SB13-136

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number:	LLS 13-0327	**Date:**	February 7, 2013
Prime Sponsor(s):	Sen. Scheffel Rep. Holbert; Kagan	**Bill Status:**	Senate SVMA
		Fiscal Analyst:	Marc Carey (303-866-4102)

TITLE: CONCERNING A TAX EXEMPTION FOR BUSINESS PERSONAL PROPERTY WITH A LOCAL GOVERNMENT OPT OUT.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017
State Revenue General Fund		up to $55,500	up to $111,000	up to $120,000
State Expenditures				
FTE Position Change				
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.				

Summary of Legislation

Under current law, the property tax exemption for business personal property on a single personal property schedule is $7,000 in actual value for property tax years 2013 and 2014, and an inflation adjusted amount every two years thereafter. Beginning with property tax year 2015, this bill increases the exemption to $25,000 for all local governments, excluding school districts, adjusted biennially for inflation thereafter. Local governments may opt out of the increased exemption, in which case the existing exemption would remain unchanged. The increased exemption does not apply to state-assessed properties.

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 2013 will appear on the tax rolls in 2014, and have taxes paid on it in 2015.

In 2012, locally assessed business personal property represented about $7.4 billion in statewide assessed value, or roughly 8.2 percent of all assessed value. Based on 2011 average mill levies, this value translates into approximately $269 million in local, non-school property taxes that will be collected in 2013.

State Revenue

Beginning in FY 2015-16, the bill reduces property tax revenue by increasing the minimum exemption level to $25,000. The decrease in property tax liability will increase a company's state income tax liability by reducing the available property tax deduction if no local governments opt out of the increased exemption level. This revenue impact is estimated to be up to $111,000 for FY 2015-16, and $120,000 for FY 2016-17. On an accrual accounting basis, one-half of the FY 2015-16 amount would be received in FY 2014-15.

To the extent 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.

Local Government Impact

Beginning in 2015, the minimum personal property exemption will increase from $7,000 to $25,000, adjusted for inflation thereafter. Local non-school operating property taxes are estimated to decline by up to $7.3 million in FY 2015-16 and $7.6 million in FY 2016-17. These estimates represent a maximum amount as some local governments may opt out of the exemption increase, thus reducing the property tax loss. The opt out provision may also cause significant additional costs to county assessors related to difficulties in allocating value across different districts that have opted out or not. This may also lead to an increase in property tax appeals.

Further, an additional impact occurs if the local government does not opt out, and has already 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. A reduction in assessed value from this bill will then 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, to the extent the increased exemption spurs investment in personal property that would not have otherwise occurred, in the short term, local governments may receive additional property tax revenue that partially offsets the losses described above.

Departments Contacted

Property Taxation

Omissions and Technical Issues

According to federal law, state assessed properties such as airlines and railroads, cannot have a different exemption than other properties.