Colorado Legislative Council Staff

HB17-1063

FISCAL NOTE

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

Drafting Number:	LLS 17-0498	**Date:**	January 27, 2017
Prime Sponsor(s):	Rep. Leonard Sen. Neville T.; Crowder	**Bill Status:**	House SVMA
		Fiscal Analyst:	Larson Silbaugh (303-866-4720)

BILL TOPIC: REDUCE BUSINESS PERSONAL PROPERTY TAXES

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020
State Revenue		**$1,068,021**	**$1,649,464**	**$2,164,452**
General Fund		1,068,021	1,649,464	2,164,452
State Expenditures	**Workload Increase**	**$19,884,000**	**$20,841,000**	**$38,089,000**
General Fund		19,884,000	20,841,000	38,089,000
TABOR Impact		$1,068,021	$1,649,464	Not Estimated
Appropriation Required: $19,884,000 - General Fund (Department of Education)				
Future Year Impacts: Ongoing local government revenue and school funding impact.				

Summary of Legislation

This bill creates a $50,000 business personal property tax exemption starting in 2017. The exemption applies to all personal property taxpayers including state assessed utilities. Under current law, there is a $7,300 threshold so businesses with personal property totaling less than $7,300 in actual value do not report personal property value to counties. Beginning in 2019, the $50,000 exemption amount 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 $50,000 exemption in House Bill 17-1063 applies to all personal property taxpayers.

Property taxes. Personal property is assessed at 29 percent of its actual value. The taxable value of personal property with an actual value of $10,000 is $2,900. 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 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

Exempting the first $50,000 of personal property per taxpayer per county will reduce property tax revenue by an estimated $71.9 million in FY 2017-18, $75.3 million in FY 2018-19, and $138.7 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 House Bill 17-1063			
	FY 2017-18	**FY 2018-19**	**FY 2019-20**
Direct Impact from Personal Property Reduction	($71,925,000)	($75,349,000)	($79,076,000)
Secondary Impact from Residential Property			($59,586,000)
Total Change in Property Tax Revenue	**($71,925,000)**	**($75,349,000)**	**($138,662,000)**

Personal property. The current personal property tax exemption is calculated by owner in each county. To model the expanded 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 $50,000 exemption 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 $867.7 million in 2017, a 6.0 percent reduction in the total assessed value of personal property. The bill will reduce assessed values by $901.7 million in 2018 and $1,679.3 million in 2019.

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. 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	($19,884,000)	($20,841,000)	($21,882,000)
Other Local Government Revenue	($52,041,000)	($54,508,000)	($57,194,000)
Total Change in Personal Property Tax Revenue	**($71,925,000)**	**($75,349,000)**	**($79,076,000)**

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 $939.2 million will reduce the Residential Assessment Rate by 0.10 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 $740.1 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			($16,207,000)
Other Local Government Revenue			($43,379,000)
Total Change in Residential Property Tax Revenue			**($59,586,000)**

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 new 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 $1,068,021 in FY 2017-18, $1,649,464 in FY 2018-19, and $2,164,452 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. 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 $513,000 starting in FY 2017-18 continuing through FY 2019-20 when the credit expires.

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 these units 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 $555,021 in FY 2017-18, $1,136,464 in FY 2018-19, and $1,651,452 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 impact. Based on average school operating mill levies, the reduction in property taxes available for school finance may require additional state aid of $19.9 million in FY 2017-18, $20.8 million in FY 2018-19, and $38.1 million in FY 2019-20 with ongoing impacts in future fiscal years. The FY 2019-20 school expenditure impact due to a $21.9 million direct impact from exempting business personal property and a $16.2 million secondary impact from the reduction in residential assessed values. If the negative factor remains unchanged, state aid will increase to offset the property tax loss.

DOLA — Division of Property Taxation (DPT). In FY 2016-17, the DPT will develop an affidavit of intended use, as well as standards to be included in publications and other guidance for county assessors who will be responsible for determining whether a property qualifies as a residential improvement under the bill. This one-time increase in workload can be accomplished within 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 data 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 affect 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. The bill impacts 2017 property taxes.

State and Local Government Contacts

Information Technology	Local Affairs	Property Tax Division
School Districts	Special Districts	Municipalities
Counties	County Assessors	Education