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M E M O R A N D U M

September 10, 2014

TO: Interested Persons

FROM: Natalie Mullis, Chief Economist, 303-866-4778

SUBJECT: Business Personal Property Tax

Summary

This memorandum provides background information on the structure of the business personal property tax and the estimated fiscal impact of eliminating the tax. The first section of the memorandum describes the business personal property tax base, authorized exemptions, filing procedures, and the types of equipment subject to the property tax. It also presents information on personal property tax revenues by county.

The second section describes the fiscal impact of eliminating the tax, which would affect both state expenditures and local government revenue. The fiscal estimate is calculated using data for tax year 2013 and therefore represents what the impact would have been had business personal property been exempted in 2013. Eliminating the tax would have two primary fiscal impacts: 1) increasing state expenditures for school finance; and 2) reducing local property tax revenue.

Had the tax been eliminated in tax year 2013, state expenditures on school finance would have increased by an estimated $420 million in FY 2013-14. This assumes a constant monetary value of the negative factor in the school finance formula.

Property tax revenue to local governments would have been reduced by a total of $1.6 billion. Of this, $1.0 billion would have been the direct loss of tax revenue on business personal property. The remaining $590.6 million would have resulted from a reduced residential tax base caused by the required reduction of the residential assessment rate (RAR) under the Gallagher Amendment to the Colorado Constitution. Every county in the state would be affected to differing degrees.

This memorandum provides background information on the structure of the business personal property tax and the estimated fiscal impact of eliminating the tax. The first section describes the business personal property tax base, authorized exemptions, filing procedures, the types of equipment subject to the property tax, and the amount of personal property tax by county. The second section describes the fiscal impact of eliminating the tax, using actual data for tax year 2013.

Section 1: Business Personal Property Tax — Background Information

This section of the memorandum[1] describes business personal property tax filing and assessment procedures, the types of equipment subject to the tax, and the personal property tax base. The size of the personal property tax base is presented both by class statewide and by county.

> **Property Tax Definitions**
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> **Actual Value:** The market value in use of personal property.
>
> **Assessed Value:** The taxable value of the property (the tax base).
>
> **Assessment Rate**: The percent of a property's actual value that is taxable. The assessment rate for personal property is 29 percent.
>
> **Mill Levy:** The rate applied to the property's assessed value to determine the taxes due. One mill is equal to one thousandth. In other words, for every $1,000 in assessed value, each mill results in a tax bill of $1.
>
> **Formula To Determine A Property Tax Bill:**
> Actual Value * Assessment Rate * (Mill Levy/1000)

Filing procedures. Business personal property begins to be taxed the year *after* it is newly acquired and first put into use. For example, newly acquired personal property that is first put into use in 2013 will appear on the tax rolls in 2014, for which taxes are due in 2015.

Each year, an owner of locally assessed personal property with a total actual value of more than $7,000 in a county is required to submit a declaration schedule by April 15 describing and listing taxable personal property.[2] The personal property listed on that declaration schedule then becomes part of the tax base for that year, upon which taxes will be due the following year. The declaration schedule contains an itemized list of all the personal property owned by a taxpayer in the county including: a description of the personal property, model number or capacity, acquisition date, original installed cost, and month and year first placed into use.

Assessment procedures. While counties are responsible for collecting property taxes for all local governments within their jurisdiction, the value of personal property may be determined locally by county assessors or at the state level by the Colorado Division of Property Taxation (DPT). Generally, properties are considered state assessed when they cross county boundaries and are not separately operating business units or enterprises. Some examples include: utilities, airlines, telecommunications, pipelines, and railroads.

The county assessor uses the declaration schedule filed by the taxpayer, along with other discovery procedures, to determine the actual value of the locally assessed personal property. The DPT determines and allocates the actual value of state assessed property to each county in the state. Each year, taxable personal property is valued based on its value as of the applicable June 30 appraisal. That value is taxable for the entire tax year, regardless of any destruction, conveyance, relocation, or change in taxable status during the remainder of year.[3] The assessed value of the property is determined by applying a 29 percent assessment rate to the actual value of the property. Each year, a notice of valuation (NOV) is mailed to each taxpayer by June 15th, and taxpayers may protest their valuation.

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[1] Legislative Council Staff would like to thank the staff of the Colorado Department of Local Affairs, Division of Property Taxation for their help with this section of the memorandum.

[2] Beginning with tax year 2015, this amount will be indexed by the Denver-Boulder-Greeley consumer price index every two years based on the two-year assessment cycle.

[3] Section 39-5-104.5, C.R.S.

Business personal property tax base. All personal property in Colorado is taxable unless it is specifically exempted by Colorado law. A number of exemptions exist, which are listed and described below:

- *Consumable personal property.*[4] Two types of personal property are considered consumable: 1) property with an economic life of one year or less, regardless of its original installed cost; and 2) property with a total original installed cost of $350 or less, regardless of its economic life.[5]

- *Personal property of $7,000 or less per county per taxpayer.* A taxpayer owning locally assessed personal property with an *actual value* of $7,000 or less per owner per county is not required to file a declaration schedule with the county assessor.[6] A taxpayer owning state assessed personal property with a total actual value of $7,000 or less per owner for Colorado is not required to file a personal property schedule.

- Beginning with tax year 2015 and every two years thereafter, the $7,000 threshold will be indexed by inflation, as measured by the Denver-Boulder-Greeley consumer price index, and rounded up to the nearest one hundred dollar increment. Based on the June 2014 Legislative Council Staff forecast, the threshold is expected to increase to $7,400 for tax years 2015 and 2016 and $7,800 for tax years 2017 and 2018.

- *Government property.* Public property owned by the state, counties, cities, towns, other municipal corporations, public libraries, and political subdivisions of the state, including school districts and special districts.[7]

- *Religious, nonprofit, and charitable property.* Property dedicated for religious worship, private nonprofit schools, and charitable purposes.[8]

- *Motor vehicles.* All motor vehicles, wheeled trailers, semi-trailers, trailer coaches, and mobile and self-propelled construction equipment, which pay specific ownership taxes in lieu of personal property taxes.[9]

- *Miscellaneous exemptions in the Colorado Constitution.* Private property consisting of nonproducing unpatented mining claims; household furnishings and personal effects not used to produce income; inventories of materials, merchandise, and supplies that are held by a business for sale or consumption; livestock; agricultural and livestock products; agricultural equipment used to produce agricultural products; and intangible personal property (such as stocks and bonds; copyrights, patents, trademarks, and franchises; contract rights and obligations; and operating software) not owned by a state-assessed public utility.[10]

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[4] Section 39-3-119, C.R.S.

[5] *Personal Property Manual*, published by the Department of Local Affairs, Division of Property Taxation. The $350 exemption includes the purchase price, installation cost, sales and use tax, and freight expense to the point of use. It applies to the assembled cost of property as used by a business, not the unassembled cost of individual component parts. For example, the cost of a personal computer includes all of the component parts, including the central processing unit, mouse, keyboard, speakers, monitor, etc. These components should not be considered separately in determining the $350 exemption.

[6] Section 39-3-119.5, C.R.S.

[7] Colo. Const. art. X, §4.

[8] Colo. Const. art. X, §5.

[9] Colo. Const. art. X, §6.

[10] Colo. Const. art. X, §3.

Types of personal property. The following provides examples of the types of commercial, industrial, oil and gas, and state assessed personal property that are subject to property taxes. These four classes account for more than 97 percent of personal property statewide.

- *Commercial* — general equipment, computer equipment, copy and blueprint machines, telephone equipment, furniture, leasehold improvements, vending machines, signs, and other personal effects used to produce income in residential rental properties;

- *Industrial* — general equipment and machinery, computer equipment, manufacturing equipment (for example, the semi-conductor industry would have testing, wafer fabrication, and R&D equipment subject to the tax), electronic testing equipment, telephone equipment, and furniture.

- *Oil and gas* — wellheads, pumping units, motors, storage tanks, pumps, meter runs, and flowlines.

- *State assessed* — pipelines, gas distribution mains, gas compressor and processing equipment, metering and measuring equipment, railcars and rail transportation equipment, railroad ties, fences and signs, freight and passenger cars, aircraft, luggage shuttles, aircraft maintenance equipment, coal and gas turbine equipment, electrical poles and towers, overhead and underground conduit and wiring, line transformers, meters, purchase power agreements, digital switching equipment, telephone poles, fiber optic systems, cellular towers, telephone conduit wire, water pipelines, water distribution pumps and filters, and water well equipment.

Table 1 illustrates the assessed value of all real and personal property by class for tax year 2013. The assessed value of personal property totaled $13.0 billion in 2013, representing 14.7 percent of the state's total assessed property value. The corresponding *actual value* of taxable personal property totaled $44.9 billion. Four property classes accounted for nearly all personal property assessed value, as illustrated in Figure 1: state assessed had 40.7 percent of the total; commercial had 27.1 percent; oil and gas had 14.9 percent; and industrial had 14.3 percent.

Personal property tax assessed values by County. Table 2 presents assessed values of personal and real property by county and the share of each county's total assessed value that is personal property. Personal property comprises a very small share of the total assessed value for some counties. For example, personal property represents only 1.7 percent and 5.1 percent of total assessed value in Hinsdale and San Juan counties. Meanwhile, personal property makes up a large share of total assessed values in other counties. Baca, Lake, Las Animas, Moffat, Morgan, Rio Blanco, and Sedgwick counties all have close to half of their property tax base in personal property.

Table 1
2013 Assessed Value of Property, By Class
Millions of Dollars

Property Class	Personal Property	Total Property	Personal Property as a Percent of Total Property in Class
Vacant	$0	$3,890.6	0.0%
Residential	$0	$38,456.4	0.0%
Commercial	$3,525.7	$25,407.7	13.9%
Industrial	$1,856.1	$3,484.4	53.3%
Agriculture	$12.5	$1,053.6	1.2%
Natural Resources	$182.7	$406.0	45.0%
Producing Mines	$196.5	$801.4	24.5%
Oil and Gas	$1,945.2	$8,780.2	22.2%
State Assessed	$5,304.6	$6,320.5	83.9%
Total	**$13,023.4**	**$88,600.9**	**14.7%**

Figure 1
2013 Assessed Value of Personal Property
Billions of Dollars

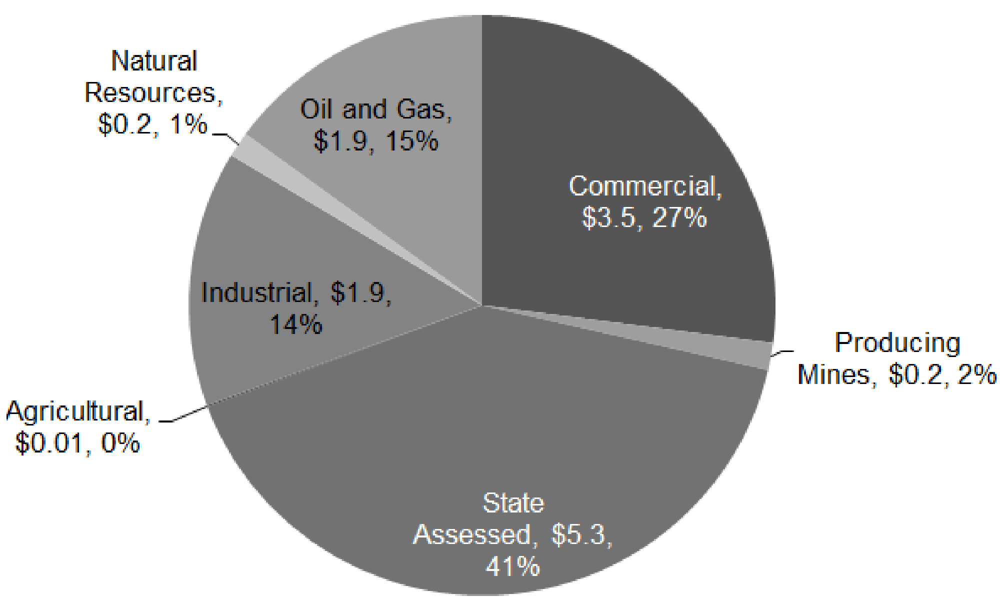

Table 2
Assessed Value of Personal and Real Property, by County, 2013
Preliminary Data, Millions of Dollars

County	Personal Property	Total Property	Personal Property as Percent of County Total
Adams	$999.5	$4,791.9	20.9%
Alamosa	$26.9	$158.4	17.0%
Arapahoe	$882.3	$7,617.6	11.6%
Archuleta	$18.2	$289.7	6.3%
Baca	$37.1	$82.1	45.2%
Bent	$25.8	$77.6	33.2%
Boulder	$569.2	$5,734.6	9.9%
Broomfield	$160.8	$1,168.5	13.8%
Chaffee	$28.0	$355.8	7.9%
Cheyenne	$32.5	$156.1	20.8%
Clear Creek	$75.2	$597.3	12.6%
Conejos	$5.6	$63.3	8.8%
Costilla	$9.3	$121.9	7.7%
Crowley	$6.7	$40.3	16.5%
Custer	$5.7	$100.1	5.7%
Delta	$57.2	$303.0	18.9%
Denver	$1,240.5	$11,277.5	11.0%
Dolores	$27.1	$108.3	25.0%
Douglas	$463.8	$4,689.5	9.9%
Eagle	$161.4	$2,685.0	6.0%
El Paso	$639.4	$6,352.5	10.1%
Elbert	$31.6	$261.3	12.1%
Fremont	$87.6	$433.3	20.2%
Garfield	$848.7	$2,896.9	29.3%
Gilpin	$37.2	$339.4	11.0%
Grand	$79.6	$705.1	11.3%
Gunnison	$78.6	$576.6	13.6%
Hinsdale	$1.0	$58.7	1.7%
Huerfano	$32.0	$121.1	26.4%
Jackson	$6.9	$44.4	15.6%
Jefferson	$747.7	$7,064.4	10.6%
Kiowa	$4.7	$41.8	11.2%

Table 2 continued on next page.

Table 2, *continued*
Assessed Value of Personal and Real Property, by County, 2013
Preliminary Data, Millions of Dollars

County	Personal Property	Total Property	Personal Property as Percent of County Total
Kit Carson	$44.8	$142.1	31.6%
La Plata	$389.5	$1,846.2	21.1%
Lake	$120.2	$231.0	52.0%
Larimer	$431.8	$4,220.9	10.2%
Las Animas	$186.7	$372.8	50.1%
Lincoln	$40.9	$123.8	33.0%
Logan	$99.0	$274.0	36.1%
Mesa	$314.2	$1,827.0	17.2%
Mineral	$3.8	$39.1	9.8%
Moffat	$225.4	$464.9	48.5%
Montezuma	$93.8	$664.3	14.1%
Montrose	$79.1	$492.0	16.1%
Morgan	$213.8	$446.7	47.9%
Otero	$35.3	$132.1	26.7%
Ouray	$8.3	$154.0	5.4%
Park	$26.6	$394.2	6.7%
Phillips	$10.4	$73.6	14.1%
Pitkin	$78.1	$2,613.8	3.0%
Prowers	$42.2	$123.7	34.1%
Pueblo	$638.0	$1,667.6	38.3%
Rio Blanco	$690.4	$1,295.8	53.3%
Rio Grande	$19.0	$173.7	10.9%
Routt	$148.8	$1,019.2	14.6%
Saguache	$6.9	$69.0	10.0%
San Juan	$2.3	$44.3	5.1%
San Miguel	$40.1	$729.0	5.5%
Sedgwick	$27.6	$56.6	48.8%
Summit	$96.2	$1,544.1	6.2%
Teller	$71.0	$542.7	13.1%
Washington	$45.2	$131.7	34.3%
Weld	$1,284.0	$7,137.4	18.0%
Yuma	$82.2	$239.7	34.3%
Total	**$13,023.4**	**$88,600.9**	**14.7%**

Section 2: Fiscal Impact of Exempting Business Personal Property Tax

The second section of this memorandum describes the state and local fiscal impact of eliminating the business personal property tax. The fiscal impact estimate is calculated based on data for tax year 2013. Therefore, the estimates presented represent what the impact would have been had business personal property been exempted in 2013. The impact on the state budget is described first, followed by the impact on local government revenue.

Estimated fiscal impact on the state budget. Since local school districts will collect less property tax revenue for school finance purposes, the state will be required to backfill those amounts. The state would have been required to spend an estimated additional $420 million in FY 2013-14 to maintain the budgeted target for public school finance had business personal property been exempted in tax year 2013.

This figure assumes a constant monetary value of the negative factor in the school finance formula. If less than $420 million were backfilled, the monetary value of the negative factor would increase.

Estimated fiscal impact on local governments. Exempting business personal property from the property tax is estimated to reduce property taxes to local governments by a total of $1.6 billion per year. This amount includes the $420 million backfilled from the state for school finance. As illustrated in Table 3, every county in the state would be affected, although to differing degrees. The exemption affects local government property tax revenue in two ways; a direct loss of tax revenue from exempted business personal property and an indirect loss of tax revenue from a reduction in the residential assessment rate (RAR) required by the Gallagher Amendment to the Colorado Constitution. Each of these impacts is described in greater detail below.

Tax revenue loss from business personal property. First, exempting business personal property will reduce the property tax base by the amount of assessed value in business personal property, thereby reducing property tax revenue to local governments. In 2013, there was $13.0 billion in personal property assessed value statewide. This translates into approximately $1.0 billion in property tax revenue for local governments, based on average mill levies during tax year 2013. The degree to which each county's tax base is affected depends on the share of that base attributable to business personal property.

Tax revenue loss from residential property. Second, exempting business personal property will also reduce the property tax base through the provisions of the Gallagher Amendment to the Colorado Constitution.[11] The Gallagher Amendment requires the residential assessment rate (RAR) to adjust so that the relative shares of residential and nonresidential property of the overall tax base remain constant at about 45 percent and 55 percent, respectively. Because roughly $13.0 billion would no longer be counted as nonresidential assessed value, the RAR must decline to keep these relative shares constant. The exemption of all business personal property would require the RAR to decline from the current 7.96 percent to 6.50 percent, resulting in a loss of approximately $7.05 billion in residential assessed value and $590.6 million in local property tax revenue. Once the RAR is reduced, it cannot increase again without a statewide vote.

Different counties would be affected to different degrees. Many rural counties are less dependent on residential property, while others, including counties within mountain resort communities, are more dependent. Column B of Table 3 shows the expected loss in property tax revenue attributable to residential property.

The loss in residential property tax revenue in many mountain communities is much higher than the loss from exempting business personal property. For example, more than 60 percent of the loss in property tax revenue in Custer, Eagle, Ouray, San Miguel, and Summit counties is from declining residential assessed values due to the drop in the RAR. More than 80 percent of the loss in property tax revenue is attributable to a lower RAR in Hinsdale and Pitkin counties.

[11] Colo. Const. art. X, §3 (1) (b).

Table 3
Estimated Property Tax Loss Due to the Exemption of Business Personal Property, Tax Year 2013
Millions of Dollars

County	Column A Personal Property Tax Loss		Column B Residential Property Tax Loss		Total Property Tax Loss	Share of Total County Property Tax Revenue	County
	Amount	Share of Total Tax Loss	Amount	Share of Total Tax Loss			
Adams	$108.8	73.4%	$39.5	26.6%	$148.4	28.4%	Adams
Alamosa	$2.1	73.5%	$0.8	26.5%	$2.9	23.1%	Alamosa
Arapahoe	$91.9	56.0%	$72.3	44.0%	$164.2	20.7%	Arapahoe
Archuleta	$1.1	41.2%	$1.6	58.8%	$2.7	15.3%	Archuleta
Baca	$2.7	96.5%	$0.1	3.5%	$2.8	46.8%	Baca
Bent	$1.7	94.8%	$0.1	5.2%	$1.8	35.0%	Bent
Boulder	$50.7	49.5%	$51.8	50.5%	$102.5	20.1%	Boulder
Broomfield	$17.5	65.6%	$9.2	34.4%	$26.7	21.0%	Broomfield
Chaffee	$1.5	46.8%	$1.7	53.2%	$3.2	16.8%	Chaffee
Cheyenne	$1.5	97.3%	$0.0	2.7%	$1.5	21.4%	Cheyenne
Clear Creek	$4.9	80.9%	$1.2	19.1%	$6.1	15.6%	Clear Creek
Conejos	$0.4	50.8%	$0.4	49.2%	$0.8	17.3%	Conejos
Costilla	$0.6	78.4%	$0.2	21.6%	$0.7	9.8%	Costilla
Crowley	$0.4	85.7%	$0.1	14.3%	$0.5	19.3%	Crowley
Custer	$0.3	36.1%	$0.6	63.9%	$0.9	15.9%	Custer
Delta	$3.2	68.6%	$1.5	31.4%	$4.7	27.5%	Delta
Denver	$108.0	60.2%	$71.4	39.8%	$179.4	18.3%	Denver
Dolores	$1.5	92.8%	$0.1	7.2%	$1.6	27.0%	Dolores
Douglas	$48.8	48.4%	$52.1	51.6%	$100.9	20.4%	Douglas
Eagle	$10.0	32.9%	$20.3	67.1%	$30.3	18.3%	Eagle
El Paso	$54.8	50.0%	$54.9	50.0%	$109.7	20.1%	El Paso
Elbert	$2.2	50.9%	$2.1	49.1%	$4.4	23.8%	Elbert
Fremont	$5.2	72.0%	$2.0	28.0%	$7.2	28.1%	Fremont
Garfield	$38.7	92.8%	$3.0	7.2%	$41.7	31.6%	Garfield
Gilpin	$1.4	78.9%	$0.4	21.1%	$1.8	13.9%	Gilpin
Grand	$4.7	56.9%	$3.6	43.1%	$8.3	19.9%	Grand
Gunnison	$4.5	63.6%	$2.6	36.4%	$7.1	21.4%	Gunnison
Hinsdale	$0.0	15.5%	$0.3	84.5%	$0.3	11.0%	Hinsdale
Huerfano	$2.2	81.1%	$0.5	18.9%	$2.7	32.5%	Huerfano
Jackson	$0.3	79.8%	$0.1	20.2%	$0.4	19.6%	Jackson
Jefferson	$74.4	49.6%	$75.6	50.4%	$150.0	21.3%	Jefferson
Kiowa	$0.4	92.3%	$0.0	7.7%	$0.4	12.2%	Kiowa

Table 3 continued on next page.

Table 3, *continued*
Estimated Property Tax Loss Due to the Exemption of Business Personal Property, Tax Year 2013
Millions of Dollars

County	Column A Personal Property Tax Loss		Column B Residential Property Tax Loss		Total Property Tax Loss	Share of Total County Property Tax Revenue	County
	Amount	Share of Total Tax Loss	Amount	Share of Total Tax Loss			
Kit Carson	$3.6	91.4%	$0.3	8.6%	$3.9	34.5%	Kit Carson
La Plata	$27.8	79.5%	$7.2	20.5%	$34.9	26.5%	La Plata
Lake	$4.4	93.0%	$0.3	7.0%	$4.7	55.9%	Lake
Larimer	$38.2	50.9%	$36.8	49.1%	$74.9	20.1%	Larimer
Las Animas	$7.0	94.7%	$0.4	5.3%	$7.4	52.9%	Las Animas
Lincoln	$3.1	95.0%	$0.2	5.0%	$3.3	34.7%	Lincoln
Logan	$7.5	90.1%	$0.8	9.9%	$8.3	40.1%	Logan
Mesa	$19.3	70.0%	$8.3	30.0%	$27.5	24.6%	Mesa
Mineral	$0.2	52.7%	$0.2	47.3%	$0.5	18.6%	Mineral
Moffat	$14.9	95.8%	$0.7	4.2%	$15.5	50.6%	Moffat
Montezuma	$4.7	80.7%	$1.1	19.3%	$5.8	17.5%	Montezuma
Montrose	$4.8	68.4%	$2.2	31.6%	$7.1	23.5%	Montrose
Morgan	$16.9	92.9%	$1.3	7.1%	$18.2	51.5%	Morgan
Otero	$2.2	82.5%	$0.5	17.5%	$2.7	32.4%	Otero
Ouray	$0.5	37.8%	$0.7	62.2%	$1.2	14.2%	Ouray
Park	$1.6	41.9%	$2.2	58.1%	$3.7	16.1%	Park
Phillips	$0.9	78.5%	$0.3	21.5%	$1.2	18.0%	Phillips
Pitkin	$3.1	19.6%	$12.5	80.4%	$15.6	15.2%	Pitkin
Prowers	$2.6	90.5%	$0.3	9.5%	$2.9	37.7%	Prowers
Pueblo	$57.0	86.0%	$9.2	14.0%	$66.3	44.5%	Pueblo
Rio Blanco	$29.4	99.0%	$0.3	1.0%	$29.7	53.8%	Rio Blanco
Rio Grande	$1.2	61.2%	$0.7	38.8%	$1.9	17.9%	Rio Grande
Routt	$7.8	61.9%	$4.8	38.1%	$12.5	23.6%	Routt
Saguache	$0.6	63.6%	$0.3	36.4%	$1.0	15.7%	Saguache
San Juan	$0.1	55.2%	$0.1	44.8%	$0.2	9.3%	San Juan
San Miguel	$1.6	35.3%	$3.0	64.7%	$4.7	15.6%	San Miguel
Sedgwick	$2.1	96.5%	$0.1	3.5%	$2.1	50.6%	Sedgwick
Summit	$5.0	34.0%	$9.6	66.0%	$14.6	18.3%	Summit
Teller	$3.9	68.9%	$1.8	31.1%	$5.7	19.0%	Teller
Washington	$3.0	95.9%	$0.1	4.1%	$3.1	35.8%	Washington
Weld	$87.1	86.2%	$14.0	13.8%	$101.1	20.9%	Weld
Yuma	$5.8	93.8%	$0.4	6.2%	$6.2	36.6%	Yuma
Total	$1,014.2	63.2%	$590.6	36.8%	$1,604.8	22.4%	Total