



Colorado
Legislative
Council
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MEMORANDUM

January 27, 2011

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 \$5,500 or less - a taxpayer owning personal property with an *actual value* of \$5,500 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

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 raised this threshold from \$4,000 to \$5,500 in property tax years 2011 and 2012, \$7,000 in the following two years, and \$7,000 adjusted by inflation every two years thereafter.

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 2010 assessed value of all real and personal property, by class of property.

Table 1
2010 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%	\$5,942.8	0.0%
Residential	\$0.0	0.0%	\$42,726.7	0.0%
Commercial	\$3,503.8	29.8%	\$27,139.1	12.9%
Industrial	\$1,758.9	14.9%	\$3,528.7	49.8%
Agriculture	\$8.8	0.1%	\$883.4	1.0%
Natural Resources	\$194.7	1.7%	\$409.8	47.5%
Producing Mines	\$97.6	0.8%	\$556.3	17.5%
Oil and Gas	\$1,576.7	13.4%	\$6,248.2	25.2%
State Assessed	\$4,636.0	39.4%	\$5,209.3	89.0%
Total	\$11,776.5	100.0%	\$92,644.3	12.7%

As indicated in Table 1, the assessed value of personal property amounted to \$11.8 billion in 2010, which represented 12.7 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 \$40.6 billion. Four classes of property accounted for the majority of personal

property assessed value: state assessed had 39.4 percent of the total; commercial had 29.8 percent; industrial had 14.9 percent; and oil and gas 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 89.0 percent of all state assessed property and 49.8 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 41 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, Rio Blanco, and Morgan counties, where business personal property ranges from 41 percent to 64 percent of the county's assessed value. In general, rural counties with a power plant, pipeline, or significant oil and gas production 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 \$5,500 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 - includes tangible property, such as pipelines, gas distribution mains, gas compressor equipment, railcars and rail transportation equipment, railroad ties, 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; as well as intangible property, such as customer lists and going concern.
- Commercial - includes 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;

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

- Industrial - includes 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 almost \$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 decrease in property taxes for school districts will require the state to backfill those amounts through the school finance act.

In 2010, there was \$11.8 billion in personal property assessed value statewide. This translates into approximately \$823 million in property tax revenue for local governments, based on 2009 average mill levies in each county. This is illustrated in the first column of Table 3.

Because roughly \$11.8 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 would require the RAR to decline from 7.96 percent to approximately 6.42 percent, resulting in a loss of approximately \$7.4 billion in residential assessed value and about \$539 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 fourth 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 69 percent of the loss in property tax revenue in Eagle, Hinsdale, Park, Pipkin, San Miguel, and Summit counties is from declining residential assessed values due to the drop in the RAR.

Because 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 and the loss of approximately \$19.2 billion in assessed value, the state will be required to spend an additional \$395 million annually for public school finance.

Other Considerations. Property tax losses resulting from the elimination of the business personal property tax could be smaller under certain circumstances than shown in Table 3. First, there would not be a loss (or a smaller loss) in property taxes for local governments that have not received voter approval to retain property taxes above their constitutional limit and have collected an amount more than their limit. In these cases, local mill levies would typically be reduced to prevent property taxes from exceeding the constitutional limit. A decrease in assessed value due to a business personal property exemption would therefore result in a smaller reduction in the local government's mill levy than would have otherwise occurred. This would cause the property taxes

that would have been received from business personal property taxpayers to be spread out over the remaining real property taxpayers of the jurisdiction through higher mill levies. However, most local governments have received voter approval to retain property taxes collected above their limit.

Second, many taxing jurisdictions have imposed, with voter approval, a specific mill levy to repay outstanding general obligation debt or to collect a certain amount of additional property tax revenue for school districts (overrides). In these cases, a reduction in assessed value from exempting business personal property and decreasing the RAR will result in higher mill levies being imposed on all real property owners in the jurisdiction. Some business personal property taxpayers may pay less in property taxes, but other taxpayers in the jurisdiction will pay more to repay the outstanding debt and to generate a specific amount of override property tax revenue for school districts.

For example, under current law, a homeowner with a house worth \$250,000 will owe about \$1,393 in property taxes to all local governments at an average tax rate of 70 mills. A complete exemption for business personal property would reduce the residential assessment rate to 6.42 percent, decreasing this homeowner's property taxes by \$270 at the current property tax rate. However, if local mill levies have to increase to either repay outstanding debt or provide school district overrides, the tax savings diminish and the property tax losses in Table 3 would be smaller. Similarly, a commercial business whose total assessed value is \$1 million, with \$50,000 of personal property, will see a \$1,015 reduction in local property taxes at an average tax rate of 70 mills; however, those savings diminish or are eliminated if local mill levies have to increase to repay debt or to generate a set amount of override property tax revenue for school districts.

Table 2. Assessed Value of Personal and Real Property, by County, 2010

County	Personal Property	County Share of Total Personal Property	Real and Personal Property	Personal Property as Percent of County Total
Adams	905,686,280	7.7%	4,601,619,680	19.7%
Alamosa	20,633,327	0.2%	142,978,579	14.4%
Arapahoe	758,015,390	6.4%	7,963,447,430	9.5%
Archuleta	17,065,590	0.1%	424,772,749	4.0%
Baca	36,043,057	0.3%	71,484,003	50.4%
Bent	22,712,760	0.2%	72,463,983	31.3%
Boulder	523,131,870	4.4%	5,803,852,650	9.0%
Broomfield	150,436,130	1.3%	1,087,415,155	13.8%
Chaffee	24,906,380	0.2%	395,843,120	6.3%
Cheyenne	26,482,432	0.2%	126,621,336	20.9%
Clear Creek	85,377,490	0.7%	541,817,380	15.8%
Conejos	4,777,563	0.0%	54,576,400	8.8%
Costilla	6,925,955	0.1%	130,689,468	5.3%
Crowley	4,772,083	0.0%	35,023,460	13.6%
Custer	4,278,530	0.0%	96,259,200	4.4%
Delta	54,064,940	0.5%	355,260,450	15.2%
Denver	1,402,846,590	11.9%	11,985,812,970	11.7%
Dolores	24,843,654	0.2%	78,127,371	31.8%
Douglas	395,086,900	3.4%	4,920,135,700	8.0%
Eagle	148,460,320	1.3%	3,631,637,450	4.1%
El Paso	652,961,780	5.5%	6,836,406,560	9.6%
Elbert	22,461,885	0.2%	276,654,740	8.1%
Fremont	100,869,170	0.9%	452,553,980	22.3%
Garfield	710,299,710	6.0%	3,297,809,630	21.5%
Gilpin	38,104,848	0.3%	384,286,940	9.9%
Grand	88,234,120	0.7%	985,372,380	9.0%
Gunnison	74,937,580	0.6%	840,863,260	8.9%
Hinsdale	987,290	0.0%	61,555,330	1.6%
Huerfano	27,940,514	0.2%	124,534,692	22.4%
Jackson	4,420,739	0.0%	35,397,603	12.5%
Jefferson	713,375,400	6.1%	7,356,437,890	9.7%
Kiowa	5,045,500	0.0%	32,417,940	15.6%
Kit Carson	36,409,632	0.3%	131,202,236	27.8%
La Plata	381,683,060	3.2%	2,338,224,720	16.3%
Lake	13,725,668	0.1%	108,216,273	12.7%
Larimer	400,861,332	3.4%	4,238,819,303	9.5%
Las Animas	169,683,830	1.4%	451,419,190	37.6%
Lincoln	24,842,403	0.2%	82,944,053	30.0%
Logan	105,907,200	0.9%	254,985,410	41.5%
Mesa	347,854,880	3.0%	2,316,357,860	15.0%
Mineral	2,842,690	0.0%	33,520,060	8.5%
Moffat	242,250,060	2.1%	473,376,830	51.2%
Montezuma	93,590,260	0.8%	543,642,970	17.2%
Montrose	80,944,309	0.7%	622,391,570	13.0%
Morgan	187,340,900	1.6%	413,605,060	45.3%
Otero	34,093,110	0.3%	124,205,657	27.4%
Ouray	7,794,268	0.1%	210,799,580	3.7%
Park	18,079,559	0.2%	469,746,540	3.8%
Phillips	7,311,140	0.1%	52,398,490	14.0%
Pitkin	77,221,800	0.7%	3,686,825,400	2.1%

Table 2. Assessed Value of Personal and Real Property, by County, 2010

County	Personal Property	County Share of Total Personal Property	Real and Personal Property	Personal Property as Percent of County Total
Prowers	41,347,236	0.4%	122,010,980	33.9%
Pueblo	319,378,339	2.7%	1,401,078,900	22.8%
Rio Blanco	726,077,230	6.2%	1,130,673,390	64.2%
Rio Grande	15,107,372	0.1%	180,965,123	8.3%
Routt	141,380,603	1.2%	1,468,564,329	9.6%
Saguache	5,921,250	0.1%	61,973,640	9.6%
San Juan	2,769,884	0.0%	57,602,040	4.8%
San Miguel	37,619,120	0.3%	965,915,150	3.9%
Sedgwick	32,128,409	0.3%	54,679,932	58.8%
Summit	94,295,365	0.8%	1,938,755,259	4.9%
Teller	55,108,020	0.5%	496,419,550	11.1%
Washington	40,140,964	0.3%	110,885,598	36.2%
Weld	894,945,120	7.6%	4,625,444,510	19.3%
Yuma	81,739,390	0.7%	272,473,200	30.0%
TOTAL	11,776,580,180	100.0%	92,644,252,282	12.7%

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	95,077,134	36,657,324	131,734,458	28%
Alamosa	1,711,246	715,527	2,426,773	29%
Arapahoe	69,525,930	63,379,738	132,905,667	48%
Archuleta	999,071	1,933,610	2,932,680	66%
Baca	2,120,341	63,043	2,183,384	3%
Bent	1,518,734	90,140	1,608,874	6%
Boulder	42,066,080	44,234,713	86,300,793	51%
Broomfield	15,574,803	7,758,891	23,333,694	33%
Chaffee	1,042,606	1,333,566	2,376,172	56%
Cheyenne	961,577	21,824	983,401	2%
Clear Creek	5,733,525	1,242,765	6,976,290	18%
Conejos	305,176	297,536	602,713	49%
Costilla	416,319	133,159	549,478	24%
Crowley	325,127	69,533	394,659	18%
Custer	254,697	552,207	806,904	68%
Delta	2,775,694	1,551,839	4,327,533	36%
Denver	96,507,428	54,532,960	151,040,388	36%
Dolores	1,396,263	122,405	1,518,668	8%
Douglas	40,577,795	50,422,058	90,999,853	55%
Eagle	8,437,742	24,333,770	32,771,512	74%
El Paso	43,695,549	43,214,967	86,910,517	50%
Elbert	1,900,500	2,739,465	4,639,965	59%
Fremont	5,896,812	2,034,855	7,931,667	26%
Garfield	29,896,515	4,781,280	34,677,794	14%
Gilpin	1,465,093	397,473	1,862,566	21%
Grand	4,844,230	4,191,055	9,035,285	46%
Gunnison	3,542,974	3,025,111	6,568,085	46%
Hinsdale	41,542	222,217	263,759	84%
Huerfano	1,998,836	460,546	2,459,382	19%
Jackson	195,344	70,471	265,815	27%
Jefferson	67,319,096	69,852,684	137,171,781	51%
Kiowa	412,682	28,648	441,329	6%
Kit Carson	2,943,610	292,669	3,236,279	9%
La Plata	10,496,666	3,025,981	13,522,647	22%
Lake	1,058,263	694,787	1,753,050	40%
Larimer	34,011,881	32,658,289	66,670,170	49%
Las Animas	4,492,040	261,068	4,753,108	5%
Lincoln	1,931,000	160,869	2,091,869	8%
Logan	7,996,947	773,696	8,770,642	9%
Mesa	19,391,170	10,213,119	29,604,289	34%
Mineral	159,142	159,951	319,094	50%
Moffat	15,060,928	699,288	15,760,217	4%
Montezuma	4,335,101	1,104,980	5,440,081	20%
Montrose	4,569,792	2,573,216	7,143,008	36%
Morgan	14,867,561	1,298,748	16,166,309	8%
Otero	2,155,332	477,658	2,632,991	18%
Ouray	395,621	810,995	1,206,616	67%
Park	957,186	2,172,297	3,129,483	69%
Phillips	576,498	197,577	774,075	26%
Pitkin	2,332,484	13,494,986	15,827,471	85%

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	2,752,072	281,449	3,033,521	9%
Pueblo	29,158,284	9,988,179	39,146,463	26%
Rio Blanco	28,869,557	298,925	29,168,482	1%
Rio Grande	858,129	646,164	1,504,293	43%
Routt	5,332,028	4,962,700	10,294,728	48%
Saguache	462,077	243,856	705,932	35%
San Juan	112,047	103,671	215,719	48%
San Miguel	1,425,012	3,525,920	4,950,932	71%
Sedgwick	2,164,844	62,819	2,227,664	3%
Summit	4,836,221	11,184,157	16,020,378	70%
Teller	3,230,101	1,984,831	5,214,932	38%
Washington	2,394,288	111,389	2,505,677	4%
Weld	59,982,802	13,491,642	73,474,443	18%
Yuma	5,198,625	311,106	5,509,731	6%
TOTAL	823,043,773	538,732,363	1,361,776,136	40%

* Based on current assessed value projections from 2010. These estimates could be smaller for local governments that have not received voter approval to retain property taxes above their constitutional limit and collect an amount greater than their limit. The estimates could also be smaller in districts that have general obligation debt or voter approved school district overrides.