Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number:	LLS 13-0546	**Date:**	February 18, 2013
Prime Sponsor(s):	Rep. Saine; Humphrey Sen. Jahn	**Bill Status:**	House Finance
		Fiscal Analyst:	Marc Carey (303-866-4102)

TITLE: CONCERNING BUSINESS PERSONAL PROPERTY EXEMPTIONS, AND, IN CONNECTION THEREWITH, ENACTING THE "SMALL BUSINESS RELIEF ACT".

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018
State Revenue General Fund		$342,500	$685,000	$712,500	$1,023,000
State Expenditures School Finance Impact*			$12.1 million	$12.6 million	$18.1 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: 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

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. This bill increases the exemption to $25,000 for property tax years 2015 and 2016 and $50,000 for property tax years 2017 and 2018, adjusted biennially for inflation thereafter. Beginning in property tax year 2015, the bill also exempts all locally assessed business personal property that is fully depreciated. Under current law, business personal property that is fully depreciated is still subject to property taxation.

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 2015-16, the bill decreases property tax revenue by increasing the minimum exemption level to $25,000. In FY 2017-18, the bill raises the minimum exemption level to $50,000. In addition, beginning in FY 2015-16, the bill exempts all locally assessed business personal property that is fully depreciated. This is expected to reduce property tax revenue by $44.8 million in FY 2015-16 and $46.6 million in FY 2016-17. 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 $342,500 for FY 2014-15, $685,000 for FY 2015-16, and $712,500 for FY 2016-17. On an accrual accounting basis, one-half of the 2015 amount 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

The first, direct impact results from increasing the $7,000 exemption to $25,000 beginning in 2015 and then again to $50,000 in 2017. In 2012, businesses with actual values between $7,000 and $25,000 totaled roughly $165 million in assessed value. Businesses with between $25,000 and $50,000 in actual value totaled roughly another $202 million in assessed value. Based on historical growth rates for personal property, a minimum of $185.7 million in assessed value would be exempted in 2015, $193.2 million in 2016, and $446.1 million in 2017.

A second direct impact results from exempting all locally assessed business personal property that is fully depreciated, beginning in 2015. In 2012, locally assessed and state assessed business personal property represented about $12.6 billion in statewide assessed value. Based on a survey of 9 of the larger counties statewide, it is estimated that approximately 10 percent of the actual value of business personal property is attributable to property that is fully depreciated. Based on historical growth rates for personal property, a minimum of $409.7 million in assessed value would be exempted in 2015, $426.1 million in 2016, and $443.1 million in 2017.

Based on the statewide average school operating mill levy, this would result in an estimated $12.1 million reduction in school district property taxes in FY 2015-16 that must either be replaced by state aid or cut from school district funding. In subsequent years, the property tax loss increases to $12.6 million in FY 2016-17 and $18.1 million in FY 2017-18. 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 potential indirect impact 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 2015, the minimum personal property exemption will increase from $7,000 of actual value to $25,000, and again to $50,000 in 2017, adjusted for inflation thereafter. Overall, local non-school operating property taxes are estimated to decline by up to $32.7 million in FY 2015-16 and $34.0 million in FY 2016-17. This estimate does 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 from other increases in value. 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. 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 $12.1 million in FY 2015-16 and $12.6 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 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

Departments Contacted

Property Taxation