



*Colorado Legislative Council Staff Fiscal Note*  
**FINAL**  
**FISCAL NOTE**

**Drafting Number:** LLS 10-0393  
**Prime Sponsor(s):** Sen. Scheffel  
 Rep. Priola

**Date:** May 24, 2010  
**Bill Status:** Postponed Indefinitely  
**Fiscal Analyst:** Todd Herreid (303-866-2633)

**TITLE:** CONCERNING A PHASED-IN EXEMPTION FOR FULLY DEPRECIATED BUSINESS PERSONAL PROPERTY.

<b>Fiscal Impact Summary</b>	<b>FY 2010-2011</b>	<b>FY 2011-2012</b>	<b>FY 2012-2013</b>	<b>Fully Phased-In Exemption</b>
<b>State Revenue</b> General Fund	\$187,000	\$381,000	\$395,000	\$2,365,000
<b>State Expenditures</b> School Finance Act*		\$7,233,000	\$7,515,000	\$45,800,000
<b>Effective Date:</b> The bill was postponed indefinitely by the Senate State, Veterans, & Military Affairs Committee on February 17, 2010.				
<b>Appropriation Summary for FY 2010-2011:</b> None required.				
<b>Local Government Impact:</b> Reduced property tax revenue.				

\* *School Finance Act expenditures could be from the General Fund, State Education Fund, or a combination of both.*

**Summary of Legislation**

Under current law, the actual value of fully depreciated personal property is, in most cases, equal to 15 percent of the new replacement cost of the equipment. Different types of personal property have varying lengths of economic life at which point the property becomes fully depreciated. For example, an office desk has a recommended economic life of ten years, while manufacturing equipment for wafer fabrication has a recommended economic life of three years.

This bill specifies that the actual value of business personal property that is fully depreciated, as defined by the Division of Property Taxation, will gradually be exempt from property taxes. Starting in property tax year 2011, and continuing through 2022, an increasing percentage of fully depreciated personal property will become exempt, as specified below:

- 25 percent in 2011, 2012, 2013, and 2014;
- 50 percent in 2015, 2016, 2017, and 2018;
- 75 percent in 2019, 2020, 2021, and 2022; and
- 100 percent in 2023 and beyond.

## **State Revenue and Expenditures**

***School Finance Act.*** The bill is expected to increase state expenditures under the School Finance Act by \$7.2 million in FY 2011-12, \$7.5 million in FY 2012-13, and \$7.8 million in FY 2013-14. Once the phase-in is complete, the annual school finance cost will amount to \$45.8 million, as indicated in Table 1. The state's share of public school total program funding will increase by the amount of local school operating property taxes lost due to the bill's gradual exemption of fully depreciated property.

Based on a survey of county assessors, approximately 11.5 percent of **locally assessed** personal property is fully depreciated. The fiscal note assumes that this percentage of fully depreciated equipment is applied to state assessed and oil and gas personal property. The bill is therefore expected to reduce statewide assessed value by a total of \$362 million in FY 2011-12, \$376 million in FY 2012-13, and \$391 million in FY 2013-14.

The decrease in assessed value will cause a reduction in school operating property taxes, which the state is required to backfill. By the end of the phase-in, the annual loss in assessed value will amount to \$2.3 billion. If 100 percent of fully depreciated personal property was exempt from property taxes during the 2011 reassessment cycle, the bill would not have triggered a Gallagher Amendment reduction in the residential assessment rate. Consequently, the fiscal note does not include any loss in residential assessed value that might result from the bill's exemption for fully depreciated personal property. However, if the bill does reduce the residential assessment rate under the Gallagher Amendment in the future, it would create a further reduction in assessed values, which would increase state expenditures under the school finance act.

***General Fund Revenue.*** It should be noted that the decrease in property tax liability may increase a company's income tax if the company has an income tax liability. This is because of a lower property tax deduction from taxable income. In income tax year 2011, those deductions are estimated to increase income taxes by \$374,000, one-half of which will accrue to the prior fiscal year. The increase in income taxes is estimated at \$381,000 in FY 2011-12 and \$395,000 in FY 2012-13. Once the bill is fully phased-in, the increase in income taxes is projected at about \$2.4 million.

**Table 1**  
**Estimated Annual Impacts of SB10-086 Over Phase-In Period**

<b>Fiscal Years</b>	<b>% Fully Depreciated Personal Property Exempt</b>	<b>Assessed Value Loss (millions)</b>	<b>Maximum Local Property Tax Loss* (Millions)</b>	<b>School Property Tax Loss/ School Finance Act Expenditures (Millions)</b>
2011-12 through 2014-15	25%	\$362 million to \$406 million	\$27 million to \$30 million	\$7.2 million to \$8.1 million
2015-16 through 2018-19	50%	\$844 million to \$947 million	\$63 million to \$70 million	\$16.9 million to \$18.9 million
2019-20 through 2022-23	75%	\$1,476 million to \$1,655 million	\$110 million to \$123 million	\$29.5 million to \$33.1 million
2023-24	100%	\$2,293 million	\$170 million	\$45.8 million

*\* Assumes all local governments are not at revenue limits or have voted to exempt themselves from revenue limits. The revenue loss will be less depending on the number of local governments that are at the local limit.*

### **Local Government Impact**

Local governments that are not at their revenue limit will lose property tax revenue because of the bill's provision to provide an exemption for fully depreciated personal property. For local governments that consistently reach their revenue limit due to high assessed value growth, the impact of the bill will be felt through smaller decreases in the mill levy. In the latter case, a portion of the money that would have been received from personal property taxpayers will instead be spread out over the remaining tax bills in the form of higher mill levies than would have occurred otherwise.

Table 1 shows the maximum local property tax revenue loss assuming that all local governments do not reach their revenue limit or have voted to exempt themselves from revenue limits. The bill will reduce property taxes by a maximum of \$26.9 million in FY 2011-12, \$27.9 million in FY 2012-13, and \$29.0 million in FY 2013-14. Once the phase-in is complete, the maximum annual property tax loss could amount to \$170 million. However, to the degree local governments reach their revenue limits with the bill's reduction in assessed value, the property tax loss will be less than the amounts estimated in Table 1.

### **State Appropriations**

No new appropriations are needed in FY 2010-11.

### **Departments Contacted**

Local Affairs

Property Tax Administrator