Colorado

Legislative

Council

Staff

MEMORANDUM

October 13, 2010

TO: Interested Persons

FROM: Todd Herreid, Fiscal Director, 303-866-2633

SUBJECT: Business Personal Property Tax

In response to various legislative requests for information on the business personal property tax, the following memorandum provides background information on the structure of the tax and the estimated fiscal impact of eliminating the tax. The first section describes the business personal property tax base, authorized exemptions, and estimated tax collections by county. The second section describes filing procedures and the types of equipment subject to the property tax. The final section estimates the fiscal impact of eliminating the tax.

Background. Under current law, all real and personal property in the state is subject to taxation unless it is explicitly exempted in the Colorado Constitution or statutes. A number of exemptions exist, which are listed and described below:

- consumable personal property - two types of personal property are considered consumable: 1) property with an economic life of one year or less, regardless of its original purchase price; and 2) property with a purchase price of $250 or less, regardless of its economic life;[1]

- personal property per county per taxpayer of $4,000 or less - a taxpayer owning personal property with an *actual value* of $4,000 or less per county is not required to file a declaration schedule with the county assessor;[2]

- private property consisting of nonproducing unpatented mining claims; household furnishings not used to produce income; 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

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[1] The $250 threshold 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 $250 exemption.

[2] HB08-1225 raises this threshold to $5,500 in property tax years 2011 and 2012 and $7,000 in the following two years.

products; agricultural equipment used to produce agricultural products; and intangible personal property not owned by a state-assessed public utility;

- 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;

- property dedicated for religious worship, private nonprofit schools, and charitable purposes; and

- 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.

Local governments collect all property taxes, but the value of personal property may be locally assessed or state assessed. Properties that are state assessed include utilities, airlines, telecommunications, pipelines, and railroads because they cross county boundaries and are not separately operating business units or enterprises. Table 1 illustrates the 2009 assessed value of all real and personal property, by class of property.

Table 1
2009 Assessed Value of Property, by Class (millions of dollars)

Property Class	Personal Property	Percent of All Personal Property	Total Property	Personal Property as Percent of Total Property in Class
Vacant	$0.0	0.0%	$6,202.1	0.0%
Residential	$0.0	0.0%	$42,297.9	0.0%
Commercial	$3,731.2	32.0%	$27,354.2	13.6%
Industrial	$1,559.1	13.4%	$3,268.8	47.7%
Agriculture	$11.8	0.1%	$874.5	1.3%
Natural Resources	$183.5	1.6%	$432.0	42.5%
Producing Mines	$94.9	0.8%	$532.2	17.8%
Oil and Gas	$1,667.5	14.3%	$11,858.6	14.1%
State Assessed	$4,422.9	37.9%	$4,964.6	89.1%
Total	**$11,670.9**	**100.0%**	**$97,784.9**	**11.9%**

As indicated in Table 1, the assessed value of personal property amounted to $11.7 billion in 2009, which represented 11.9 percent of the state's total assessed property value. Because personal property is assessed at a rate of 29 percent, the *actual value* of personal property amounted to $40.2 billion. Four classes of property accounted for the majority of personal property assessed value: state assessed had 37.9 percent of the total; commercial had 32.0 percent;

oil and gas had 14.3 percent; and industrial had 13.4 percent. In addition, within certain property classes, personal property represented a sizable fraction of the class's total assessed property value. For instance, personal property represented 89.1 percent of all state assessed property and 47.7 percent of all industrial property.

Table 2 shows assessed values for real and personal property in each county of the state. As indicated, most personal property in the state is located in the larger metropolitan areas, with about 43 percent in the metro-Denver counties of Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson. However, in some counties, personal property accounts for a large proportion of total assessed value, such as in Sedgwick, Baca, Moffat, Logan, and Morgan counties, where business personal property ranges from 42 percent to 61 percent of the county's assessed value. In general, rural counties with a power plant or pipeline tend to be more dependent on personal property for property tax revenue.

Types of personal property and filing procedures. An owner of personal property with an *actual value* of more than $4,000 in a county is required to submit an annual declaration schedule describing the types of property in use.[3] The declaration schedule is an itemized list of all the personal property owned by a business in the county, including a description of the property, model number or capacity, acquisition date, original installed cost, and month and year placed in service.

At this time, most counties do not have searchable databases on the types of equipment, machinery, or furniture listed in the declaration schedules. However, some counties, such as Denver and El Paso, have this capability. Based on information received from El Paso County, the following illustrates the types of commercial and industrial personal property that are subject to property taxes. The Division of Property Taxation also provided information on the types of equipment and machinery that are state assessed and subject to property taxes. These three classes account for more than 80 percent of the assessed value of personal property statewide.

- State assessed - pipelines, gas distribution mains, gas compressor and processing equipment, gas well 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.

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

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[3] HB08-1225 raises this threshold to $5,500 in property tax years 2011 and 2012 and to $7,000 in the following two years,.

- Industrial - general equipment and machinery, computer equipment, semiconductor manufacturing equipment (testing, wafer fabrication, R&D), electronic testing equipment, telephone equipment, and furniture.

Fiscal impact estimate. Exempting business personal property from the property tax has three major fiscal impacts. The first impact results from the decrease in the tax base through the exemption of business personal property. A second impact results from a change in the residential assessment rate (RAR) that is necessitated by the reduction in nonresidential property values relative to residential property. This impact results from the provisions of the Gallagher Amendment to the State Constitution. Table 3 illustrates that the combination of these impacts will reduce property taxes by an estimated $1.4 billion per year. Table 3 also provides the relative percentage of each county's tax loss that is attributable to decreasing residential property values because of the declining RAR. The third impact is that the loss in property taxes for school districts will require the state to backfill those amounts through the school finance act. Note that some of these estimates will change when the new assessed value forecast is prepared in December 2010.

In 2009, there was $11.7 billion in personal property assessed value statewide. This translates into approximately $820 million in property tax revenue for local governments, based on average mill levies in each county. This is illustrated in the first column of Table 3.

Because roughly $11.7 billion would no longer be counted as nonresidential assessed value, the RAR must decline in order to meet the provisions of the Gallagher Amendment. The Gallagher Amendment will require the RAR to decline from 7.96 percent to approximately 6.38 percent, resulting in a loss of approximately $8.1 billion in residential assessed value and about $593 million in property tax revenue. This is indicated in the second column of Table 3. This would affect every county in the state, though to differing degrees. Many rural counties tend to be less dependent on residential property, while mountain resort communities are more dependent. The last column in Table 3 shows the loss in property tax revenue attributable to residential property. The loss in residential property tax revenue in many mountain communities is much more than the loss from exempting business personal property. For example, more than 70 percent of the loss in property tax revenue in Eagle, Hinsdale, Pipkin, San Miguel, Summit, and Park counties is from declining residential assessed values due to the drop in the RAR.

Lastly, since local school districts will collect less property tax revenue, the state will be required to backfill those amounts through the school finance act. Based on a statewide average of school operating mill levies, the state will be required to spend an additional $400 million annually for public school finance.

Table 2
Assessed Value of Personal and Real Property, by County, 2009

County	Personal Property	County Share of Total Personal Property	Real and Personal Property	Personal Property as Percent of County Total
Adams	870,240,520	7.5%	4,598,155,740	18.9%
Alamosa	19,544,124	0.2%	144,285,542	13.5%
Arapahoe	777,305,650	6.7%	7,959,760,080	9.8%
Archuleta	17,664,304	0.2%	423,737,130	4.2%
Baca	35,390,663	0.3%	76,231,123	46.4%
Bent	21,551,530	0.2%	73,623,746	29.3%
Boulder	549,487,250	4.7%	5,837,190,300	9.4%
Broomfield	157,960,690	1.4%	1,084,624,998	14.6%
Chaffee	24,161,300	0.2%	388,594,170	6.2%
Cheyenne	29,962,196	0.3%	181,234,652	16.5%
Clear Creek	84,248,650	0.7%	525,352,080	16.0%
Conejos	4,622,445	0.0%	54,120,633	8.5%
Costilla	5,889,600	0.1%	127,660,170	4.6%
Crowley	4,283,480	0.0%	34,568,857	12.4%
Custer	4,595,970	0.0%	95,862,700	4.8%
Delta	51,159,880	0.4%	352,847,330	14.5%
Denver	1,470,621,750	12.6%	12,023,031,940	12.2%
Dolores	23,775,607	0.2%	99,713,597	23.8%
Douglas	408,184,350	3.5%	4,879,538,950	8.4%
Eagle	156,978,300	1.3%	3,620,234,800	4.3%
El Paso	655,488,910	5.6%	6,841,143,170	9.6%
Elbert	20,640,142	0.2%	273,705,482	7.5%
Fremont	105,760,820	0.9%	454,222,120	23.3%
Garfield	858,022,470	7.4%	5,242,206,780	16.4%
Gilpin	38,893,089	0.3%	386,396,910	10.1%
Grand	88,196,600	0.8%	973,397,790	9.1%
Gunnison	72,645,170	0.6%	847,901,750	8.6%
Hinsdale	917,510	0.0%	61,840,240	1.5%
Huerfano	26,623,260	0.2%	132,263,393	20.1%
Jackson	4,533,016	0.0%	39,304,153	11.5%
Jefferson	727,989,650	6.2%	7,409,129,740	9.8%
Kiowa	5,062,530	0.0%	39,179,520	12.9%
Kit Carson	24,943,045	0.2%	120,633,218	20.7%
La Plata	396,389,300	3.4%	3,412,379,690	11.6%
Lake	12,565,792	0.1%	106,506,314	11.8%
Larimer	421,055,302	3.6%	4,268,029,157	9.9%
Las Animas	190,592,180	1.6%	845,768,070	22.5%
Lincoln	23,403,604	0.2%	78,177,355	29.9%
Logan	118,939,650	1.0%	272,229,170	43.7%
Mesa	281,197,185	2.4%	2,398,147,180	11.7%
Mineral	2,960,360	0.0%	32,943,380	9.0%
Moffat	213,757,620	1.8%	511,343,210	41.8%
Montezuma	90,809,862	0.8%	609,604,445	14.9%
Montrose	85,613,152	0.7%	626,342,680	13.7%
Morgan	178,624,280	1.5%	406,738,830	43.9%
Otero	32,901,413	0.3%	122,547,864	26.8%
Ouray	8,109,217	0.1%	210,536,530	3.9%
Park	16,862,171	0.1%	469,183,664	3.6%
Phillips	7,463,030	0.1%	58,327,170	12.8%
Pitkin	75,013,430	0.6%	3,675,790,440	2.0%

Table 2
Assessed Value of Personal and Real Property, by County, 2009

County	Personal Property	County Share of Total Personal Property	Real and Personal Property	Personal Property as Percent of County Total
Prowers	42,491,490	0.4%	125,251,960	33.9%
Pueblo	308,611,240	2.6%	1,350,076,467	22.9%
Rio Blanco	433,354,380	3.7%	1,168,343,460	37.1%
Rio Grande	15,702,760	0.1%	179,680,650	8.7%
Routt	142,433,810	1.2%	1,463,166,580	9.7%
Saguache	5,594,490	0.0%	62,073,450	9.0%
San Juan	2,558,330	0.0%	58,975,390	4.3%
San Miguel	38,787,501	0.3%	1,041,820,640	3.7%
Sedgwick	35,764,462	0.3%	58,243,250	61.4%
Summit	99,093,487	0.8%	1,951,384,737	5.1%
Teller	54,324,590	0.5%	490,633,140	11.1%
Washington	32,608,859	0.3%	128,898,704	25.3%
Weld	872,798,450	7.5%	5,779,693,520	15.1%
Yuma	83,134,030	0.7%	420,370,550	19.8%
TOTAL	**11,670,859,898**	**100.0%**	**97,784,900,451**	**11.9%**

Table 3
Estimated Property Tax Loss Due to the Exemption of Business Personal Property

County	Personal Property Tax Loss	Residential Property Tax Loss	Total Property Tax Loss	Residential Property Tax Loss as % of Total Loss
Adams	91,356,109	40,506,758	131,862,868	31%
Alamosa	1,620,911	791,720	2,412,631	33%
Arapahoe	71,295,252	69,792,966	141,088,217	49%
Archuleta	1,034,121	2,089,853	3,123,974	67%
Baca	2,081,962	69,255	2,151,217	3%
Bent	1,441,086	100,126	1,541,212	6%
Boulder	44,185,369	48,748,292	92,933,661	52%
Broomfield	16,353,828	8,455,708	24,809,536	34%
Chaffee	1,011,416	1,449,869	2,461,285	59%
Cheyenne	1,087,927	23,756	1,111,683	2%
Clear Creek	5,657,718	1,378,361	7,036,079	20%
Conejos	295,268	323,247	618,515	52%
Costilla	354,024	99,175	453,199	22%
Crowley	291,838	77,285	369,122	21%
Custer	273,593	599,441	873,035	69%
Delta	2,626,548	1,705,588	4,332,137	39%
Denver	101,169,953	60,177,427	161,347,380	37%
Dolores	1,336,237	129,669	1,465,906	9%
Douglas	41,922,982	55,366,087	97,289,069	57%
Eagle	8,921,862	26,572,241	35,494,102	75%
El Paso	43,864,662	47,580,754	91,445,416	52%
Elbert	1,746,362	3,012,508	4,758,870	63%
Fremont	6,182,778	2,233,022	8,415,800	27%
Garfield	36,114,166	5,129,727	41,243,893	12%
Gilpin	1,495,400	435,602	1,931,002	23%
Grand	4,842,170	4,568,965	9,411,134	49%
Gunnison	3,434,591	3,300,732	6,735,323	49%
Hinsdale	38,606	242,624	281,230	86%
Huerfano	1,904,601	496,995	2,401,596	21%
Jackson	200,305	75,109	275,414	27%
Jefferson	68,698,199	77,344,225	146,042,424	53%
Kiowa	414,074	31,036	445,111	7%
Kit Carson	2,016,570	325,242	2,341,812	14%
La Plata	10,901,102	3,321,787	14,222,889	23%
Lake	968,835	758,501	1,727,336	44%
Larimer	35,725,279	35,982,731	71,708,010	50%
Las Animas	5,045,547	287,552	5,333,099	5%
Lincoln	1,819,162	176,266	1,995,429	9%
Logan	8,981,014	854,397	9,835,411	9%
Mesa	15,675,337	11,219,785	26,895,122	42%
Mineral	165,730	172,047	337,776	51%
Moffat	13,289,525	770,040	14,059,565	5%
Montezuma	4,206,313	1,206,744	5,413,056	22%
Montrose	4,833,376	2,823,390	7,656,766	37%
Morgan	14,175,801	1,430,251	15,606,052	9%
Otero	2,079,994	529,045	2,609,039	20%
Ouray	411,608	875,531	1,287,138	68%
Park	892,734	2,385,627	3,278,361	73%
Phillips	588,475	216,978	805,452	27%
Pitkin	2,265,781	14,820,189	17,085,969	87%

Table 3
Estimated Property Tax Loss Due to the Exemption of Business Personal Property

County	Personal Property Tax Loss	Residential Property Tax Loss	Total Property Tax Loss	Residential Property Tax Loss as % of Total Loss
Prowers	2,828,234	311,221	3,139,454	10%
Pueblo	28,175,280	10,995,129	39,170,409	28%
Rio Blanco	17,230,604	323,716	17,554,320	2%
Rio Grande	891,948	704,444	1,596,392	44%
Routt	5,371,749	5,311,159	10,682,907	50%
Saguache	436,577	272,955	709,533	38%
San Juan	103,490	114,881	218,370	53%
San Miguel	1,469,271	3,807,398	5,276,668	72%
Sedgwick	2,409,845	69,310	2,479,155	3%
Summit	5,082,307	12,355,743	17,438,049	71%
Teller	3,184,182	2,179,610	5,363,791	41%
Washington	1,945,021	122,183	2,067,204	6%
Weld	58,498,443	14,795,540	73,293,983	20%
Yuma	5,287,324	341,331	5,628,655	6%
TOTAL	**820,210,377**	**592,768,841**	**1,412,979,218**	**42%**