HB13-1177

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number:	LLS 13-0020	**Date:**	February 11, 2013
Prime Sponsor(s):	Rep. Holbert Sen. Scheffel	**Bill Status:**	House Finance
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TITLE: CONCERNING A BUSINESS PERSONAL PROPERTY TAX EXEMPTION FOR TAXPAYERS THAT DO NOT QUALIFY FOR THE EXEMPTION THAT APPLIES PER PERSONAL PROPERTY TAX SCHEDULE.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016
State Revenue General Fund	$124,500	$249,000	$259,000	$269,000
State Transfers General Fund transfer to State Education Fund		$124,500		
State Expenditures School Finance Impact*		$4.4 million	$4.6 million	$4.8 million
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: See State Appropriations section.				
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

Under current law, the property tax exemption for business personal property on a single personal property schedule is $7,000 for property tax years 2013 and 2014, and an inflation adjusted amount every two years thereafter. If the value of the taxpayer's personal property is greater than this amount, none of the taxpayer's property is exempt. For these taxpayers, this bill establishes an exemption from property tax equal to the first $7,000 of actual value in tax year's 2013 and 2014 and an inflation adjusted amount thereafter.

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 and state assessed 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 mill levies, this value translates into approximately $950 million in local property taxes that will be collected in 2013.

State Revenue

Beginning in FY 2013-14, this bill decreases property tax revenue by providing a $7,000 exemption to all taxpayers, regardless of the amount of their personal property. This is expected to reduce property tax revenue by $16.3 million in FY 2013-14 and $17.0 million in FY 2014-15. The decrease in property tax liability will increase a company's state income tax liability by reducing the available property tax deduction. This revenue impact is estimated to be $124,500 for FY 2012-13, $249,000 for FY 2013-14, and $259,000 for FY 2014-15. On an accrual accounting basis, one-half of the tax year 2013 amount accrues to 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 Transfers

House Bill 12-1338 transfers any General Fund surplus in FY 2012-13 to the State Education Fund. Because the bill increases General Fund revenue by $124,470 in FY 2012-13, it will cause a corresponding increase of $124,470 in transfers to the State Education Fund in FY 2013-14.

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 extending the $7,000 exemption to all taxpayers. This bill will reduce local school district property tax revenue by an estimated $4.4 million in FY 2013-14, $4.6 million in FY 2014-15 and $4.8 million in FY 2015-16.

The first, direct impact results from extending the $7,000 exemption to all business personal property taxpayers. Based on roughly 102,000 locally assessed accounts and 550 public utility accounts in 2012 and historical growth rates for personal property in this sector, a minimum of $216.4 million in assessed value would be exempted in 2013, $225.0 million in 2014, and $234.0 million in 2015.

Based on the statewide average school operating mill levy, this would result in an estimated $4.4 million reduction in school district property taxes in FY 2013-14 that must either be replaced by state aid or cut from school district funding. In subsequent years, the property tax loss increases to $4.6 million in FY 2014-15 and $4.8 million in FY 2015-16. This amount represents an increase to 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 must decline in order to maintain the residential/nonresidential assessed value ratio required by the State Constitution under the Gallagher Amendment. Although the projected reduction due to this bill is not enough to affect the RAR and cause this indirect impact based on current projections, 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 further reduce school district property taxes and could increase the state's obligation for school finance. 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.

Local Government Impact

Beginning in 2013, local government entities will be unable to collect property taxes on the first $7,000 of business personal property for all taxpayers. Overall, local non-school operating property taxes are estimated to decline by up to $11.9 million in FY 2013-14, $12.4 million in FY 2014-15, and $12.8 million in FY 2015-16. These estimates do not include a RAR reduction, which could increase the reduction substantially.

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 extended exemption for 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. In such cases, a reduction in assessed value from the provisions in this bill 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, to the extent that the exemption contained in this bill 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.

School District Impact

This bill is estimated to reduce the local share of funding for public schools by up to $4.4 million in FY 2013-14, $4.6 million in FY 2014-15 and $4.8 million in FY 2015-16. 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, for districts with bonded debt, bond mill levies will typically increase to produce a certain revenue level. As a result, additional property taxes will be collected from taxpayers other than the businesses affected by the provisions of this bill.

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

Implementation of this bill requires a General Fund appropriation increase of $4.4 million in FY 2013-14 for school funding under the Public School Finance Act.

Departments Contacted

Property Tax Administrator

Technical Note

Under current law, county assessors are required to mail personal property notices of valuation no later than June 15. This bill will take effect August 7, 2013, if the General Assembly adjourns on May 8, 2013, as scheduled, and no referendum petition is filed. This conflict in the timing of the effective date and when notices are mailed could cause a large number of abatement petitions to be filed.