HB 18-1036

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

FINAL FISCAL NOTE

Drafting Number:	LLS 18-0604	**Date:**	July 16, 2018
Prime Sponsors:	Rep. Leonard Sen. Neville T.	**Bill Status:**	Postponed Indefinitely
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Bill Topic: REDUCE BUSINESS PERSONAL PROPERTY TAXES

Summary of Fiscal Impact:

☒ State Revenue
☒ State Expenditure
☐ State Transfer
☐ TABOR Refund
☒ Local Government
☐ Statutory Public Entity

This bill would have increased the personal property tax exemption from $7,400 to $50,000. This would reduce property tax revenue to local governments, increase state income tax revenue, and increase state expenditures for school finance. These impacts are ongoing.

Appropriation Summary: For FY 2018-19, the bill would have required an appropriation of $3,600,000 to the Department of Education.

Fiscal Note Status: This fiscal note reflects the introduced bill. This bill was not enacted into law; therefore the impacts identified in this analysis do not take effect.

Table 1
State Fiscal Impacts Under HB 18-1036

		FY 2018-19	FY 2019-20
Revenue	General Fund	$6,600,000	$13,340,000
Expenditures	General Fund	$3,600,000	$3,500,000
Transfers		-	-

Summary of Legislation

This bill increases the exemption for business personal property from $7,400 to $50,000 in 2018, and adjusts the exemption for inflation every two years. In addition, the bill raises the limit for consumable property that is exempt from property taxes from $350 to $500.

Background

Current law exemption. Business owners are required to report how much personal property they own in a county to the county assessor if they own more than $7,400 in property in the county. Businesses with less than the $7,400 threshold of personal property within a county are not required to report the value to the assessor and it is not taxed. If a business owns more than $7,400 in personal property in a county, the entire amount is taxed. The $50,000 exemption under this bill would be administered exactly like the $7,400 exemption in current law.

Property taxes. Personal property is assessed at 29 percent of its actual value. For example, the taxable value of personal property with an actual value of $100,000 is $29,000. Property tax is collected by various local taxing entities, including municipalities, counties, school districts, and special districts. Each local taxing entity establishes a mill rate that is multiplied by the taxable value of all taxable property within the jurisdiction. One mill generates $1.00 for each $1,000 of assessed value. Property taxes are collected in arrears, in the first half of the calendar year following the property tax year. For example, 2018 property taxes will be collected in the first half of 2019.

Consumable property. Consumable property and office supplies are exempt from property taxes. Through administrative rule, the Division of Property Taxation has determined that this exemption applies to property with an economic life of less than one year or any property with an installed cost of less than $350. This bill increase the threshold to $500.

Assumptions

Based on an analysis of business personal property tax records provided by 52 county assessors, increasing the threshold for the property tax exemption to $50,000 will decrease statewide assessed values by $225.2 million in 2018. The increased exemption for personal property will reduce total property taxes by about $17.3 million annually. The property tax revenue impact in future years assumes mills will be unchanged. To estimate the revenue impact for local governments 2016 mills were used. For school districts, 2017 program mills where used. There is an additional local government revenue impact from the residential assessment rate. Further detail is provided in the local government section below.

State Revenue

Corporate income tax revenue will increase by $6.6 million in FY 2018-19 and $13.3 million in FY 2019-20 and subsequent years. By increasing the personal property tax exemption, federal taxable income is expected to increase and taxpayers are expected to claim less from the personal property tax income tax credit as shown in Table 2.

Table 2
Revenue Impacts Under HB 18-1036

	FY 2018-19	FY 2019-20
Personal Property Tax Credit	$6,470,000	$13,070,000
Revenue Impact of Increased Federal Taxable Income	$130,000	$270,000
Total	**$6,600,000**	**$13,340,000**

Colorado income tax credit. Beginning in 2018, business personal property owners are allowed to claim an income tax credit for the amount of property taxes paid on the first $18,000 in personal property. It is estimated that 64.9 percent of taxpayers eligible to claim the credit have personal property of less than $50,000 and this bill would eliminate the property taxes on their personal property. The credit is estimated to be reduce income tax revenue to the state by $9.9 million in FY 2018-19 and $20.1 million in FY 2019-20. Eliminating the property taxes of 64.9 percent of filers will reduce the amount of credits claimed and increase income taxes by $6.5 million in 2018-19 and $13.1 million FY 2019-20. The FY 2018-19 revenue impact is based on a half-year property tax impact to account for accrual accounting of income tax.

Federal taxable income. Property taxes are deducted from federal taxable income, which is the starting point for calculating Colorado income taxes. The reduction in property taxes from this bill reduces the deduction business personal property taxpayers will be allowed to take, increasing their Colorado income tax liability. An estimated one-third of aggregate property tax liability for personal property is currently deducted from the taxable income of owners. The revenue impact is calculated by applying the state's 4.63 percent income tax rate to the reduced property tax liability. The smaller deduction will increase income tax revenue by $130,000 in FY 2018-19, and $270,000 in FY 2019-20. The FY 2018-19 revenue impact is based on a half-year property tax impact to account for accrual accounting of income tax.

TABOR Refund

The bill increases state General Fund revenue subject to TABOR by $6.6 million in FY 2018-19 and $13.3 million in FY 2019-20. State revenue is not currently expected to exceed the TABOR limit in either year and no refund is required. Therefore, the bill is not expected to impact TABOR refunds in these years. However, refunds in future years when the state next collects a TABOR surplus will be increased.

State Expenditures

The bill increases state expenditures for school finance by $3.6 million in FY 2018-19 and by $3.5 million in FY 2019-20 with ongoing increases. In addition, the bill results in a one-time workload impact for the Department of Local Affairs (DOLA) in FY 2017-18.

School Finance. Under current law, the money to fund the school finance act comes from a combination of local and state sources. The local share, primarily from property taxes, is counted first. State aid provides the difference between a district's total funding and the district's local share. In school finance, this concept of state assistance supplementing local resources is called "equalization."

This bill will reduce the amount of property taxes collected, and therefore the amount of revenue available for the local share of school finance by $3.6 million in FY 2018-19 and $3.5 million in FY 2019-20, with ongoing impacts in future fiscal years. This reduction in the amount of local share increases the amount of state equalization by $3.6 million in FY 2018-19 and $3.5 million in FY 2019-20 under the assumption that the school finance budget stabilization factor will remain unchanged.

DOLA — Division of Property Taxation (DPT). In FY 2017-18, the DPT will update procedures, forms, and various manuals used by county assessors to value personal property. These workload impacts can be accomplished with existing appropriations.

Local Government

The personal property tax exemption in this bill will reduce local government property tax revenue by $17.4 million in FY 2018-19 and $17.3 million in FY 2019-20 with ongoing impacts. These impacts are shown in Table 3 and described below. There is a secondary impact from a further reduction to the residential assessment rate caused by exempting $225.2 million in assessed value of nonresidential property. The secondary impact is shown in Table 4.

Property tax revenue. Cities, counties, schools, and special districts levy property taxes. Using the weighted average mills for school districts and other local governments for each county, exempting $225.2 million in assessed values will reduce local government property tax revenue by $17.4 million in FY 2018-19 and $17.3 million in FY 2019-20 as shown in Table 3. The bill is effective for tax year 2018, and 2018 property taxes will be paid in the first half of 2019.

Table 3
Change in Property Tax Revenue Under HB 18-1036

	FY 2018-19	FY 2019-20
Property Tax Revenue		
Cities, Counties, Special Districts	($13,800,000)	($13,800,000)
School Districts	($3,600,000)	($3,500,000)
Total Revenue	**($17,400,000)**	**($17,300,000)**

Residential assessment rate. The residential assessment rate (RAR) will be recalculated in 2019 to comply with the Gallagher Amendment in the state constitution. In the spring of 2019, the Division of Property Taxation will estimate the RAR for 2019 and 2020 using data provided by each county assessor for the purpose of adjusting the RAR through future legislation. For informational purposes, this bill's indirect local government revenue impact on the RAR is shown in Table 4. The Gallagher Amendment requires that the share of residential and nonresidential assessed values remain constant between reassessment cycles. Reducing nonresidential assessed values by $225.2 million will reduce the RAR by 0.02 percent compared with the 6.11 percent in the December 2017 Legislative Council Staff assessed values forecast. This reduction in the RAR will reduce statewide residential assessed values by an estimated $172.7 million in the 2019 property tax year, affecting taxes collected in FY 2019-20.

Table 4
Change in Property Tax Revenue with a 6.09 percent RAR

	FY 2018-19	FY 2019-20
Property Tax Revenue		
Cities, Counties, Special Districts		($10,359,000)
School Districts		($3,717,000)
Total Revenue		**($14,076,000)**

Technical Note

It is not clear how county assessors will be able to administer the exemption in 2018. County assessors are required to mail or deliver personal property tax schedules as close to January 1 as possible. For property tax year 2018, these schedules have already been mailed. Assessors are required to mail notice of valuation to property owners by June 15, 2018 which is before the bill becomes law on August 8, 2018, if no petition is filed. This fiscal note assumes that the exemption applies for 2018 property taxes as written. However, it is not clear how this will be accomplished administratively.

Effective Date

This bill was postponed indefinitely by the House State, Veterans, and Military Affairs Committee on February 1, 2018.

State Appropriations

For FY 2018-19, the bill requires an appropriation of $3,600,000 from the General Fund to the Department of Education.

State and Local Government Contacts

Counties	County Assessors	Local Affairs	Municipalities
Revenue	School Districts	Special Districts	Property Tax Division