



## Fiscal Estimate Narratives

DOR 4/8/2015

LRB Number	15-1183/1	Introduction Number	AB-0750	Estimate Type	Original
<b>Description</b> Eliminating the personal property tax					

### Assumptions Used in Arriving at Fiscal Estimate

#### PERSONAL PROPERTY TAXES

The bill makes the following changes to the laws on personal property taxation: (1) as of January 1, 2016, improvements on leased land are reclassified as real property; (2) personal property placed into service after January 1, 2016 is exempt from property taxation; (3) personal property placed in service before January 1, 2016 is taxed based on its depreciated value for the 2016, 2017, 2018, and 2019 assessment years; and (4) as of January 1, 2020, all personal property would be exempt from property taxes.

The fiscal effect was calculated as if the proposed exemption had been in full effect for the 2014/15 property tax year. The calculation of the effect on an average value improved residential parcel is shown on the attachment. The average value of an improved residential parcel was \$165,062. The total net property tax levy, based on preliminary data, was \$9.636 billion (\$10.384 billion gross levy minus \$0.747 billion in school levy credits). The total equalized value of taxable property under current law was \$479.023 billion. After subtracting \$12.207 billion of personal property and adding back \$0.666 billion of improvements on leased land (for a reduction of \$11.541 billion), the total equalized value of taxable property under the bill would have been \$467.482 billion. About \$253.4 million in net property taxes currently paid by personal property taxpayers would have been shifted to other property taxpayers. For the average improved residential parcel, the average net property tax bill would have increased from \$3,320 to \$3,402, for an increase of \$82, or 2.4%.

#### EXEMPT COMPUTER AID

The bill repeals the exempt computer aid payment. For the 2014/15 property tax year, as of late March 2015, total payments are estimated to be \$87.6 million, distributed as follows: \$2.8 million to technical college districts, \$31.2 million to school districts, \$12.6 million to counties, \$39.6 million to municipalities (\$17.0 million of which is for tax incremental financing districts), and \$1.4 million for special districts.

The extent to which the loss in state aid will result in increased property tax levies is unknown. However, since most local governments are subject to levy limits or revenue limits, and since the largest recipients of exempt computer aids tend to be at or close to their limit, any increase in property tax levies is expected to be minimal. Instead, local governments will need to cut spending or find other revenues to make up the loss in state aid.

#### OTHER FISCAL EFFECTS

The state imposes a forestation tax at a rate of about \$0.1697 per \$1,000 of equalized value. Proceeds of the tax are deposited in the forestry fund. The bill would reduce this tax by about \$1.96 million (\$11.541 billion X 0.0001697).

For tax increment districts, the bill would reduce incremental values and therefore also reduce tax incremental levies. Since a breakdown of incremental value by property class is not available, it is not possible to reasonably estimate the potential loss in incremental levies the bill would engender.

The state ad valorem taxes on airlines, railroads, pipelines, telephone, and conservation and regulation companies and municipal electric association projects are considered, in large part, to be taxes on personal property. Total revenues from these companies in fiscal 2014 were about \$155 million (\$113 million GPR and \$42 million SEG-Transportation). If the bill is enacted, the continued taxation of these companies under current law could be in jeopardy.

#### ADMINISTRATIVE COSTS

The Department of Revenue would incur one-time costs of \$511,500 to revise its computer programs for the exemption created under the bill.

**Long-Range Fiscal Implications**

**2015 LRB-1183/1: Repeal of Personal Property Tax - Effect on Average Home**

<u>Item</u>	<u>for 2014/15</u>
Value of Average Improved Residential Parcel:	
Equalized Value - Residential Land	\$94,239,540,300
Number of Parcels - Residential Land	2,242,447
Average Value - Residential Land	\$42,025
Equalized Value - Residential Improvements	\$242,607,508,800
Number of Parcels - Residential Improvements	1,971,827
Average Value - Residential Improvements	\$123,037
Average Value of Improved Residential Parcel	\$165,062
Estimated Net Property Tax Levy:	
Projected Total Gross Property Tax Levy	\$10,383,506,250
<u>Less: School Levies Tax Credit</u>	<u>\$747,400,000</u>
Projected Total Net Property Tax Levy	\$9,636,106,250
Equalized Value of Taxable Property - Current Law:	
Total Equalized Value - Current Law	\$479,023,957,200
Equalized Value of Taxable Property - LRB-1183/1:	
Total Equalized Value	\$479,023,957,200
Subtract: Total Equalized Value of Personal Property	\$12,207,889,000
<u>Add Back: Total Value of Improvements on Leased Land</u>	<u>\$666,229,700</u>
Total Equalized Value - LRB-1183/1	\$467,482,297,900
Current Law Net Tax on an Average Improved Residential Parcel:	
Average Value of Improved Residential Parcel	165,062
Projected Total Net Property Tax Levy	\$9,636,106,250
Total Equalized Value - Current Law	\$479,023,957,200
Average Net Property Tax Rate	0.020116126
Current Law Net Tax on an Average Improved Residential Parcel:	\$3,320
LRB-1183/1 Net Tax on an Average Improved Residential Parcel	
Average Value of Improved Residential Parcel	165,062
Projected Total Net Property Tax Levy	\$9,636,106,250
Total Equalized Value - Current Law	\$467,482,297,900
Average Net Property Tax Rate	0.020612772
Current Law Net Tax on an Average Improved Residential Parcel:	\$3,402
Difference in Net Tax on an Average Improved Residential Parcel	\$82

## Fiscal Estimate Worksheet - 2015 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

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**Description**  
 Eliminating the personal property tax

**I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):**

\$511,500 to revise computer systems

II. Annualized Costs:	Annualized Fiscal Impact on funds from:	
	Increased Costs	Decreased Costs

A. State Costs by Category		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		-87,600,000
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$-87,600,000</b>

B. State Costs by Source of Funds		
GPR		-87,600,000
FED		
PRO/PRS		
SEG/SEG-S		

**III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)**

	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S (Forestry)		-1,960,000
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$-1,960,000</b>

**NET ANNUALIZED FISCAL IMPACT**

	State	Local
NET CHANGE IN COSTS	\$-87,600,000	\$
NET CHANGE IN REVENUE	\$-1,960,000	-\$87,600,000

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