

A G E N D A

Committee on Economic Development - Business Personal Property Tax

Beaver Run Resort (1-800-288-1282)
Third Floor, Peak Room 5, 620 Village Road
Breckenridge, Colorado 80424

Friday, August 20, 2004

11:30 a.m. to 3:00 p.m.

SUMMARY FOLLOWS AGENDA

11:30 a.m. - 11:35 a.m. ***Call to Order; Opening Comments***

- Representative Bob McCluskey, Co-Chairman
- Senator Bruce Cairns, Co-Chairman

11:35 a.m. - 11:45 a.m. ***Business Personal Property Taxes in Other States; Other State's Use of Dynamic Modeling***

- Josh Harwood, Legislative Council Staff

11:45 a.m. - 2:00 p.m. ***Impact of the Business Personal Property Tax on Businesses in Colorado (Lunch Provided by NFIB)***

- Tim Jackson, Colorado State Director, National Federation of Independent Businesses
- Greg Jenik, Executive Director, Advancing the Business of Technology, Mountain States Council
- Tom McGimsey, General Counsel/Vice-President, Business Development, McDATA
- Bruce Cartwright, Senior Tax Manager, Ernst & Young
- Bob Barton, Staff Tax Analyst, Qwest
- Diane Schwenke, President, Grand Junction Chamber of Commerce
- Ann Driggers, President, Grand Junction Economic Development Partnership
- Deana Sheriff, Executive Director, Delta Area Development
- Denise Brown, Executive Director, Colorado Bioscience Association
- Carl Maxey, General Manager, Maxey Companies
- Jim Cochran, Executive Director, New Future and High Tech Network

2:00 p.m - 2:30 p.m. ***Public Testimony***

2:30 p.m - 3:00 p.m.

Committee Discussion on Presentations and Legislation

3:00 p.m.

Adjourn

Final

STAFF SUMMARY OF MEETING

ECONOMIC DEVELOPMENT - BUSINESS PERSONAL PROPERTY TAX

Date:	08/20/2004	ATTENDANCE	
Time:	11:47 AM to 02:25 PM	Andrews	E
		Briggs	E
Place:	Beaver Run Resort, Breckenridge Colorado	Garcia	X
		Judd	X
This Meeting was called to order by		Keller	X
	<u>Representative McCluskey</u>	Lamborn	X
		May M.	X
This Report was prepared by		Veiga	X
	<u>Ron Kirk</u>	McCluskey	X
		Cairns	X
X = Present, E = Excused, A = Absent, * = Present after roll call			

Bills Addressed:		Action Taken:	
Impact of the BPP Tax on Businesses		-	

11:47 AM -- Call to Order - Beaver Run Resort and Conference Center, Breckenridge Colorado

Representative McCluskey, Co-Chairman, called the meeting to order. House members present were Representatives Michael Garcia, Joel Judd, and Mike May. Senate members present were Senators Bruce Cairns, Co-Chairman, Moe Keller, Doug Lamborn, and Jennifer Veiga. Staff present from Legislative Council Staff were Josh Harwood, Ron Kirk, Lon Engelking, and Kirk Mlinek. Staff present from the Office of Legislative Legal Services was Ed DeCecco. Mr. Steve Schroeder, property tax specialist, was present from the Division of Property Taxation. Representative McCluskey said the committee would like to get viewpoints from small Western Slope businesses on issues the committee is studying. Staff distributed memoranda dated August 19, 2004, entitled: *Business Personal Property Taxes in Other States*(Attachment A); *Dynamic Modeling in Other States* (Attachment B); and *Incentive Payments for New and Expanding Businesses*(Attachment C).

11:50 AM -- Legislative Council Staff

Mr. Josh Harwood, Legislative Council Staff, briefly referred to a staff memoranda on personal property taxes in other states (Attachment A).

According to U.S. Census Bureau data, 41 states taxed at least some business personal property in 2000. The committee inquired about states that use dynamic modeling to analyze tax policy changes. Mr. Harwood began by explaining the difference between static and dynamic analysis. When tax policy changes are evaluated using static analysis, direct impacts are considered at a point in time, usually without considering secondary or indirect effects. In contrast, tax policy changes evaluated using dynamic modeling considers secondary and indirect effects over a period of time. Representative McClusley suggested the committee discuss dynamic modeling during the upcoming September 2, 2004, meeting.

11:55 AM -- Impact of the Business Personal Property Tax On Small Businesses

The following persons testified on the impact the business personal property tax has on small businesses in Colorado. Mr. Tim Jackson, National Federation of Independent Businesses (NFIB), Mr. Jim Noon, Centennial Container Corporation, and Mr. Tom Morroni, Electrical Equipment and Engineering Company testified in a panel format. Mr. Jackson began the presentation by noting the concerns businesses have with the business personal property tax. He stated the tax serves as a disincentive for businesses that look at moving to Colorado. Mr. Jackson noted that the TABOR refund mechanism that rebates personal property taxes is greatly appreciated by small businesses because it reduces the taxes paid to local governments.

Mr. Jackson said if the General Assembly addresses the budgetary issues pertaining to TABOR and Amendment 23 by referring a measure to voters, the legislation should reduce the disparity between the taxes businesses and homeowners pay. The disparity largely results from the Gallagher Amendment. Mr. Jackson closed by discussing the businesses that were forced into bankruptcy by the onerous, burdensome, and costly business personal property tax. For instance, the donut shop in Crested Butte is no longer in business.

12:06 PM

Mr. Jim Noon, Centennial Container Corporation, remarked he would favor eliminating the business personal property tax because it suppresses economic growth. The business personal property tax is costly for businesses to comply with. The tax is keeping businesses out of Colorado because it is a regressive tax on small businesses.

12:14 PM

Mr. Tom Morroni, Electric Equipment and Engineering Company, began by discussing the company's investment structure. Mr. Morroni said to remain competitive, his company invests heavily in state-of-the-art equipment. He said his company pays more in business personal property taxes than real property taxes. Mr. Morroni closed saying the businesses personal property tax makes it difficult for small businesses to compete. He pointed out that the tax penalizes companies that have to frequently invest in new equipment.

12:25 PM

Mr. Tim Jackson, NFIB, closed saying the business personal property tax depresses economic growth in Colorado. He urged the committee to look at solutions that would reduce the tax burden on small businesses. As one solution, the business personal property tax should be phased-out over time.

12:29 PM

Mr. Gregory Jenik, Mountain States Council, and Mr. Thomas McGimpsey, McData Corporation, testified on the impact of the business personal property tax on small businesses. Mr. Jenik noted it would be difficult to eliminate the business personal property tax because some counties are very reliant on it as a major revenue source. It may be possible for the legislature to phase-out the tax over a long period of time. As a suggestion, in lieu of eliminating the tax, the General Assembly should consider tax policy changes that give incentives to encourage companies to invest.

Mr. McGimpsey said businesses value Colorado's educated workforce. With regard to the business personal property tax, the tracking and compliance requirements cost his company significant money each year. Mr. McGimpsey closed suggesting a state income tax credit be used as an incentive to fuel business investment.

12:45 PM

Mr. Bruce Cartwright, Ernst & Young, on behalf of the Colorado Oil and Gas Association, began by discussing taxes assessed on oil and gas production (staff distributed a handout on Mr. Cartwright's presentation (Attachment D)). He pointed out that oil and gas is taxed at 87.5 percent of the prior year's net sales value and explained that processing and production equipment is subject to a tax equal to 29 percent of equipment's fair market value. Mr. Cartwright noted 41 of 50 states impose a business personal property tax.

Mr. Cartwright suggested that business personal property taxes be equal and uniform for all businesses as it is regressive for some businesses. Mr. Cartwright recommended tax policy changes that would:

- eliminate the personal property tax on intangibles such as good will and a recognized trained worked force (these are intangibles subject to taxation for state-assessed companies);
- expand the exemption for consumables from \$250 to \$1,000;
- increase the current \$2,500 exemption; and
- provide state funding for local jurisdictions to offer incentives to businesses.

01:04 PM

Mr. Bob Barton, Staff Tax Analyst, Qwest Communications, said Qwest invests \$600 million annually to improve customer service (staff distributed a handout from Mr. Barton on the impact of personal property taxes on telecommunications providers (Attachment E)). Mr. Barton said tax reform to enhance economic development should be fair to all-sized businesses.

Mr. Barton discussed some of the taxes and fees that are collected by telecommunication providers. For the average telephone consumer, the effective tax rate for taxes, surcharges, and fees exceeds 18 percent. He explained that telecommunication providers incur administration expenses for collecting these taxes and fees. Mr. Barton closed by talking about Qwest's support for economic development in Colorado.

01:17 PM -- Western Slope Small Business Development

Ms. Diane Schwenke, Grand Junction Chamber of Commerce, and Ms. Ann Driggers, Grand Junction Economic Development Partnership, testified in a panel format. Ms. Schwenke discussed the results from a October 2003 Western Slope small business survey. For businesses in Mesa County, the most important issues are the statewide economy, affordable liability and health insurance, and a qualified workforce. Ms. Schwenke mentioned on average, businesses in the county pay about \$1,400 in business personal property taxes. The membership survey indicated for most businesses, the business personal property tax is not a concern.

Ms. Ann Driggers, Grand Junction Economic Development Partnership, explained that the partnership's goal is aimed at bringing new businesses into Mesa County. For most businesses in Mesa County, the business personal property tax is not a concern. Colorado is one of the most business-friendly states in the nation. Ms. Driggers noted incentives are important for businesses that consider relocation to the Western Slope. Other important relocation factors include low labor costs, labor availability, a good transportation network, and low corporate income taxes. Ms. Driggers closed saying the most important concern for the partnership is to create quality jobs in the community.

01:28 PM -- Colorado's Bioscience Industry

Ms. Denise Brown, Colorado Bioscience Association, distributed a handout to committee members on Bioscience companies in Colorado (Attachment F). Ms. Brown provided the committee with an overview of the Bioscience industry. The vast majority of Bioscience companies have 40 employees or less and are primarily located in northern Colorado, Jefferson, Douglas, and Arapahoe Counties. In Colorado, the average salary in the Bioscience industry is \$66,000 per year. Ms. Brown said 40 states published plans to stimulate the Bioscience industry. Many states other than Colorado provide grants for industry development. For companies in Colorado, Ms. Brown commented venture capital funding is important. Ms. Brown closed saying the business personal property tax is not an important issue for most Bioscience companies in Colorado.

01:46 PM -- Impact of the Business Personal Property Tax On Small Businesses

Mr. Carl Maxey, Maxey Companies, voiced several concerns his businesses have with the business personal property tax. The business personal property tax does not adjust to economic changes in local economies. He also noted the tax does not adjust to personal property that needs to be replaced on a frequent basis such as computer systems. As a result, companies pay excessive taxes on information systems that have little value. Mr. Maxey commented the business personal property tax serves as a disincentive to business development in Colorado. Mr. Maxey closed asking the committee to look at ways to reward businesses that invest in manufacturing.

01:56 PM -- America's Technology Sector

Mr. Jim Cochran, New Future and High Tech Network, distributed two handouts on the America's technology sector entitled *The True Technology Unemployment Picture* (Attachment G) and the *Technology Initiative* (Attachment H) . Mr. Cochran mentioned he would like to discuss the interplay between the technology sector and small businesses. Mr. Cochran commented on the high-tech job losses during the recent economic downturn and talked about the decline in students taking high-tech courses at colleges in Colorado. America is no longer the world leader in the technology markets. Asia's economy effects the technology sector in America and is making the U.S. technology sector less competitive. To help small businesses in the technology sector, Mr. Cochran suggested:

- the federal government eliminate tariffs to increase competitiveness;
- technology be used to promote productivity;
- technology be protected as intellectual property;
- eliminating excessive government regulation; and
- reducing business taxes to stimulate investment.

Mr. Cochran closed saying successful small businesses create jobs in America. New jobs will solve many of our national ills.

02:18 PM -- Public Testimony

Mr. John Wray, Sterling, Colorado, spoke as the owner of an auto parts store and member of a local downtown merchant association. Mr. Wray mentioned Sterling is designated as a federal draught area. Merchants in the downtown Sterling area largely depend on the agricultural industry. Mr. Wray commented the business personal property tax is not a concern for his business but may be a concern for some manufacturing businesses in the county. Mr. Wray closed saying Sterling needs policies that stimulate the local economy.

02:22 PM

Adjourn.