

**Amendment R  
Exempt Possessory Interests in Real Property**

1 **Amendment R proposes amending the Colorado Constitution to:**

- 2       ♦ eliminate property taxes for individuals or businesses that use  
3       government-owned property for a private benefit worth \$6,000 or less  
4       in market value.

5 **Summary and Analysis**

6       ***Property taxes and possessory interests.*** Property taxes are primarily based  
7       on the value of land, houses, other buildings, and business equipment. Individuals  
8       and businesses pay property taxes to various local governments, such as cities,  
9       counties, school districts, and special districts. Property taxes pay for a variety of local  
10      government services, including public education, police and fire services, roads and  
11      bridges, parks and recreation facilities, hospitals, and libraries.

12      When an individual or business uses government-owned land or equipment for  
13      private purposes, a possessory interest is created. Although government-owned  
14      property is exempt from taxes, the benefit that a business or individual obtains from  
15      using that land or equipment is not. For example, some ranchers lease land from the  
16      federal government for cattle grazing. Other businesses lease land to provide a  
17      recreational activity, such as skiing or river rafting, or are given a contract to provide a  
18      specific service on public land, such as operating a snack bar at a national park.  
19      Under current law, the value of a private benefit is considered a possessory interest  
20      and is subject to property taxes.

21      The market value of all possessory interests in Colorado is about \$330 million,  
22      which is less than 0.1 percent of the total market value of all property in the state. At  
23      this value, possessory interests generate approximately \$23 million in property taxes  
24      annually. There are about 220,000 possessory interests in the state, of which nearly  
25      215,000 are leases of agricultural land. Although agricultural leases greatly  
26      outnumber the other types of possessory interests, they account for only 3 percent of  
27      the total value of all the possessory interests in the state, averaging about \$51 each.

28      ***How does Amendment R change the taxation of possessory interests?***  
29      Starting in 2012, a possessory interest is exempt from property taxation if the market  
30      value of the interest is \$6,000 or less. For example, most cattle grazing leases with  
31      the federal government have a market value below \$6,000, and therefore this private  
32      benefit would not be taxed. In contrast, the value of private benefits obtained by ski  
33      areas exceed the \$6,000 threshold and will continue to be taxed at the full value. In  
34      budget year 2012-13, the measure is expected to reduce property taxes statewide by  
35      \$160,000. Every two years, this \$6,000 threshold is increased to account for inflation.

1     **Argument For**

2           Amendment R reduces the administrative burden of collecting a tax that in many  
3 cases costs more money to collect than it brings in to local governments. For  
4 example, an agricultural possessory interest with a market value of \$51 would owe  
5 about \$1 in property taxes, depending on local tax rates. The cost of administering  
6 this tax — mailing notices, maintaining tax rolls, and collecting and enforcing the  
7 tax — often exceeds this amount.

8     **Argument Against**

9           Amendment R provides an unfair tax break for businesses and individuals who use  
10 government-owned land and puts a greater tax burden on others to pay for local  
11 government services. The state constitution requires that taxes be charged uniformly  
12 for all taxpayers. A small tax bill does not justify exempting a business or individual  
13 from paying the tax on the private benefit they enjoy on government land. Simple  
14 fairness demands that all businesses and individuals pay taxes, no matter how small.

15     **Estimate of Fiscal Impact**

16           **State Expenditures.** Public schools are funded from a combination of state and  
17 local revenue. Since Amendment R reduces the amount of local revenue for schools,  
18 the state's portion of school funding will increase by approximately \$46,000 beginning  
19 in budget year 2012-13.

20           **Local Government Impact.** The amendment is expected to reduce property  
21 taxes for local governments by up to \$160,000 per year, beginning in budget year  
22 2012-13. Of this amount, property taxes for school districts are expected to decrease  
23 by approximately \$46,000. In addition, minor cost savings may occur in some  
24 counties because of fewer property valuations.