



**COLORADO**

**Department of Local Affairs**

# Presentation on Personal Property Tax

Michael Krueger  
Division of Property Taxation

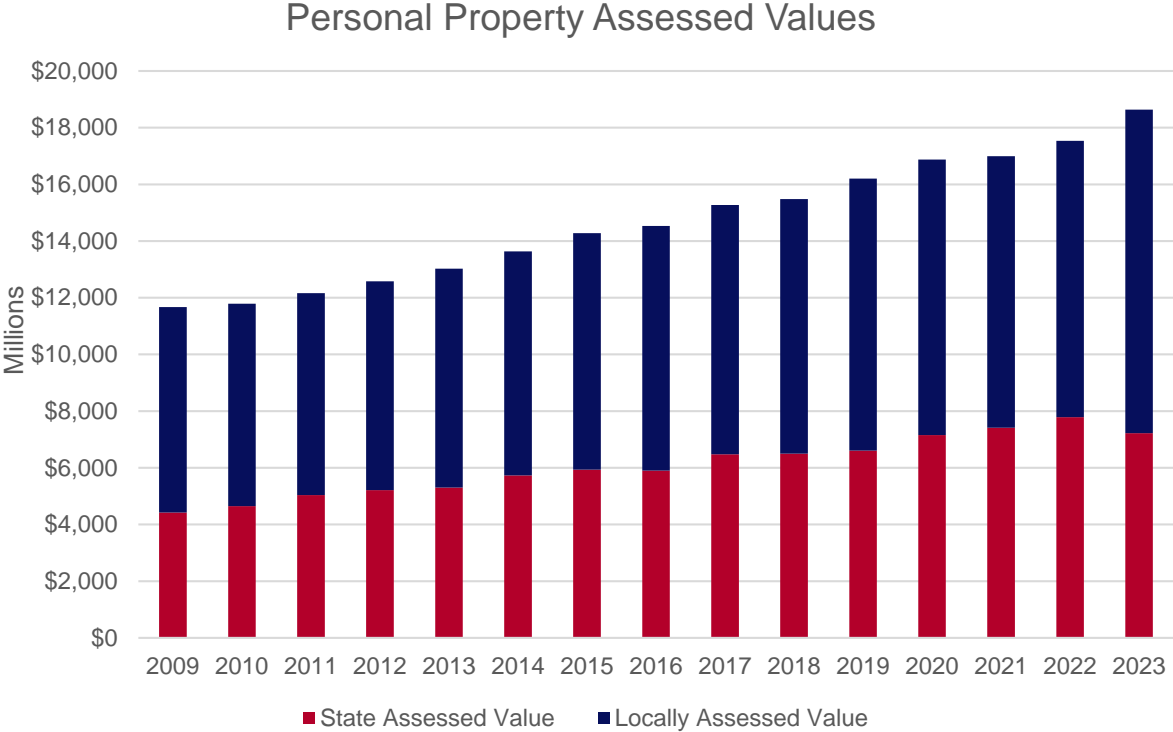
# Personal Property

Definition: Everything that is not real property - § 39-1-102(16), C.R.S.

Examples: Machinery, equipment, furnishings, trade fixtures, etc.



# Statewide Personal Property Assessed Values



# Taxpayer Responsibilities

- File the annual personal property declaration schedule
  - Complete itemized listing of all taxable personal property
    - Original installed cost
    - Year of acquisition
- Furnish additional information if requested - § 39-5-115(1), C.R.S.



# Assessor Responsibilities

1. Discover
2. List
3. Classify
4. **Value**



# Valuation



# Valuation Considerations

Type of Value	Actual Value – §§ 39-1-103(5), C.R.S. Value in Use – § 39-1-104(12.3)(a)(I), C.R.S.
Assessment Date	January 1 – § 39-1-105, C.R.S.
Appraisal Date	June 30 (of prior even year) – § 39-1-104(12.3)(a)(I)
Exemptions	Various



# Three Approaches to Value



Cost



Sales  
Comparison



Income



# Cost Approach

- Cost of replacing property
  - Replacement Cost New (RCN)
  - Less accumulated depreciation
- Maximum value - § 39-1-103(13), C.R.S.
- Most widely used approach in ad valorem



COST



# Cost Approach

- Division publishes tables to assist county assessors in applying cost approach
  - Industry categories
  - Economic life estimates
  - Cost indexes
  - Percent good tables (depreciation)
  - Level of value adjustment factors



COST



# Sales Comparison Approach

- Based on sales of comparable property
- Most probable price for which property would transact
  - Willing buyer, willing seller
  - Reasonable exposure in competitive market
  - All conditions requisite to fair sale



# Sales Comparison Approach

- Limited applicability in ad valorem
  - Insufficient reliable sales data
  - Sales are often bulk or liquidation sales
  - Type of value (exchange vs. in use)



# Income Approach

- Present value of the future net benefits (income)
- Direct capitalization
  - $\text{Income} \div \text{Rate} = \text{Value}$



# Income Approach

- Limited applicability in ad valorem
  - Income must be attributable to PP, not the business
  - Determining appropriate cap rate
  - Lack of data



# Depreciation



# Appraisal Depreciation

- Loss in value from all causes
- Related to the *value* of the property
- Three forms
  1. Physical depreciation (deterioration)
  2. Functional obsolescence
  3. External obsolescence





# Appraisal Depreciation - Calculation

- Many methods (age/life, income shortfall, etc.)
- For Colorado ad valorem, PP Tables
  - Use Iowa Curve Studies (R-3 Curve)
    - Estimate depreciation over expected economic life
  - Market studies (high-tech tables)



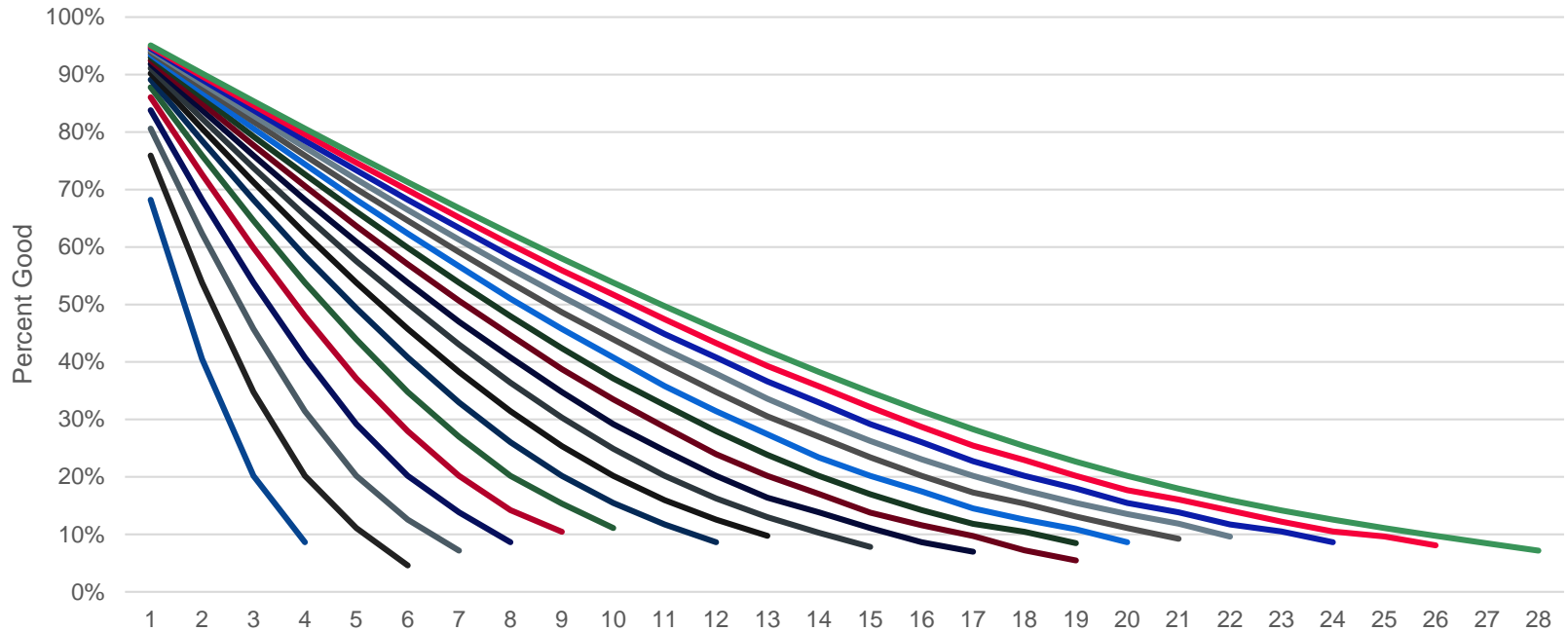
# PP Tables – General Percent Good Table

Effective Age	Average Economic Life in Years																	
	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	67	76	81	85	88	89	91	92	93	94	95	95	96	96	96	97	97	97
2	38	53	63	70	75	79	82	84	86	88	89	90	91	92	93	93	94	95
3	17	33	45	55	62	68	72	76	79	81	83	85	86	88	89	90	91	92
4	15	17	30	41	49	57	62	67	71	74	77	79	81	83	85	86	87	88
5		15	18	29	38	47	53	59	63	67	71	74	76	79	81	82	84	85
6			15	19	28	36	43	50	56	60	64	68	71	74	76	78	80	82
7				15	19	28	36	42	48	54	58	62	66	69	72	74	76	78
8					15	20	28	34	41	46	51	57	60	64	67	70	72	75
9						15	21	27	33	40	46	50	55	59	62	65	69	71
10							15	21	27	34	39	44	49	54	57	61	64	67
11								17	22	27	34	39	44	49	52	56	60	63
12								15	18	23	27	33	39	43	47	52	56	59
13									15	19	23	30	33	38	42	47	52	55
14										15	21	24	30	35	38	44	48	51
15											16	19	25	30	35	39	43	47
16											15	17	20	26	31	35	39	43
17												15	19	21	26	31	35	39
18													15	21	22	27	31	35
19														17	19	23	28	32
20														15	15	20	24	28
21																17	21	25
22																15	18	23
23																	16	20
24																	15	18
25																		15
26																		



# PP Tables – General Percent Good Table

General Percent Good Table  
Econ. Lives 3 to 20 (yrs)



# Accounting & Income Tax Depreciation

- “[T]he total accruals recorded on the books of the owner of property summarizing the systematic and periodic expenses charged toward amortizing the investment of limited-life property over its expected life” (IAAO)
- Allowable recapture of the original cost over recovery period (capital recapture)



# Accounting & Income Tax Depreciation

- Not directly related to the actual value or Fair Market Value of an asset
  - e.g. property may have value even after being fully depreciated for accounting purposes
- Governed by FASB/GAAP, IFRS, IRS
- Accounting depreciation may differ from income tax depreciation

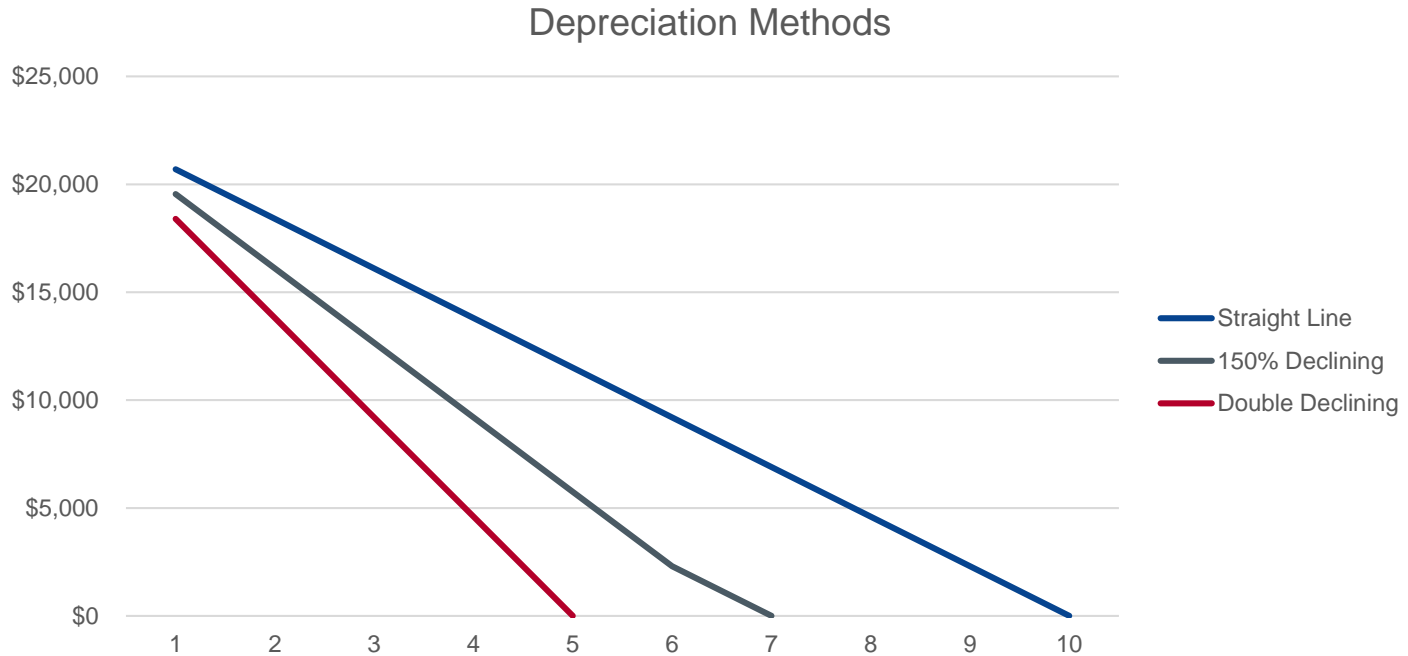


# Modified Accelerated Cost Recovery System (MACRS)

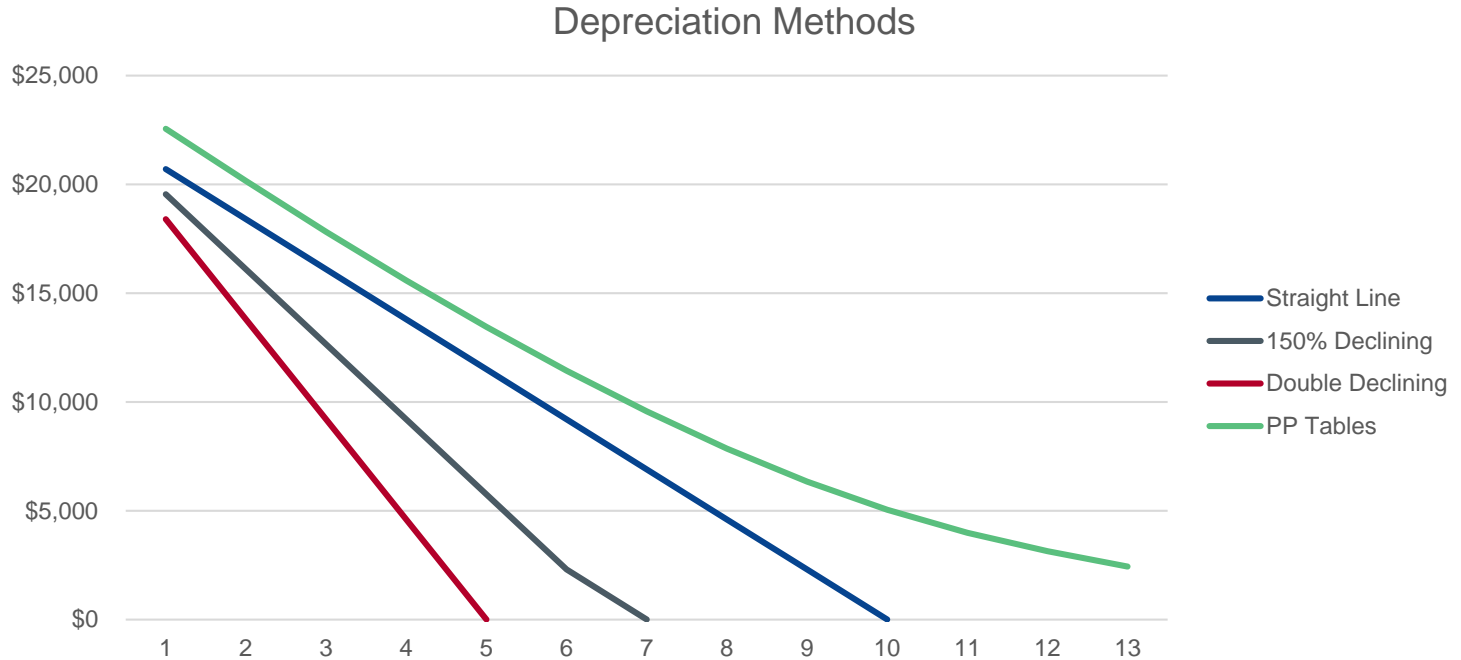
- IRS 946
- General Depreciation System (GDS)
  - Property classification (determines recovery period)
  - Depreciation
    - Double-declining balance
    - 150% declining balance
    - Straight line



# MACRS Depreciation



# Depreciation Comparison





# Appraisal vs. Accounting Depreciation

## Purpose

Appraisal (valuation)

Cost recovery/accounting

## Standards

Appraisal methodologies

GAAP, IFRS

## Starting Point

Replacement Cost New

Historic costs



michael.krueger@state.co.us

303.864.7792



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