assuming the General Assembly adjourns May 12, 2011, as scheduled and no referendum petition is filed.				
Appropriation Summary for FY 2011-2012: None required.				
Local Government Impact: Local governments would not be able to collect revenues from property taxes on business personal property purchased in 2012 or 2013. This will result in a local government revenue reduction of up to $93.4 million in FY 2013-14 and $190.2 million in FY 2014-15.				

* *This expenditure could be from either the General Fund or the State Education Fund.*

Summary of Legislation

Current law exempts from property taxes any business personal property with an actual value less than $5,500 that would otherwise appear on a single property tax schedule and most taxpayers file a single schedule in each county that they have property. This bill exempts all business personal property that is purchased in 2012 or 2013 from the levy and collection of property tax. The bill also specifies how the exemption applies to a state-assessed public utility. The bill's exemption is applied prior to determining whether the per schedule business personal property tax exemption applies.

Background

Under current law, business personal property begins to be taxed the year *after* it is first used. For example, new personal property first used in 2012 will appear on the tax rolls in 2013, and have taxes paid on it in 2014. Under this bill, personal property purchased in 2012 and 2013 would be exempt from property taxes for the life of the property.

In 2010, business personal property represented slightly under $11.8 billion in statewide assessed value, or roughly 24 percent of all nonresidential property assessed value. Based on 2009 average county wide mill levies, this value translates into approximately $823 million in local property taxes that will be collected in 2011.

State Revenue

Beginning in FY 2012-13, the decrease in property tax liability from the exemption of newly purchased personal property will increase a company's state income tax liability by reducing the available property tax deduction. This revenue impact is estimated to be $1.8 million for FY 2013-14 and $3.8 million for FY 2014-15. On an accrual accounting basis, $910,000 would be received in FY 2012-13.

To the extent that the exemption contained in this bill generates additional economic activity, that would not have otherwise occurred, the state may receive additional sales and income tax revenue. Any potential increase in revenue, however, would be offset: 1) to the degree that tax savings realized by businesses are spent outside of Colorado; and 2) to the degree that reduced spending by local governments reduces economic activity in their communities.

State Expenditures

School Finance Act. The state's share of public school total program funding will increase by the amount of local property taxes foregone by increasing the exemption for business personal property. This bill will reduce local school district property tax revenue by an estimated $37.5 million in FY 2013-14 and $76.3 in FY 2014-15.

The first, direct impact results from exempting all business personal property purchased during the 2-year period. Based on historical business investment rates, approximately $3.8 billion in assessed value would be exempted in 2012 and 2013. Business investment rates are determined using industry figures for equipment stock and new capital investment. Based on a statewide average school operating mill levy, this would result in an estimated reduction in school district property taxes of $37.5 million in FY 2013-14 and $76.3 in FY 2014-15 that must be replaced by state aid.

A second, indirect impact potentially results from a drop in the residential assessment rate (RAR). Because a portion of business personal property will no longer be counted as nonresidential property in the RAR calculation, the RAR could decline in order to maintain the residential/ nonresidential assessed value ratio required by the state Constitution under the Gallagher Amendment. Although the projected assessed value reduction due to the full exemption of property purchased in 2012 and 2013 is not enough to affect the RAR and cause this indirect impact, the increased exemption could trigger this impact if actual personal property purchases are higher than projected or there is an increase in the ratio of residential to non-residential assessed values. This additional reduction in assessed value would include both a reduction in school district property taxes that must be replaced by state aid, and a reduction in total non-school operating property taxes that would not be replaced. This would affect every county in the state, albeit to varying degrees. Many rural counties tend to be less dependent on residential property, while mountain resort communities are more dependent.

Department of Local Affairs, Division of Property Taxation. Beginning in FY 2012-13, the division will incur additional annual administrative costs in the amount of $23,455 and 0.4 FTE.

The majority of these costs will be incurred by the State Assessed section of the division. In 2010, nearly 40 percent of the total value of personal property was state assessed. Typically, state assessed property is valued using the unitary valuation approach, where the value of the whole company is apportioned geographically depending on the company's operations. Currently, under this approach, no distinction is made between real and personal property; however such a distinction would be required under the provisions of the bill. Additionally, because each piece of business personal property purchased in 2012 or 2013 would be exempt from property tax, this property would need to be tagged and tracked during the time period it was in use.

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 1.

Table 1. Expenditures Not Included Under SB11-026*

Cost Components	FY 2011-12	FY 2012-13
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$3,326	$3,326
Supplemental Employee Retirement Payments	1,236	1,236
Indirect Costs	6,275	6,275
TOTAL	**$10,837**	**$10,837**

**More information is available at: http://colorado.gov/fiscalnotes*

Local Government Impact

Under this bill, local government entities will be unable to collect property taxes on business personal property purchased in either 2012 or 2013. Local non-school operating property taxes are estimated to decline by up to $93.4 million in FY 2013-14 and $190.2 million in FY 2014-15.

It should be noted that this number represents a maximum amount. The loss will be smaller for local governments that have not received voter approval to retain property taxes above their constitutional limit and have collected an amount above this limit. In these cases, the exemption of new personal property will cause smaller decreases in the local government's mill levy than would have occurred otherwise to prevent property taxes from exceeding the limit.

Further, an additional impact occurs if the local government has received voter approval and imposed a specific mill levy to repay outstanding general obligation debt or to collect a specific amount of additional property tax revenue for school districts (known as a mill levy override). In such cases, a reduction in assessed value from exempting new business personal property and potentially decreasing the RAR will result in higher mill levies being imposed on all real property owners in the jurisdiction, in order to repay the debt or generate the revenue authorized under the override.

State Appropriations

No state appropriations are required to implement this bill in FY 2011-12. State expenditures for school funding under the Public School Finance Act are expected to increase by up to $37.5 million beginning in FY 2013-14 and by up to $76.3 million in FY 2014-15. The actual amount required would be determined following certification of mill levies in December 2013.

Departments Contacted

Property Tax Administrator