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MEMORANDUM

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February 7, 2008

TO: Interested Persons

FROM: Todd Herreid, Economist III, 303-866-2633

SUBJECT: Business Personal Property

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

Background information. 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 \$2,500 or less - a taxpayer owning personal property with an *actual value* of \$2,500 or less per county is not required to file a declaration schedule with the county assessor;

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 should include 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.

- 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 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 2007 assessed value of all real and personal property, by class of property.

Table 1
2007 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%	\$5,967.1	0.0%
Residential	\$0.0	0.0%	\$39,368.6	0.0%
Commercial	\$3,463.5	34.9%	\$24,067.0	14.4%
Industrial	\$1,409.6	14.2%	\$2,878.2	49.0%
Agriculture	\$8.3	0.1%	\$820.2	1.0%
Natural Resources	\$123.3	1.2%	\$387.0	31.9%
Producing Mines	\$69.5	0.7%	\$290.2	24.0%
Oil and Gas	\$802.8	8.1%	\$7,223.8	11.1%
State Assessed	\$4,045.7	40.8%	\$4,391.6	92.1%
Total	\$9,922.7	100.0%	\$85,393.7	11.6%

As indicated in Table 1, the assessed value of personal property amounted to \$9.9 billion in 2007, which represented 11.6 percent of the state's total assessed value. Because personal property is assessed at a rate of 29 percent, the *actual value* of personal property amounted to \$34.2 billion. Four classes of property accounted for the bulk of the personal property assessed value: state assessed had 40.8 percent of the total, commercial had 34.9 percent, industrial had 14.2 percent, and oil and gas had 8.1 percent. In addition, within certain property classes, personal property represented a sizable fraction of total assessed value. For instance, personal property represented 92.1 percent of all state assessed property and 49.0 percent of all industrial property.

An owner of personal property with an *actual value* of more than \$2,500 in a county is required to submit an annual declaration schedule describing the types of property in use. 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 summarizes the types of commercial and industrial property that are subject to the business personal property tax. The Division of Property Taxation also provided information on the types of equipment and machinery that are state assessed and subject to the business personal property tax. These three classes account for about 90 percent of all the personal property assessed value.

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

Table 2 shows assessed values for real and personal property in each county of the state. As indicated, most personal property is located in the larger metropolitan areas, with about 50 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 Baca, Moffat, and Morgan counties, where business personal property represents over 40 percent of assessed value.

Fiscal impact estimate. Exempting business personal property from the property tax has three major fiscal impacts. The first major impact results from the simple 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 created by the exemption. Table 3 summarizes both of these impacts and provides the relative percentage of each county's tax base that would be lost through such an exemption. Third, the loss in property taxes for school districts would require the state to backfill those amounts through the school finance act.

In 2007, there was \$9.9 billion in personal property assessed value statewide. This translates into approximately \$732 million in property tax revenue for local districts, based on average mill levies in each county. Those counties with the highest proportion of their tax base attributable to personal property are Moffat, Morgan, and Baca counties. In general, rural counties with a power plant or pipeline tend to be more dependent on personal property for property tax revenue.

Because roughly \$9.9 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 requires that the RAR would decline by about three-fourths of a percentage point, resulting in a loss of approximately \$3.6 billion in residential assessed value and approximately \$275 million in property tax revenue. 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 combination of these two impacts is especially prevalent in Morgan County, where there is a predominant amount of both business personal property and residential property. The result is that Morgan County would see almost half of its property tax base eliminated if all business personal property were exempted from property taxes.

Since local school districts would collect less property tax revenue, the state would be required to backfill those amounts through the school finance act. Based on an average of school operating mill levies, the state would be required to spend an additional \$300 million for public school finance.

Table 2
Assessed value of Personal and Real Property, by County, 2007

	Personal Property Assessed Value	% of Total Personal Property	Total Assessed Value	Personal Property Share of Total Assessed Value
Adams	784,836,800	7.9%	4,526,565,530	17.3%
Alamosa	17,813,570	0.2%	128,487,250	13.9%
Arapahoe	750,547,840	7.6%	7,701,751,660	9.7%
Archuleta	17,652,673	0.2%	356,036,433	5.0%
Baca	30,951,593	0.3%	69,716,448	44.4%
Bent	13,408,665	0.1%	54,783,689	24.5%
Boulder	524,798,480	5.3%	5,577,905,110	9.4%
Broomfield	142,035,950	1.4%	1,030,891,516	13.8%
Chaffee	21,717,490	0.2%	328,986,030	6.6%
Cheyenne	24,542,246	0.2%	144,542,198	17.0%
Clear Creek	53,982,360	0.5%	356,027,450	15.2%
Conejos	4,655,707	0.0%	48,124,368	9.7%
Costilla	5,177,137	0.1%	120,291,463	4.3%
Crowley	4,027,127	0.0%	34,988,720	11.5%
Custer	4,200,060	0.0%	87,998,470	4.8%
Delta	48,947,350	0.5%	300,655,500	16.3%
Denver	1,551,107,010	15.6%	10,726,852,440	14.5%
Dolores	12,119,298	0.1%	52,084,971	23.3%
Douglas	364,285,561	3.7%	4,566,876,850	8.0%
Eagle	135,502,310	1.4%	3,183,367,800	4.3%
El Paso	699,447,570	7.0%	6,490,813,500	10.8%
Elbert	17,845,600	0.2%	275,618,118	6.5%
Fremont	104,858,940	1.1%	430,372,960	24.4%
Garfield	335,696,060	3.4%	2,857,918,310	11.7%
Gilpin	40,591,540	0.4%	351,185,180	11.6%
Grand	60,551,020	0.6%	805,583,020	7.5%
Gunnison	51,121,620	0.5%	772,228,860	6.6%
Hinsdale	1,123,074	0.0%	52,152,920	2.2%
Huerfano	24,209,618	0.2%	114,008,565	21.2%
Jackson	3,240,105	0.0%	31,753,798	10.2%
Jefferson	692,002,430	7.0%	7,350,215,290	9.4%
Kiowa	4,732,200	0.0%	33,100,830	14.3%
Kit Carson	22,370,604	0.2%	108,517,302	20.6%
La Plata	286,072,690	2.9%	2,876,454,210	9.9%
Lake	12,517,688	0.1%	94,524,138	13.2%
Larimer	410,268,952	4.1%	3,994,180,698	10.3%
Las Animas	151,143,230	1.5%	620,772,050	24.3%
Lincoln	22,151,055	0.2%	70,141,941	31.6%
Logan	62,851,600	0.6%	202,525,850	31.0%
Mesa	221,892,830	2.2%	1,784,073,450	12.4%
Mineral	2,787,810	0.0%	29,682,710	9.4%
Moffat	197,858,820	2.0%	474,113,580	41.7%
Montezuma	65,024,330	0.7%	454,272,450	14.3%
Montrose	75,965,430	0.8%	553,842,730	13.7%
Morgan	179,471,320	1.8%	378,759,540	47.4%
Otero	27,105,508	0.3%	114,835,101	23.6%
Ouray	7,919,000	0.1%	194,626,570	4.1%
Park	16,045,998	0.2%	413,646,449	3.9%
Phillips	5,624,140	0.1%	48,121,140	11.7%
Pitkin	71,691,310	0.7%	2,742,916,640	2.6%
Prowers	46,562,740	0.5%	125,015,000	37.2%
Pueblo	229,934,600	2.3%	1,217,612,037	18.9%
Rio Blanco	183,429,548	1.8%	720,785,942	25.4%
Rio Grande	15,192,250	0.2%	171,265,250	8.9%
Routt	112,115,500	1.1%	1,100,783,700	10.2%
Saguache	5,703,890	0.1%	57,127,940	10.0%
San Juan	2,635,355	0.0%	55,116,760	4.8%
San Miguel	27,411,830	0.3%	905,916,500	3.0%
Sedgwick	11,436,250	0.1%	32,748,220	34.9%
Summit	86,739,409	0.9%	1,565,538,319	5.5%
Teller	57,042,456	0.6%	449,796,629	12.7%
Washington	23,176,888	0.2%	110,924,612	20.9%
Weld	684,944,290	6.9%	4,463,011,450	15.3%
Yuma	49,862,080	0.5%	300,168,970	16.6%
TOTAL	9,922,678,405	100.0%	85,393,703,125	11.6%

Table 3
Estimated Loss in Property Taxes Due to Exempting Business Personal Property

	Personal Property Tax Loss	Residential Property Tax Loss	Total Property Tax Loss	Property Tax Loss as % of Property Tax Base
Adams	79,543,995	19,860,619	99,404,614	21.7%
Alamosa	1,345,423	304,697	1,650,121	17.0%
Arapahoe	69,050,401	35,026,729	104,077,130	14.7%
Archuleta	1,122,198	861,446	1,983,644	8.8%
Baca	1,863,936	34,348	1,898,284	45.2%
Bent	913,653	48,105	961,758	25.8%
Boulder	39,816,461	21,171,034	60,987,495	14.4%
Broomfield	14,013,409	3,634,410	17,647,819	17.4%
Chaffee	960,912	610,439	1,571,351	10.8%
Cheyenne	1,003,802	12,633	1,016,436	17.2%
Clear Creek	3,850,616	651,641	4,502,257	17.7%
Conejos	341,952	154,909	496,862	14.1%
Costilla	314,584	47,555	362,139	5.0%
Crowley	255,163	33,375	288,538	13.0%
Custer	236,052	232,307	468,359	9.5%
Delta	2,946,190	797,507	3,743,697	20.7%
Denver	108,993,187	28,414,729	137,407,917	18.2%
Dolores	776,883	59,162	836,045	25.0%
Douglas	36,973,163	24,676,017	61,649,180	13.3%
Eagle	8,589,898	11,779,300	20,369,198	10.1%
El Paso	47,265,869	21,496,649	68,762,518	15.7%
Elbert	1,458,717	1,396,628	2,855,345	12.7%
Fremont	6,222,959	975,495	7,198,454	28.2%
Garfield	15,430,605	1,876,164	17,306,769	13.2%
Gilpin	1,684,752	208,277	1,893,029	13.0%
Grand	3,511,838	1,999,448	5,511,286	11.8%
Gunnison	2,697,892	1,532,533	4,230,425	10.4%
Hinsdale	52,025	95,864	147,890	6.1%
Huerfano	1,638,773	211,405	1,850,179	24.0%
Jackson	147,460	35,822	183,283	12.7%
Jefferson	65,448,206	37,242,521	102,690,727	14.8%
Kiowa	397,131	14,067	411,198	14.8%
Kit Carson	1,851,950	147,335	1,999,286	22.3%
La Plata	7,864,424	1,378,428	9,242,852	11.7%
Lake	1,045,515	326,599	1,372,114	17.4%
Larimer	35,109,586	16,600,439	51,710,025	15.1%
Las Animas	3,189,122	100,828	3,289,951	25.1%
Lincoln	1,720,251	82,097	1,802,348	33.1%
Logan	5,157,917	422,202	5,580,118	33.6%
Mesa	15,433,090	5,294,336	20,727,426	16.7%
Mineral	161,386	72,491	233,877	13.6%
Moffat	10,692,291	259,009	10,951,299	42.7%
Montezuma	3,181,575	479,608	3,661,184	16.5%
Montrose	4,669,519	1,325,941	5,995,460	17.6%
Morgan	14,508,462	661,178	15,169,640	49.5%
Otero	1,681,273	240,508	1,921,781	27.0%
Ouray	406,823	369,980	776,803	7.8%
Park	858,429	1,018,556	1,876,984	8.5%
Phillips	506,634	108,948	615,582	14.2%
Pitkin	2,802,843	6,625,692	9,428,535	8.8%
Prowers	3,126,409	146,923	3,273,332	39.0%
Pueblo	22,783,070	5,557,885	28,340,954	23.5%
Rio Blanco	6,688,758	97,022	6,785,780	25.8%
Rio Grande	882,624	341,238	1,223,862	12.3%
Routt	6,191,130	2,639,844	8,830,974	14.5%
Saguache	427,661	110,543	538,204	12.6%
San Juan	103,633	48,325	151,958	7.0%
San Miguel	1,123,803	1,587,139	2,710,942	7.3%
Sedgwick	845,402	34,855	880,257	36.4%
Summit	4,574,550	4,593,428	9,167,977	11.1%
Teller	3,393,056	1,072,964	4,466,021	16.7%
Washington	1,403,940	57,169	1,461,109	21.7%
Weld	47,511,846	7,736,005	55,247,851	17.8%
Yuma	3,029,520	145,828	3,175,348	17.4%
TOTAL	731,794,598	275,179,180	1,006,973,778	16.1%