

## Amendment U Exempt Certain Possessory Interests From Property Taxes

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

- 2     ◆ beginning with tax year 2018, eliminate property taxes for individuals  
3     or businesses that use government-owned property for a private  
4     benefit worth \$6,000 or less in market value; and
- 5     ◆ beginning with tax year 2019, and every two years thereafter, adjust the  
6     \$6,000 exemption threshold to account for inflation.

7 **Summary and Analysis**

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

15    When an individual or business uses government-owned land or equipment for  
16    private purposes, a possessory interest is created. Although government-owned  
17    property is exempt from taxes, the financial benefit that a business or individual  
18    obtains from using that land or equipment is not. For example, some ranchers lease  
19    land from the federal government for cattle grazing. Other businesses lease land to  
20    provide a recreational activity, such as skiing or river rafting, or are given a contract to  
21    provide a specific service on public land, such as operating a snack bar at a national  
22    park. Under current law, the value of a private financial benefit is considered a  
23    possessory interest and is subject to property taxes. Typically, the value assigned to  
24    a possessory interest is equal to the cost of the lease to use the government-owned  
25    land; however, county assessors may use other methods to determine the actual  
26    value of a possessory interest prior to determining the tax owed.

27    There are about 7,000 total possessory interests in Colorado. In 2015, the market  
28    value of all possessory interests is about \$315.0 million, which is 0.04 percent of the  
29    total market value of all taxable property in the state. At this value, total property tax  
30    payments for all possessory interests of any value are approximately \$7.0 million  
31    annually.

1        **How does Amendment U change the taxation of possessory interests?**  
2        Starting in 2018, Amendment U exempts a possessory interest from property taxation  
3        if the market value of the interest is \$6,000 or less. Beginning in tax year 2019, and  
4        every two years thereafter, the \$6,000 threshold is adjusted to account for inflation.  
5        Amendment U exempts approximately 5,100 of the 7,000 possessory interests in the  
6        state. In total, these possessory interests pay about \$125,000 in property taxes  
7        annually, or about \$24, on average, for each possessory interest.

*For information on those issue committees that support or oppose the measures on the ballot at the **November 8, 2016**, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:*

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

## 8        **Argument For**

9            1) Amendment U reduces the administrative burden of collecting a tax that in  
10          many cases costs more to collect than it brings in to local governments. For example,  
11          the majority of possessory interests in the state are for agricultural leases, many of  
12          which are charged less than \$10 in property taxes. The cost of administering this  
13          tax — mailing notices, maintaining tax rolls, and collecting and enforcing the  
14          tax — often exceeds this amount.

## 15        **Argument Against**

16          1) Amendment U provides an unfair tax break for businesses and individuals who  
17          use government-owned land for their private financial benefit, and puts a greater tax  
18          burden on others to pay for local government services. These property taxes should  
19          continue being collected uniformly from all taxpayers. A small tax bill does not justify  
20          exempting businesses or individuals from paying the tax on the private benefit they  
21          enjoy on government land.

## 22        **Estimate of Fiscal Impact**

23            **Local government impact.** Amendment U is expected to reduce property taxes  
24          for all local governments statewide by up to \$125,000 per year, beginning in  
25          budget year 2018-19. Some county governments may experience minor cost savings  
26          as a result of fewer properties to assess and fewer tax notifications to mail and  
27          process. Costs will only be saved in those counties that assess property taxes on  
28          possessory interests with an actual value of \$6,000 or less.