



**Colorado
Legislative
Council
Staff**

SB17-009

FISCAL NOTE

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 17-0663
Prime Sponsor(s): Sen. Crowder

Date: February 1, 2017
Bill Status: Senate Finance
Fiscal Analyst: Larson Silbaugh (303-866-4720)

BILL TOPIC: BUSINESS PERSONAL PROPERTY TAX EXEMPTION

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020
State Revenue		<u>\$348,012</u>	<u>\$700,546</u>	<u>\$755,936</u>
General Fund		\$348,012	\$700,546	\$755,936
State Expenditures	<u>Workload increase.</u>	<u>\$3,216,000</u>	<u>\$3,424,000</u>	<u>\$5,222,000</u>
General Fund		\$3,216,000	\$3,424,000	\$5,222,000
TABOR Impact		\$348,012	\$700,546	Not estimated.
Appropriation Required: \$3,216,000 - Department of Education (FY 2017-18).				
Future Year Impacts: Ongoing state revenue increase, local government revenue decrease, and school financing impact.				

Summary of Legislation

This bill expands the exemption for business personal property from \$7,300 to \$21,900 in 2017 and 2018. The exemption is adjusted for inflation every two years.

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 \$7,300 in property in the county. If they have less than the \$7,300 threshold of personal property within a county they do not report the value to the assessor and it is not taxed. If a business owns more than \$7,300 in personal property in a county, the entire amount is taxed. The \$21,900 exemption in this bill would be administered exactly like the \$7,300 exemption in current law.

Property taxes. Personal property is assessed at 29 percent of its actual value. 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, 2017 property taxes will be collected in the first half of 2018.

Local Government Impact

Increasing the current law personal property tax exemption from \$7,300 to \$21,900 will reduce property tax revenue by an estimated \$11.9 million in FY 2017-18, \$12.4 million in FY 2018-19, and \$19.0 million in FY 2019-20. Table 1 shows this revenue impact with additional details in the following section.

Table 1: Total Reduction in Property Tax Revenue Under Senate Bill 17-009			
	FY 2017-18	FY 2018-19	FY 2019-20
Direct Impact from Personal Property Reduction	(\$11,859,000)	(\$12,445,000)	(\$13,078,000)
Secondary Impact from Residential Property			(\$5,959,000)
Total Change in Property Tax Revenue	(\$11,859,000)	(\$12,445,000)	(\$19,037,000)

Personal property. The current personal property tax exemption is calculated by the owner in each county. To model the increased exemption, personal property tax records with ownership information were provided by 57 county assessors representing over 85 percent of personal property value in the state. Using these records, the impact on assessed value was calculated for a \$21,900 threshold described in the bill. This reduction was applied to assessed value data for each county provided by the Division of Property Taxation in the Department of Local Affairs (DOLA).

Based on these calculations, the bill will reduce assessed values by \$155.0 million in 2017, a 1.0 percent reduction in the total assessed value of personal property. The bill will reduce assessed values by \$162.0 million in 2018 and \$243.5 million in 2019. The 2019 impact is from a \$169.5 assessed value reduction directly from exempting personal property and a \$74.0 million assessed value reduction from reducing the residential assessment rate.

The property tax revenue impact was estimated using 2016 mills for each county and school district. Tables 2 and 3 show the property tax revenue impact from both the direct and secondary impacts of the bill. The actual revenue impact will vary from these estimates based on changes in mills due to local government budgeting decisions. For example, some jurisdictions are allowed to float mill rates to collect a certain amount of property tax revenue, such as when voters have approved a mill levy to repay debt or collect a certain dollar amount of override revenue.

Table 2: Reduction in Property Tax Revenue Direct Impact of Business Personal Property Tax Exemption			
	FY 2017-18	FY 2018-19	FY 2019-20
Local School Finance Revenue	(\$3,261,000)	(\$3,424,000)	(\$3,601,000)
Other Local Government Revenue	(\$8,598,000)	(\$9,021,000)	(\$9,477,000)
Total Change in Personal Property Tax Revenue	(\$11,859,000)	(\$12,445,000)	(\$13,078,000)

Residential assessment rate. The residential assessment rate will be recalculated in 2019 to comply with the Gallagher Amendment in the state constitution. The Gallagher Amendment requires that the share of residential and nonresidential assessed values remain constant between reassessment cycles. Reducing nonresidential assessed values by \$169.5 million in 2019 from exempting business personal property will reduce the residential assessment rate by 0.01 percent compared with the current law forecast in the December 2016 Legislative Council Staff assessed

values forecast. This reduction in the residential assessment rate will reduce statewide residential assessed values by an estimated \$74.0 million in the 2019 property tax year, affecting taxes collected in FY 2019-20. Table 3 shows the local revenue impact from the reduction of the residential assessment rate.

Table 3: Reduction in Property Tax Revenue Secondary Impact from Change in Residential Assessment Rate			
	FY 2017-18	FY 2018-19	FY 2019-20
Local School Finance Revenue			(\$1,621,000)
Other Local Government Revenue			(\$4,338,000)
Total Change in Residential Property Tax Revenue			(\$5,959,000)

County assessors. County assessors are responsible for valuing personal property for most businesses. Increasing the exemption will increase workload for county assessors to update business practices to value property appropriately under the expanded exemption in FY 2016-17. In future years, there will be fewer properties that need to be assessed.

State Revenue

The bill increases state General Fund revenue from corporate and individual income tax, starting in FY 2017-18. This increase is estimated at \$348,012 in FY 2017-18, \$700,546 in FY 2018-19, and \$755,936 in FY 2019-20, with ongoing impacts in future fiscal years.

Income tax credit. Business personal property owners are allowed to claim an income tax credit for the amount of personal property taxes paid in Colorado for 2015 through 2019. The credit is only allowed for property taxes paid on personal property up to \$15,000 in actual value. Increasing the personal property tax exemption above \$15,000 eliminates the eligibility of income taxpayers to claim the credit. In FY 2015-16 a total of \$513,000 was claimed. Eliminating the credit will increase income taxes by \$256,500 in FY 2017-18, and \$513,000 in 2018-19 and FY 2019-20 when the credit expires. The FY 2017-18 revenue impact is based on a half-year property tax credit to account for accrual accounting of income tax.

Federal taxable income. Property taxes are deducted from federal taxable income, which is the basis for 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 \$91,512 in FY 2017-18, \$187,546 in FY 2018-19, and \$242,936 in FY 2019-20. The FY 2017-18 revenue impact is based on a half-year property tax impact to account for accrual accounting of income tax.

TABOR Impact

This bill increases state revenue from income taxes, which will increase the amount of money required to be refunded under TABOR for FY 2017-18 and FY 2018-19. TABOR refunds are paid out of the General Fund. Since the bill increases both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available

in the General Fund for the budget. However, the bill will increase money available for the General Fund budget in the future during years when the state does not collect money above the TABOR limit. The TABOR impact for FY 2019-20 has not been estimated.

State Expenditures

Starting in FY 2017-18, the bill potentially increases state expenditures for school finance. In addition, the bill results in one-time workload for DOLA in FY 2016-17.

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."

HB17-1063 will reduce the amount of property taxes collected, and therefore the amount of revenue available for the local share of school finance by \$3.3 million in FY 2017-18, \$3.4 million in FY 2018-19, and \$5.2 million in FY 2019-20 with ongoing impacts in future fiscal years. The FY 2019-20 school expenditure impact is due to a \$3.6 million direct impact from exempting business personal property and a \$1.6 million secondary impact from the reduction in residential assessed values. A reduction in the amount of local share places pressure on the state to increase the amount of equalization, which increases the cost of state aid under the act. However, current law allows the state to apply a negative factor in the act, which reduces the amount of state aid provided to schools to meet the state's budgetary limitations. This presents a range of options for the General Assembly. The General Assembly may choose to maintain the negative factor at its current value and completely equalize the reduction in local share, increase the negative factor by an amount necessary to partially reduce the cost of equalization, or increase the negative factor by an amount that reflects the full reduction in the local share.

DOLA — Division of Property Taxation (DPT). In FY 2016-17, 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.

Technical Note

As written, the bill does not align with the 2017 property tax calendar. Property taxes for 2017 are based on an assessment date of January 1, 2017. County assessors have already mailed personal property declarations to property taxpayers. Assessors must provide notices of valuation to property owners by June 15, 2017, for 2017 property taxes, before the August 9, 2017, effective date of this bill. Values are certified by county assessors to taxing districts by August 25 of each year. Budgets and mills are developed based on the August 25 values.

Despite the inconsistencies with the 2017 property tax year, the fiscal note assumes that the bill takes effect as written for 2017.

Effective Date

The bill takes effect August 9, 2017, if the General Assembly adjourns on May 10, 2017, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2017-18, the bill requires an appropriation of \$3,216,000 from the General Fund to the Department of Education if the negative factor is not changed.

State and Local Government Contacts

County Assessors
Local Affairs
School Districts

Education
Municipalities
Special Districts

Information Technology
Property Tax
Counties