HB13-1189

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number:	LLS 13-0534	**Date:**	February 21, 2013
Prime Sponsor(s):	Rep. Wright Sen. Lambert	**Bill Status:**	House SVMA
		Fiscal Analyst:	Marc Carey (303-866-4102)

TITLE: CONCERNING A PROPERTY TAX EXEMPTION FOR BUSINESS PERSONAL PROPERTY THAT IS PURCHASED DURING THE 2014 CALENDAR YEAR.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017
State Revenue				
General Fund		$620,000	$1.2 million	$1.3 million
State Expenditures				
School Finance Impact*			$22.1 million	$22.9 million
General Fund		$46,460	29,092	29,092
FTE Position Change		0.6 FTE	0.4 FTE	0.4 FTE
Effective Date: August 7, 2013, if the General Assembly adjourns on May 8, 2013, as scheduled, and no referendum petition is filed.				
Appropriation Summary for FY 2013-2014: None required.				
Local Government Impact: See Local Government Impact section.				

* *This expenditure will come from the General Fund, unless the General Assembly chooses to reduce funding under the School Finance Act to account for the reduction in local property taxes.*

Summary of Legislation

Current law exempts from property taxes any business personal property with an actual value less than $7,000 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 2014 from the levy and collection of property tax. However, the exemption does not apply to property that is either: 1) sold and repurchased or leased back to the original taxpayer, or 2) transferred as part of a merger or acquisition. The bill also exempts from property tax state assessed business personal property purchased in Colorado in 2014. The bill specifies how this exemption is applied to a state assessed public utility.

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 2014 will appear on the tax rolls in 2015, and have taxes paid on it in 2016. Under this bill, personal property purchased in 2014 would be exempt from property taxes for the life of the property.

In 2012, business personal property represented about $12.6 billion in statewide assessed value, or roughly 14.1 percent of all assessed value. Based on 2011 average county wide mill levies, this value translates into approximately $950 million in local property taxes that will be collected in 2013.

State Revenue

Beginning in FY 2014-15, 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 is expected to reduce property tax revenue by $81.4 million in FY 2015-16 and $84.7 million in 2016-17. This revenue impact is estimated to be $1.2 million for FY 2015-16 and $1.3 million for FY 2016-17. On an accrual accounting basis, $620,000 would be received in FY 2014-15.

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 exempting business personal property purchases in 2014. This bill will reduce local school district property tax revenue by an estimated $22.1 million in FY 2015-16 and $22.9 in FY 2016-17.

The first, direct impact results from exempting all business personal property purchased during 2014. Based on historical business investment rates, approximately $1.1 billion in assessed value would be exempted in 2014. 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 $22.1 million in FY 2015-16 and $22.9 in FY 2016-17 that increases the state's contribution for a given level of public school funding. If the state chooses not to fund this reduction in the local share, the negative factor in the school finance formula would increase.

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 2014 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 could be replaced by state aid, and a reduction in total non-school operating property taxes. 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. The division will incur additional administrative costs in the amount of $46,460 and 0.6 FTE in FY 2014-15 and $29,092 and 0.4 FTE in FY 2015-16 and beyond.

The majority of these costs will be incurred by the state assessed section of the division. In 2012, just over 41 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 2014 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 HB 13-1189*

Cost Components	**FY 2014-15**	**FY 2015-16**
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$4,074	$2,699
Supplemental Employee Retirement Payments	$2,644	$1,995
TOTAL	**$6,718**	**$4,694**

**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 2014. Local non-school operating property taxes are estimated to decline by up to $59.4 million in FY 2015-16 and $61.7 million in FY 2016-17.

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 collect a specific amount of additional property tax revenue. 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 by the jurisdiction.

Finally, the bill prohibits access to this exemption for businesses that have already negotiated an incentive or credit with a local government. This provision will reduce the revenue loss to local governments by some amount. However, this amount has not been quantified.

School District Impact

This bill is estimated to reduce the local share of funding for public schools by up to $22.1 million in FY 2015-16 and $22.9 million in FY 2016-17. This reduction will either be replaced by state aid or the negative factor in the school finance formula will grow, reducing overall funding for school districts. In addition, override levies approved by districts to provide a specific level of funding may increase to offset the drop in assessed values. In contrast, districts that approved a specific override mill levy will lose funding due to the decrease in assessed value. Finally, districts with bonded debt, which often have floating rates to produce a certain revenue level, will collect additional property taxes from taxpayers other than businesses that purchased personal property in 2014.

Pursuant to Section 22-32-143, C.R.S., as specified by House Bill 11-1277, school districts and Boards of Cooperative Educational Services (BOCES) may submit estimates of fiscal impacts within seven days of a bill's introduction. As of the date of this fiscal note, no summaries of fiscal impacts were submitted by districts or BOCES for this bill. If summaries of fiscal impacts are submitted by districts or BOCES in the future, they will be noted in subsequent revisions to the fiscal note and posted at this address: http://www.colorado.gov/lcs

State Appropriations

No state appropriations are required to implement this bill in FY 2013-14. State expenditures for school funding under the Public School Finance Act are expected to increase by up to $22.1 million beginning in FY 2015-16 and by up to $22.9 million in FY 2016-17. The actual amount required would be determined following certification of mill levies in December 2014.

Departments Contacted

Property Taxation