The business personal property tax in Connecticut

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Executive summary

The personal property category in the Connecticut property tax system includes tangible personal property owned or leased by businesses. It does not include registered motor vehicles which are assessed separately. It also excludes business inventories and intangible personal property.

The personal property category accounts for just over 5% of total taxable property in the state and generates over $590 million in tax revenue each year.

Comparing the relative importance of personal property and business real property, the value of taxable personal property in Connecticut is currently over 40% of the value of all commercial, industrial and public utility real property in the state.

There is a national downward drift in taxing personal property. States have expanded exemptions and several have or are attempting to replace the tax on personal property with other tax revenues.

Personal property exemptions in Connecticut currently represent 20.4% of total personal property taxable value.

The personal property tax is challenging to administer because of the difficulty in identifying personal property, valuing it for tax purposes and auditing to insure compliance.

Personal property is valued using the historical purchase price less depreciation for age. The use of standardized depreciation schedules provides only a very rough estimate of current market value and does not reflect the practices employed by private fee appraisers.

In particular, the historical cost less depreciation approach does not consider the possibility of economic obsolescence. The chemical products manufacturing sector is one industry in Connecticut that may have experienced economic obsolescence since 2008.

Administration of the personal property tax in Connecticut

Identifying personal property relies on self-reporting by businesses who are required to file an annual declaration detailing their owned or leased personal property grouped into 17 different categories. Reporting involves stating the aggregate original cost and acquisition date for all property in each category.

Valuation follows standardized depreciation schedules for each category. Most categories have a 30% residual value regardless of age.

Of the 17 reporting categories, the largest in terms of the percent of the aggregate of total personal property value are:

- Cable, conduits, pipes, poles, towers, etc.: 26.5%
- Commercial furniture & fixtures: 21.2%
- Manufacturing & biotechnology machinery & equipment: 17.6%

Compliance appears to be variable across the state. The tax is reported to be difficult to collect in some jurisdictions because of the rate of business turnover. Auditing practices appear to be highly variable. There is evidence suggesting enforcement efforts are more lax in jurisdictions with high levels of personal property per capita.

Trends and patterns

Personal property as a percent of total taxable property varies across cities and towns in the state from 0.88% to 24.3%.

Mill rates also vary markedly, from 10.7 to 74.29, with an average of 29.47. Consequently the tax burden placed on personal property varies markedly as well.

The analysis of over 30,000 individual personal property accounts in 13 different jurisdictions shows that

- Nearly 89% of the taxable personal property value is found in only 7.2% of personal property accounts
- Over 52% of the value is found in only 0.22% of the accounts
- At the other extreme, 93% of all tax accounts total only 11.5% of taxable value
- The median tax obligation for all accounts valued at less than $1 million is $251

For the majority of businesses, the personal property tax is more nuisance than financial burden. It is likely that it costs firms more to comply and cities more to administer the tax than can be justified by the amount of revenue collected from the large majority of taxpayers.

Comparisons of business tax burdens

The Connecticut property tax on combined real estate and business personal property is above the national average for urban areas and below the national average for rural areas.

Even for urban areas, there are a number of states that appear to have higher combined property tax burdens for commercial and industrial property.

The treatment of business personal property in Connecticut does not appear to set Connecticut apart from other states.

Effective overall (real and personal) property tax rates do not differ nationally between states which tax personal property and those which do not. There is no evidence that tax burdens are higher for firms in states that tax any of the types of tangible personal property.

While there is substantial variation in tax burdens within the state, Connecticut tax rates are similar to other jurisdictions around the country. The overall median in Connecticut is slightly higher than the national average for urban areas.

These findings relate to relatively large businesses. For the large majority of Connecticut businesses, the property tax on business personal property appears to be an administrative nuisance but not a significant cost in terms of the amount of tax paid.

Options

The options for modifying the personal property tax all present the same challenges. Granting “relief” to large taxpayers will inevitably impact local government revenues. The lost revenue will either need to be replaced from some other tax or expenditures will need to be reduced. Replacing the revenue will require some combination of transfers from the state, increases in local tax property rates or the development of new sources of local revenue.

Option 1: The state could adopt an alternative tax to replace any relief granted for the personal property tax. Similar efforts in other states demonstrate that this is difficult to implement and sustain especially in recessionary times. The experience of other states suggests that local governments often must cope with reduced revenues or must increase other taxes, or both.

Option 2: Over time, the state could phase out the tax on personal property and do nothing to compensate local governments. The impact on local governments will vary dramatically depending on the relative importance of personal property in the overall tax base. The experience in other states indicates that this option would have consequences for decades into the future.

Option 3: Pool the base from the relatively small number of very large personal property taxpayers. This type of proposal has been studied for at least 40 years. There seems to be little evidence to suggest that such a radical change would improve overall equity or reduce the burden on large taxpayers.

There are also several options for compliance relief and administrative improvements that should be considered for improving the existing tax on personal property.

Compliance relief: Recognizing that very little revenue is generated from thousands of businesses required to complete the annual declaration, exempt all taxpayers with personal property below a designated threshold.

- A threshold of $5,000 would reduce property tax revenue by 0.006%, but would affect 35% of all personal property accounts.
- A threshold of $7,500 would reduce property tax revenue by 0.01%, but would exempt about 42% of all personal property accounts.
- A threshold of $10,000 would reduce property tax revenue by 0.014%, but would exempt about 46% of all personal property accounts.

Administrative improvements:

- The approach to depreciation should be revisited including the specific categories employed, and the appropriate residual value for each category.
- The assessment process needs to allow for the possibility of economic obsolescence in an industry. OPM might be given the assignment to evaluate the possibility of obsolescence and then provide guidance to local assessing offices.
- Audit procedures and frequency need to be improved. Contingency audits should be carefully evaluated for their effectiveness and fairness, and audit standards for such audits should be very clear.
- The role of OPM in overseeing uniformity in assessment administration should be strengthened. There needs to be an active state agency that provides training, oversight and standards enforcement to assure that the state property tax system is operating efficiently and fairly.

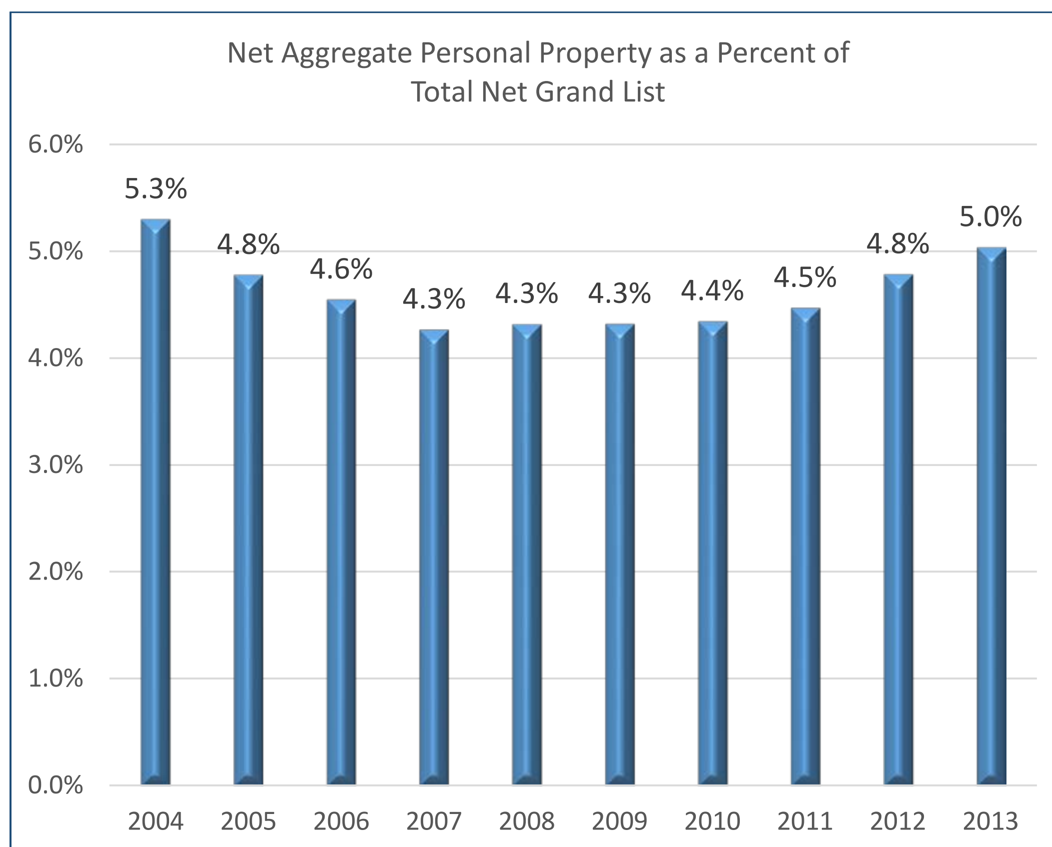
The Business Personal Property Tax in Connecticut

Introduction

The base for the Connecticut property tax is reported for several property categories. Based on the 2013 Grand Lists for Connecticut's 169 assessing jurisdictions, just under 11.5% of the state property tax base is considered tangible personal property, or physical property that can be moved without damage to land or buildings. The state further divides tangible personal property into two categories: business personal property and motor vehicles. This paper is focused on the business personal property tax. The taxation of motor vehicles raises somewhat different issues and is treated in a separate discussion.

As of the 2013 assessment year, taxable business personal property made up just over five percent of total taxable property within the state. The tax revenue generated by this base totals over $590 million each year. Even though the aggregate value of taxable personal property has increased every year (except for the 2010 assessment year), the relative importance of personal property as a component in the property tax base has varied somewhat depending on relative variations in real estate values from one year to the next. Personal property as a percentage of the total net grand list over the past decade is shown in Figure 1.

Figure 1



Source: Office of Policy and Management, Total Grand Lists by Town, for the years shown and calculations by the author

Before proceeding to a more detailed discussion of the personal property tax in Connecticut, it will be useful to describe the taxation of personal property more broadly. The next section of the paper discusses basic principles of property taxation as applied to personal property and introduces some of the general

terminology used is such discussions. Section 3 then discusses the policies and administrative practices in place in Connecticut. Section 4 presents the analysis of trends in the personal property tax base among Connecticut's 169 local assessing jurisdictions, and a more detailed picture based on the analysis of over 28,000 individual personal property accounts in 12 jurisdictions. Section 5 compares the taxation of personal property in Connecticut with the practices in other states with a particular focus on relative competitiveness. Section 6 discusses options which the state may wish to consider for improving both the administration of the tax and easing the compliance burden for taxpayers.

The taxation of personal property

The personal property tax can be imposed on tangible and intangible personal property. Examples of tangible personal property include machinery, computers, inventory, and office furniture. Intangible personal property would include such items as banking accounts, stocks, bonds, trademarks, and patents.

Definition

The Census Bureau defines Personal Property as:

> … every kind of property other than real property. It is either tangible, such as inventories that can be seen, touched, or moved about, or intangible. Intangible personal property has no physical existence other than certificates or accounts that represent its value. Fixtures may be either personal or real property, depending on whether or not they can be removed without damaging the real property to which they are attached. (US Census Bureau 1992: viii)

The personal property tax can be imposed on the personal property of individuals such as home furnishings or artwork. However, in virtually every state that imposes a personal property tax it is only assessed on the personal property of business firms and not on individual property owners with the exception of motor vehicles and personal water craft in a number of states. Likewise intangible personal property is exempt from the tax in the majority of states except for some Southeastern states.

Personal property in Connecticut follows a similar logic. Connecticut General Statutes (CGS) define taxable personal property in several sections. Two key definitions are:

> All goods, chattels and effects or any interest therein, including any interest in a leasehold improvement classified as other than real property (§12-71(a))

> The annual declaration of the tangible personal property owned by such person on the assessment date, shall include, but is not limited to, the following property: Machinery used in mills and factories, cables, wires, poles, underground mains, conduits, pipes and other fixtures of water, gas, electric and heating companies, leasehold improvements classified as other than real property and furniture and fixtures of stores, offices, hotels, restaurants, taverns, halls, factories and manufacturers. (§12-41(c))

Connecticut courts have embraced a somewhat more straightforward and succinct definition of personal property:

> The term 'personal property' embraces everything, not coming under the denomination of real estate, which is the subject of ownership and has an exchangeable value. (Judicial Branch 2014)

While this definition could include intangible personal property, the numerous references to tangible personal property in state statute would seem to make it clear that the state's intent is to tax only tangible personal property.

Fiscal importance of personal property

The fiscal or revenue importance of the personal property tax has been declining over the past decades. (Errecart et al. 2012) In the 70s the personal property tax averaged more than ten percent of the total assessed value for property taxes in the United States. The relative value of personal property has now been reduced to generally less than ten percent of the total. The importance of personal property to the tax base does have a regional pattern. The Southeastern states tend to rely most heavily on the personal property tax. The relative share of personal property in the property tax base is reported for selected states for the period from 1986 to 2013 in Table 1[1]. Of particular interest is the observation that personal property had a much larger share of the base in Connecticut in the past than it does today.

Table 1: Personal Property as a Percent of Total Property Tax Base for Selected States, 1986 – 2013

State	1986	1991	2013
California	6.5	5.9	4.0
Colorado	9.2	10.5	14.1
Connecticut	12.7	14.3	5.5
Florida	12.7	10.4	7.8
Indiana	26.3	21.6	14.7
Kansas	29.6	16.9	11.4
Kentucky	25.2	21.9	8.6
Louisiana	36.0	25.9	29.9
Maine	12.7	10.2	4.7
Maryland	0.8	0.8	3.2
Massachusetts	3.0	2.3	3.0
Michigan	12.7	12.3	9.2
Mississippi	26.9	30.6	28.4
Missouri	19.3	21.1	18.6
Nebraska	14.1	13.4	5.2
Oklahoma	17.4	16.7	19.5
Oregon	5.9	4.6	4.5
Rhode Island	16.8	15.4	3.4
Tennessee	9.8	9.1	6.7
Texas	17.1	19.3	12.7
Utah	14.8	14.4	5.6
Washington	6.3	5.8	5.6
Wisconsin	4.7	5.2	2.4
Average	14.8	13.4	9.9

Source: US Census (1992 and 1987); Lincoln Institute (2015)

Of the 23 states where data are reported, four have had the personal property relative share of the total property tax base increase since 1986. Another 19 have experienced a decline in the importance of the personal property tax. It is important to note that the percentages reported in Table 1 are statewide averages and hide the fact that many taxing jurisdictions within a state may have a substantial portion of

[1] It is worth noting that the US Census Bureau no longer reports data on the make-up of the property tax base in each state. As a result the best available information is found in the Lincoln Institute of Land Policy/George Washington University database *Significant Features of the Property Tax.* Because the Lincoln Institute/George Washington data are self-reported, definitions may not be completely consistent across states.

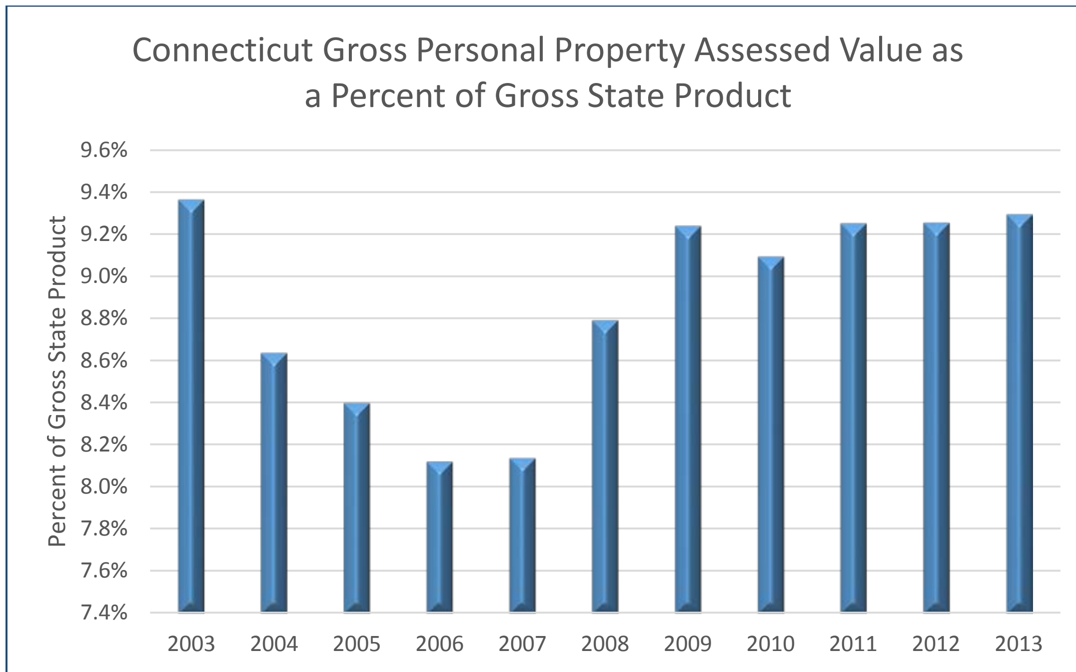
their property tax base in personal property. Examples would include taxing jurisdictions with large manufacturing firms or public utilities. This is certainly the case in Connecticut as described below.

The downward drift in the taxation of personal property has been propelled by several important trends. Most states have now adopted a policy to exempt business inventory from the personal property tax. (Errecart et al. 2012) This legislative action has resulted in a significant reduction in the personal property tax. The motivation for removing inventory from the tax base was the concern that manufacturing firms would relocate to states that did not tax inventory. There was also a desire by states to be viewed favorably in terms of offering tax-free status warehousing for goods in various stages of the production or distribution processes. The practice started with the adoption of "Freeport centers" that exempted stored goods in the intermediate stages of production or finished goods in transit. When this policy was first adopted it may have offered a tax advantage for the first few states that followed this policy but the exemption of goods in transit spread rapidly to other states likely resulting in no distinct advantage for the early adopters. (Cornia and Wheeler 1999) (There have been other legislative changes to the taxation of personal property but the exemption of inventory is the most significant.)

The second trend that has contributed to the decline in the taxation in personal property has been the changing nature of business processes and the makeup of business firms in the United States. As the US economy has shifted from a manufacturing-based economy to a service-based economy the importance of value added from capital facilities relative to value added via intellectual contributions has been declining for decades. Service-based businesses use less personal property per employee when compared to manufacturing firms. The result is that in most states there is less tangible personal property to be taxed relative to the Gross State Product.

While this trend may explain national declines over a long time period, it does not seem to hold in Connecticut over the past decade. Figure 2 reports the gross personal property base (before exemptions) as a percentage of the state's Gross State Product (Connecticut's contribution to national GDP). The sharp decline from 2003 to 2007 was the result of the rapid growth in the overall Connecticut economy during that period. Nominal annual growth rates ranged from 4.6% to 9.4%. In 2008, Connecticut fell victim to the national recession and the economy shrank by 1.4% in 2008 and another 2.0% in 2009. Growth since 2009 has been at a much more modest rate (0.6% to 2.9%).

Figure 2

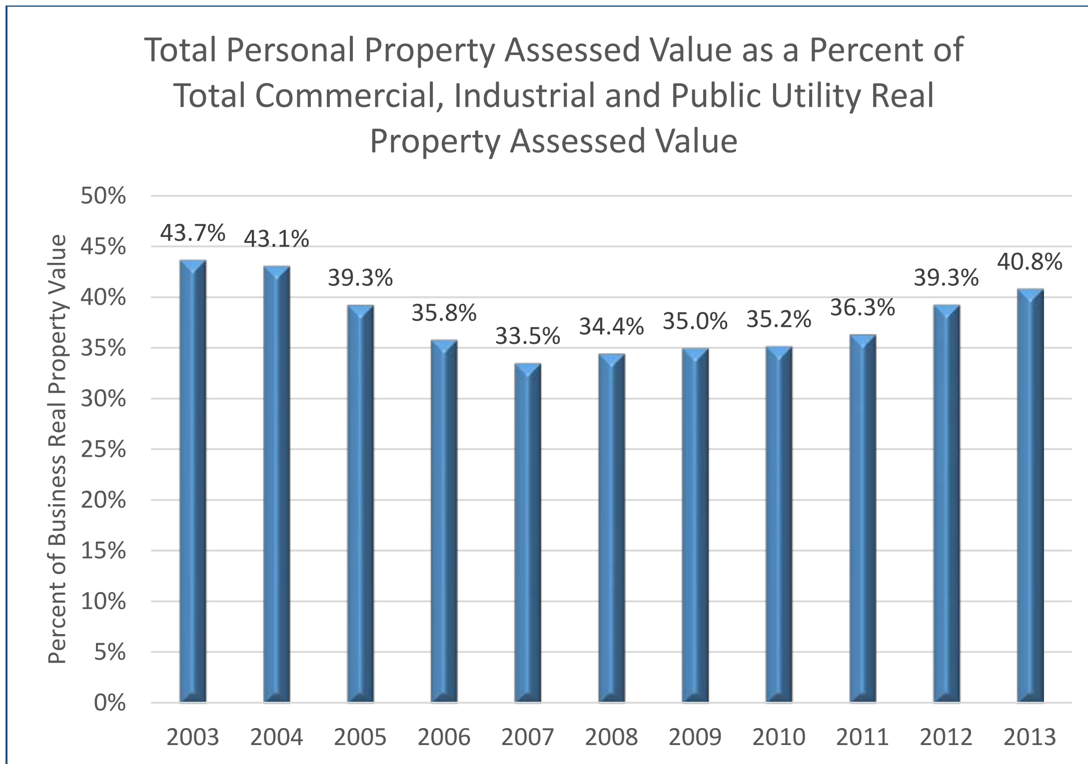


Source: US Bureau of Economic Analysis and calculations by the author

The methods used to assess and value personal property may also contribute to the decline in the importance of personal property. Personal property value is often based on the historical purchase price while other components of the property tax base, e.g. residential homes, have their value established by current market sales. Such a divergence in the valuation methods may well result in personal property valuations lagging the other segments of the property tax base if revaluations are carried out regularly.

One way to consider this structural relationship between real and personal property is to examine the relationship between the value of personal property and the value of all commercial, industrial and public utility property. Since taxable personal property in Connecticut is nearly all owned by businesses, the ratio of personal to business real property should be declining if the national pattern holds. Figure 3 reports the ratio of gross taxable personal property (before exemptions) to gross commercial, industrial and public utility property. The highest ratio was observed in 2003 when the value of personal property represented 43.7% of the value of commercial, industrial and public utility property. In subsequent years, this ratio fell (reflecting the relative increase in real estate values), before starting to climb again in 2011. For the most recent year available (2013), aggregate personal property was valued at 40.8% of business real estate.

Figure 3



Source: Calculations by the author

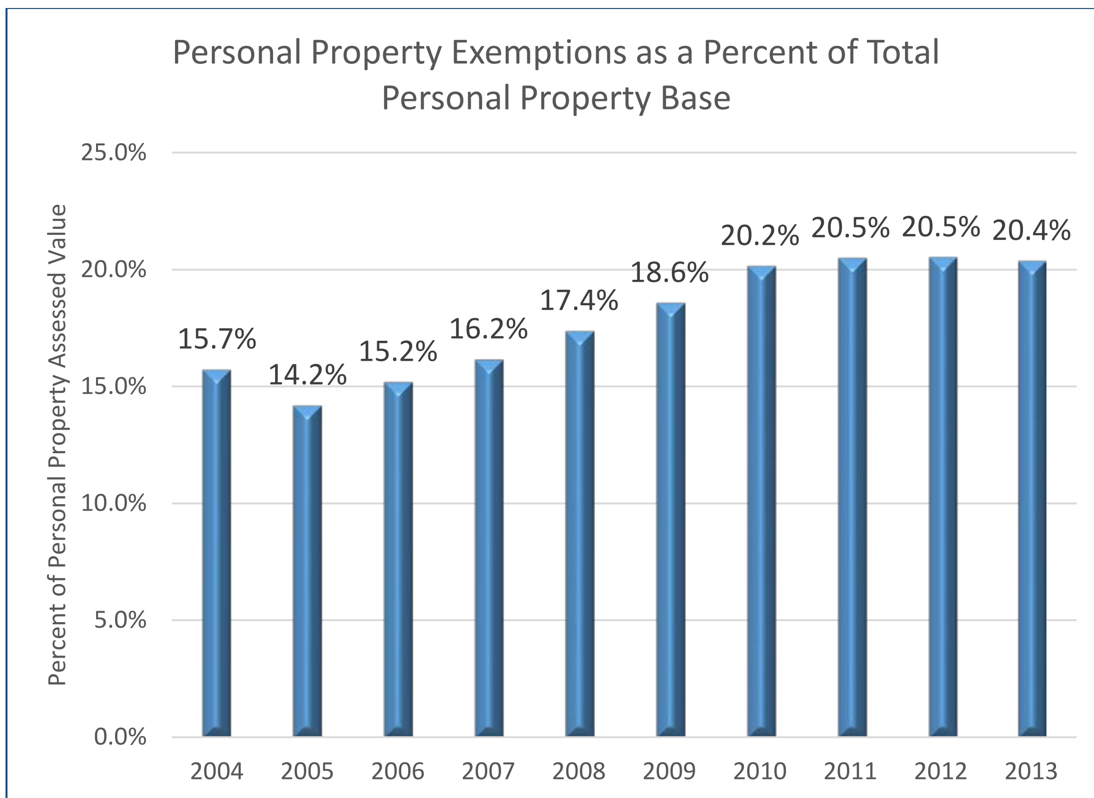
Given the current climate around taxes and tax policy it would be reasonable to assume that seeking exemptions for personal property will be common. A quick review of the tax literature confirms this trend. For example, Collins and Langley (2014) report that during 2013 three states adopted or expanded exemptions for personal property. Colorado now allows local governments to offer personal property exemptions to firms if the local government is able to determine that a firm is considering relocating to another state. Utah expanded personal property taxes by indexing existing exemption brackets to account for changes in the price index. Idaho allows the exemption of property costing less than $3,000. Collins and Langley suggest the Idaho legislation will remove the personal property tax from most business firms in Idaho. The new law is expected to reduce total revenues by $20 million and the state pledged to replace the revenue lost by local governments by adjusting the sales tax distribution formula.

The program adopted in Idaho illustrates the problem of reducing or eliminating personal property from the tax base. Virtually every dollar of revenue from the personal property tax goes to local governments and if a state decides to eliminate or reduce the personal property tax it is local governments that feel the effects of the decision. The response to a loss in revenue can take the approach adopted in Idaho and simply transfer state funds to local governments. The term “simply transfer” ignores the complexity of intergovernmental fiscal transfers because such actions are rarely simple. Another approach is to cut services that were previously funded by the revenue from the personal property tax. This is also one of those policy responses that is never simple. The third approach is for the government that is losing revenue to adjust tax rates upward on the remaining tax bases. As with the previous two solutions to foregone revenue, adjusting tax rates is fraught with significant challenges. For the loss of revenue alone any decision around the personal property tax requires a careful and thoughtful policy review.

Exemptions to Connecticut's personal property tax have leveled off in the past several years after climbing significantly for several years running. Figure 4 reports on the total personal property exemptions granted across the state as a percentage of the personal property base. Noteworthy was Connecticut's decision to exempt certain manufacturing machinery and equipment beginning in 2007. But that only continued a trend that had started some years before. Other exemptions to business personal property include:

- Inventory [CGS § 12-81(50), (54)]
- Manufacturing machinery and equipment, including machinery and equipment used in biotechnology [CGS § 12-81 (72), (76)]
- New machinery and equipment used in upgrading a manufacturing facility in a qualified distressed municipality, targeted investment community, or enterprise zone [CGS § 12-81(70)]
- Municipalities may abate taxes for information technology personal property and real and personal property of a communications establishment [CGS § 12-81t to 12-81u]

Figure 4



Source: Office of Policy and Management, Grand Lists by Town for the years shown and calculations by the author

Administration

Revenue significance notwithstanding, the personal property tax is accompanied by some inherent challenges. The first challenge when taxing personal property is developing and implementing an administrative process that treats taxpayers in a fair and transparent manner. This requires an administrative process that results in an acceptable degree of certainty, allows a taxpayer to identify what is being taxed and also understand the valuation used to determine the taxes due on the subject property. For real property the administrative challenges are relatively easy to resolve. Business owners or

homeowners can easily relate to the property that is being taxed and with modest effort understand how the value of the taxable property is established. Likewise it is relatively easy for tax administrators to discover and value the real property of business and residential homes.

The converse is true for personal property. Personal property is difficult to administer because of challenges in identifying personal property, valuing the property for tax purposes, and auditing establishments for personal property to insure compliance.

Issues with the cost approach

When valued separately from real property, personal property is generally valued using the property's acquisition cost less depreciation. This historical cost less depreciation approach is used in Connecticut as well. But it is not the only version of a cost approach that can be used. For example, assets could be valued based on what it would cost to reproduce the asset. This is essentially what Connecticut tries to do with the current car tax based on current average market values.

But neither of these variations on the cost approach reflect how market actors would evaluate an asset. Most firms would evaluate what it would cost to replace the functionality provided by the asset. The classic example often used is the value of a 2-year old computer. In valuing such a machine, firms would consider the cost of replacing the functionality provide by the computer. New technology may mean that the same function can be obtained at a lower cost. The historical cost of the computer or the cost of reproducing the same machine would be of little interest.

Unfortunately, given the limited information available to assessors and the volume of accounts that must be valued each year, it is extremely difficult to truly emulate the market when valuing personal property. But it is worth noting that a professional fee appraiser would likely use either the reproduction or replacement cost approach rather than the historical cost.

A second set of issues related to the cost approach relates to the concept of depreciation. Depreciation schedules are standardized assumptions about how an asset's value will decline over time. The decline in value, however, may be due to one of three reasons, not all of which are captured in a depreciation schedule. First, there is physical deterioration. This is the concept that fits most clearly with a standard depreciation schedule. An asset is deemed to have a certain useful life, and consequently the value of the asset will decline over the course of that time period to reflect the fact that the remaining useful life is constantly declining. The rate of decline is often assumed to be linear, but this need not be the case. And it is generally assumed that even at the end of its useful life, the asset will have a residual salvage value.

A second type of depreciation is functional obsolescence. The asset may still have significant remaining useful life, but the function that it fills has changed. Firms are seeking for a new configuration or a new technology to meet the new functional needs. Consequently, the current asset has lower value than would be suggested by the depreciation schedule. An example would be the value of a reasonably new electric typewriter in an emerging age of word processors.

A third type of depreciation is perhaps the most difficult to identify and measure because it is external. This is economic obsolescence. It arises when market conditions change and the productive capacity of the asset is no longer needed. Because economic obsolescence is a result of external market forces, it is never reflected in depreciation schedules. Appraisers and assessors must look to the market for indications that economic obsolescence may exist in a given industry.

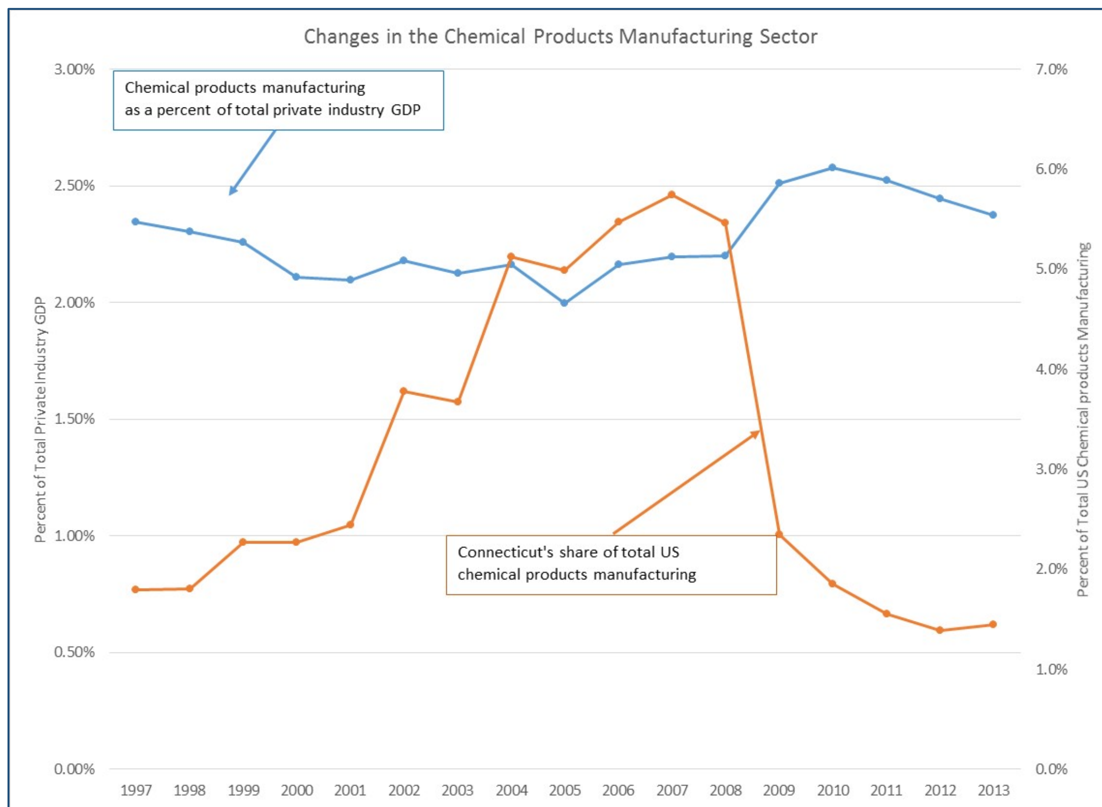
For example, there is an industry in Connecticut that is likely suffering from economic obsolescence, and one other that may be. The industry that is quite likely experiencing obsolescence is the chemical

products manufacturing industry (NAICS code 32) or at least some of its subdivisions. Figure 5 illustrates the point. The figure shows two lines representing the national trend in the industry and the Connecticut trend. Nationally, chemical products manufacturing has represented between 2.0% and 2.5% of GDP since at least 1997. During the recent recession, the percentage actually increased. Since the recession, the percentage has fallen slightly, but remains solidly above 2.0%.

During much of the late 1990s and up to 2008, Connecticut was clearly growing as an important contributor to the national industry trend. In 2009, the pattern changed dramatically. Connecticut's share of the national industry fell from nearly 6% to just over 2%, and has continued to decline in the years since. Something has clearly changed in the national market and Connecticut firms have yet to adapt.

This trend suggests that to the extent that Connecticut firms in the chemical product manufacturing sector have specialized equipment that cannot be readily converted to another use, the value of that machinery and equipment may have fallen much more than would be reflected in a standard depreciation schedule based on physical deterioration.

Figure 5



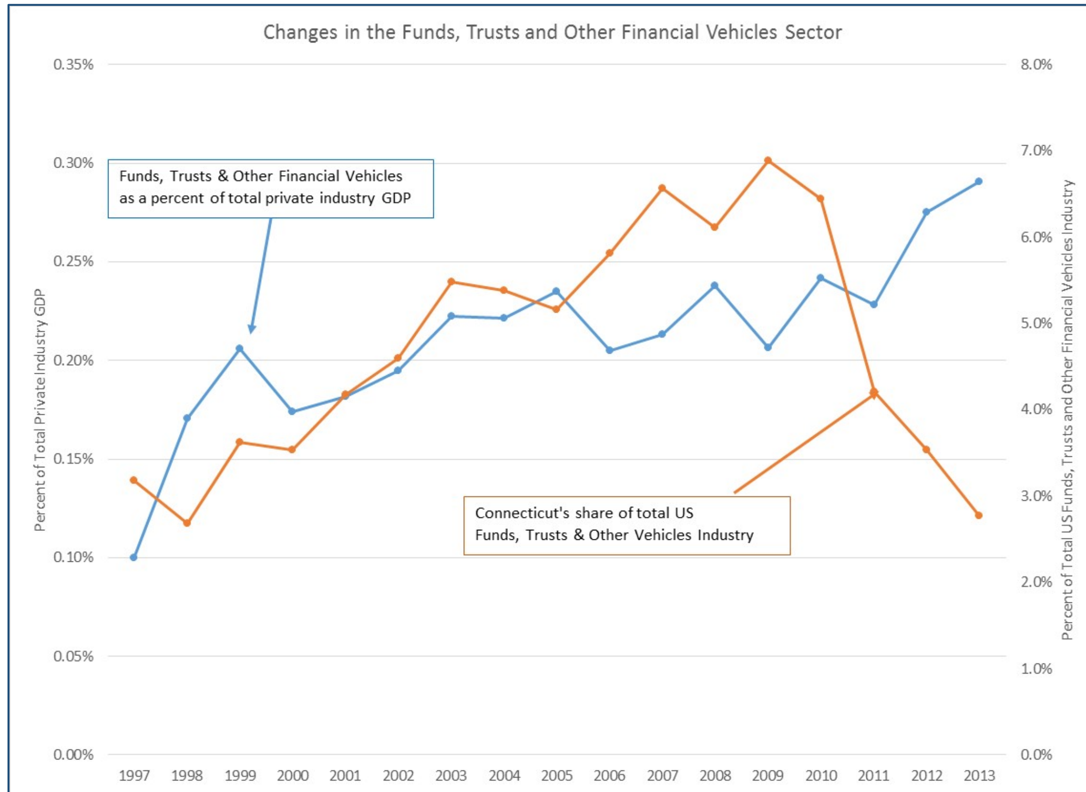
Source: US Bureau of Economic Analysis

A second industry that has also seen dramatic changes relative to the national market is the Funds, Trusts, and Other Financial Vehicles (NAICS code 55) industry. Figure 6 reports again both the national industry trend and Connecticut's contribution to the national market output for that industry. Here the data indicate that the industry in Connecticut began to decline in 2010, but fell dramatically in 2011 and has continued to decline since. But in this instance it is less clear that there is economic obsolescence. The firms may be

less valuable, but if the equipment and other fixtures they employ can be used productively in another industry (say, insurance or education), there may be no obsolescence.

The point is that assessors charged with valuing property at market value have a responsibility to monitor larger market trends and at least consider the possibility that obsolescence may be present. The next section describes the administrative processes in use in Connecticut.

Figure 6



Source: US Bureau of Economic Analysis

Administration of the Personal Property Tax in Connecticut

The tasks inherent in the administration of any property tax involve several recurring steps regardless of the type of property. Tax administrators must be able to:

- Identify the property that will be taxed and the appropriate taxpayer who will incur the obligation
- Value the property in a fair and consistent manner as defined by law
- Apply the appropriate tax rate to determine the tax due
- Notify taxpayers of their obligation
- Receive and appropriately respond to inquiries and appeals from taxpayers
- Effectively collect the tax

This list also serves to organize the discussion of the administration of the personal property tax in Connecticut.

Discovery of personal property

Local assessors in Connecticut rely on self-reporting by business operators to identify taxable personal property and potential exemptions. State law requires each business to file a personal property declaration form with the local assessor each year. Businesses with multiple locations must file separate declarations in each jurisdiction in which they operate. The forms must be filed by November 1 of each year for assessments as of October 1. Those who must file include:

- Owners of unregistered motor vehicles; horse, ponies and thoroughbreds; mobile manufactured homes not assessed as real estate
- Businesses
- Lessors and Lessees of personal property

Failure to file the declaration by November 1 (or by the extension deadline if granted) results in a 25% penalty being added to the assessment.

Property reported is grouped by type of property. For each type of property, the aggregate acquisition value of property acquired in a given year is recorded. The property categories and reporting information are shown in Table 2.

Table 2: Personal Property Annual Declaration Information

<table>
<tr><th>Property category</th><th>Required information</th><th>Depreciation period</th><th>Residual value</th></tr>
<tr><td>(9) Unregistered motor vehicles and vehicles garaged in Connecticut but registered elsewhere</td><td>Year, make, model, VIN, length, weight, purchase price, date</td><td>None</td><td>Current value</td></tr>
<tr><td>(10) Manufacturing machinery and equipment not eligible under CGS 12-81 (76) for exemption</td><td>Original cost, transportation and installation</td><td>7 years</td><td>30%</td></tr>
<tr><td>(11) Horses and ponies[2]</td><td>Age, breed, sex, quality and value</td><td>None</td><td>None</td></tr>
<tr><td>(12) Commercial fishing apparatus[3]</td><td rowspan="2">Original cost, transportation and installation</td><td rowspan="2">7 years</td><td rowspan="2">30%</td></tr>
<tr><td>(13) Manufacturing machinery and equipment eligible under CGS 12-81 (76) for exemption (requires a separate exemption claim form as well)</td></tr>
<tr><td>(14) Mobile manufactured homes not currently assessed as real estate</td><td>Year, make, model, length, width, bedrooms, baths</td><td>None</td><td>Current value</td></tr>
<tr><td>(16) Furniture, fixtures and equipment</td><td rowspan="5">Original cost, transportation and installation</td><td rowspan="4">7 years</td><td rowspan="4">30%</td></tr>
<tr><td>(17) Farm machinery</td></tr>
<tr><td>(18) Farm tools[3]</td></tr>
<tr><td>(19) Mechanics tools[3]</td></tr>
<tr><td>(20) Electronic data processing equipment[4]</td><td>4 years</td><td>20%</td></tr>
<tr><td>(21a) Telecommunications company equipment not technologically advanced</td><td rowspan="3">Original cost, transportation and installation</td><td>7 years</td><td>30%</td></tr>
<tr><td>(21b) Telecommunications company equipment technologically advanced</td><td>4 years</td><td>20%</td></tr>
<tr><td>(22) Cables, conduits, pipes, etc.</td><td>Not specified</td><td>Depreciated value</td></tr>
</table>

[2] Horses and ponies are subject to a $1000 exemption per animal
[3] $500 exemption applied
[4] Including bundled software

Property category	Required information	Depreciation period	Residual value
(23) Expensed supplies	Total expended, average monthly	None	None
(24a) Other goods including leasehold improvements	Original cost, transportation and installation	8 years	30%
(24b) Rental entertainment medium	Original cost, transportation and installation	4 years	20%

Source: Connecticut Association of Assessing Officers (CAAO) 2015 Declaration of Personal Property

In addition, taxpayers desiring exemptions for water or air pollution control equipment, farm machinery in excess of $100,000, or a distressed municipality/enterprise zone location must file an additional form.

The example shown in Table 3 may help clarify how the declaration form is to be completed. The example is taken from the CAAO declaration form for 2014 and is described as follows:

> June 2012, you bought a desk for $300 and a chair for $80. In October of 2012 you buy a display rack for $400. You have a filing cabinet you bought 10 years ago for $100 that is being used in your business. A friend gave you a used bookcase, in February 2014, which you believe is worth $50.

Given this description, the declaration form should be completed as shown in the table. The shaded columns are completed by the taxpayer. The other information is printed on the form.

Table 3: Example personal property declaration

#16 – Furniture, fixtures and equipment			
Year ending	Original cost, transportation & installation	% Good	Depreciated value
10-1-14	50	95%	48
10-1-13	400	90%	360
10-1-12	380	80%	304
10-1-11		70%	
10-1-10		60%	
10-1-09		50%	
10-1-08		40%	
Prior years	100	30%	30
Total	930	Total	742

Source: CAAO 2014 Declaration of Personal Property

Declaration forms are mailed out to each business that filed in the previous year and each new business registered with city. Whether or not a business receives the declaration form does not affect their obligation to complete and file the declaration.

Clearly discovering new businesses poses a burden for local assessors (Catherine Collins 2015) and based on interviews with 11 different cities, efforts to identify such potential taxpayers vary across assessing jurisdictions. When forms are completed, there is no easy way to verify the accuracy of the data provided short of an audit. And for large firms with millions of dollars in personal property, the filing can be quite lengthy.

Valuation

Using the information provided by the taxpayer on the declaration form, valuation by the assessor is generally straightforward. State law requires that all property be assessed at 70% of market value. The assessor simply takes the depreciated value totals for each property category, deducts any exemptions, and multiplies the remainder by 0.7 before adding them together to arrive at the total taxable value for the firm's personal property. In the case of motor vehicles reported on the declaration, value is verified where possible by using the National Automobile Dealers Association data available from the state. No other attempts are made to test whether or not the final value bears any connection with actual market value since for the most part the assessor has very little information on quality, condition or marketability of the assets.

The result for the 2013 Grand List was total personal property valued for tax purposes at $22,948 million before exemptions. Table 4 reports the breakdown of this total by type of property. The largest single category is the infrastructure owned by public utility companies in cable, conduits, pipes, etc. Several of the property types are very small in the aggregate. In addition the total taxable value was reduced by exemptions totaling 20.4% putting the final taxable value at $18,270 million.

Table 4: Distribution of Personal Property Value by Type: 2013

Personal Property Type	Percent of State Total Personal Property
Non-registered MV and Snowmobiles	0.93%
Industrial/Mfg. Machinery & Equipment	10.30%
Horses and Ponies	0.03%
Commercial Fishing Apparatus	0.002%
Manufacturing & Biotechnology Machinery & Equipment	17.64%
Mobile Manufactured Homes	0.01%
Commercial Furniture & Fixtures	21.23%
Farm Machinery	0.41%
Farming Tools	0.01%
Mechanics Tools	0.20%
Electronic Data Processing Equipment	8.77%
Telecommunications Equipment	2.02%
Cable, Conduits, Pipes, Poles, Towers, Telephone, Water, etc.	26.53%
Monthly average quantity of supplies	0.33%
All other taxable property, chattels & effects	10.51%
25% Penalty	1.08%
Total	100.0%

Source: Office of Policy and Management, Grand List by Town: 2013 and calculations by the author

Interviews with both assessors and taxpayer representatives indicated that there is substantial dissatisfaction with a 30% residual value for most property categories. The view expressed was that this value is too high in many cases.

There is also concern that the property categories on the CAAO's standard form are too broad for some types of specialized properties. This has led some jurisdictions to develop their own declaration forms.

An issue that affects personal property valuations in Connecticut relative to real property has to do with the valuation cycle for each. Personal property is valued every year using the standard forms, but real property is revalued every 5 years. This mismatch in the valuation cycle means that the effective

assessment ratio of real and personal property may differ over the course of the real property valuation cycle.

Billing and Collection

Assessments are done as of October 1. Tax bills are mailed out by all jurisdictions generally the following June. By law, however, there is no legal obligation for a municipality to notify a taxpayer of their specific obligation. The law only requires that municipalities publish, at specified intervals, a general notification to the public that taxes are due and payable at a certain date. (CGS §12-145)

The personal property tax is due July 1, after the local government has adopted their mill rate and new budget. The tax payment is delinquent after August 1. (Some elements of the property tax can be paid in quarterly or biannual installments in some jurisdictions.)

While collection rates for the property tax are generally high in Connecticut, collection of the personal property tax may pose a problem for local tax collectors. In February, 2015, one local newspaper reported that a Councilman who happened to be running for the state Senate owed over $140,000 in personal property taxes that had not been paid since 2002. The city finance director reported that the personal property tax is the hardest property tax to collect because of the rate of business turnover. (Lockhart 2015)

Cities do have legal options for pursuing delinquent accounts, but they often lack the resources for effective enforcement.

Auditing

Limited resources also limit the ability of many cities to audit personal property accounts. It is clear from the CAAO declaration form used by most jurisdictions that the information provided by a taxpayer is very general and could easily be misrepresented. Comparisons of declarations across years may reveal significant changes or taxpayer inconsistencies. But even such variations may not trigger an audit.

Audits do take place, but generally at very low rates. Some jurisdictions have sought outside help for audits, including using contingency contracts with private auditors. For the most part, taxpayers and many assessors are uncomfortable with contingency audits. Nonetheless, there are cities using this approach. The effectiveness of in-house, contracted or contingency audits is not known. But given the size of most personal property accounts, it seems likely that audits will focus on larger businesses and will ignore the majority of personal property taxpayers.

There is also evidence suggesting that assessors across the state may not be consistent in how aggressively they administer the personal property tax. Table 4 reported the total personal property penalties assessed across the state at just over 1% of total personal property assessed value. But this percentage varies substantially across jurisdictions and in some instances is over 15% of total personal property. Table 5 reports a simple comparison between the level of penalties as a percentage of total personal property value and the total personal property value per capita. It is clear from the table that jurisdictions with personal property value per capita above the state median are much less likely to assess penalties. Those communities with value per capita below the median are much more likely to assess penalties. While it is possible that in jurisdictions with relatively high personal property per capita there is also a higher level of compliance overall, it seems more likely that the pattern shown in Table 5 indicates variations in administrative practices regarding auditing and enforcement.

Table 5: Personal Property per Capita and Personal Property Penalties Assessed

Number of assessing jurisdictions	Personal property penalties assessed as a percent of total personal property

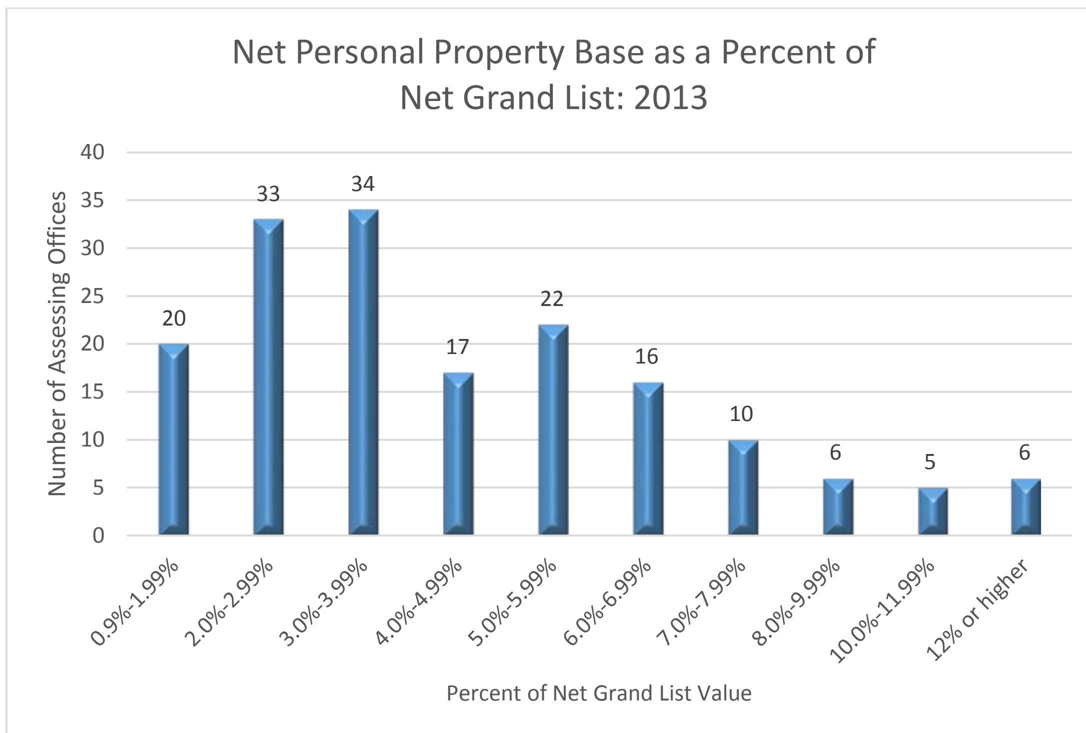
		Below the median	Above the median	Total
Personal property value per capita	Above the median	61	24	85
	Below the median	23	61	84
	Total	84	85	169

Source: Office of Policy and Management, Grand List by Town: 2013, and calculations by the author

Trends and patterns in the Connecticut personal property tax

As noted in the introduction, taxable personal property represents just over five percent of Connecticut's total property tax base after all exemptions are included. But this summary statistic masks the significant variation that exists between Connecticut's towns and cities. The range is from 0.88% in New Canaan to 24.3% in Waterford. The full distribution is reported in Figure 7. Clearly variations in the value of the tax base do not tell the whole story since tax rates vary substantially by community as well. For 2016, mill rates[5] vary between 10.70 in Salisbury and 74.29 in Hartford, with an average across the state of 29.47.

Figure 7



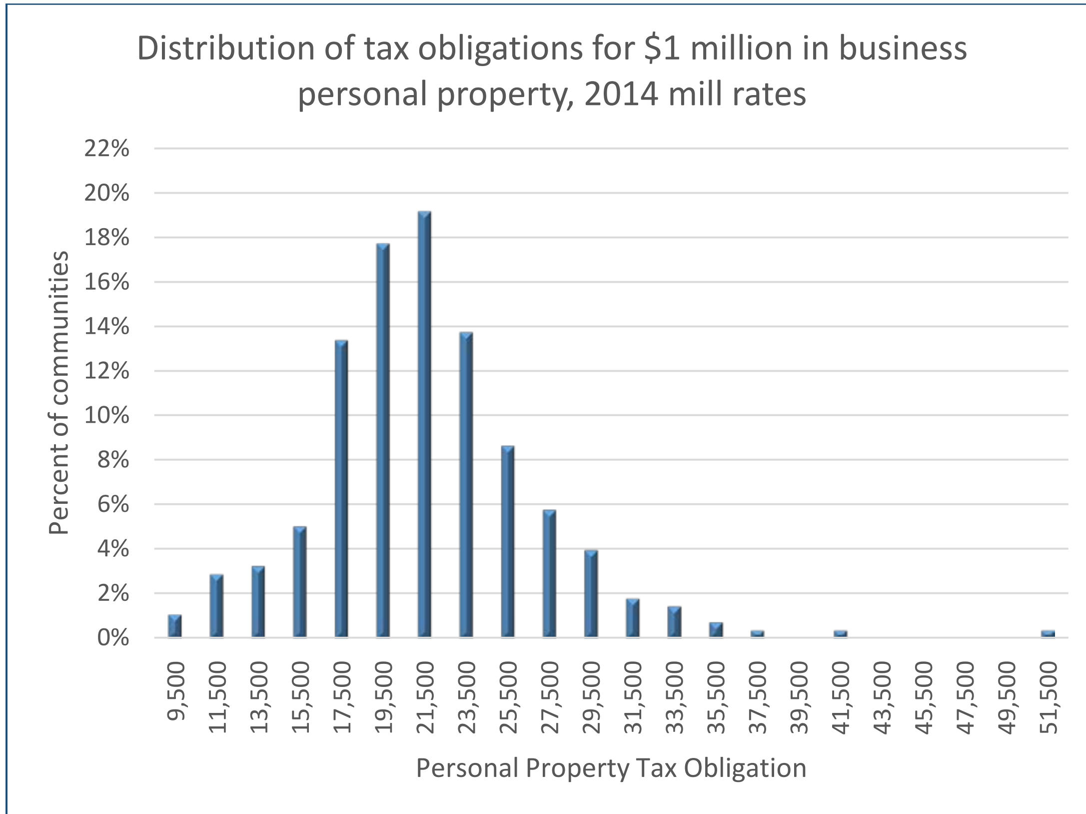
Source: Calculations by the author

One way to compare cities is to apply the local mill rate to a standardized value. Figure 8 shows the personal property tax obligation due for a company owning personal property with a depreciated value of $1 million. Using the state assessment ratio of 70% of market value, and community-specific mill rates, the tax obligation in each community is calculated. The median obligation is $20,409, and 36% of communities are within 10% of the median. The range is from $7,490 in Salisbury to $40,754 in Waterbury and $52,003 in Hartford. Thus, there are outliers on both the high and low end with the result

[5] A mill rate expresses the tax as a rate per $1,000 of value. Thus a mill rate of 25.0 applied to a base of $10,000 would result in a tax obligation of 25.0 X 10, or $250.

that the tax burden for a given amount of personal property varies substantially across the state. But most jurisdictions cluster around the median value.

Figure 8



A more careful examination of the burden of the personal property tax yields a richer picture. The personal property grand list was obtained from 13 towns[6], totaling 30,195 personal property accounts. The cities were selected because they represent both extremes in the distribution of personal property as a percent of total grand list. A comparison between the 13 indicates that the distribution of accounts by total taxable value is virtually identical. This appears to be a reasonable sample for accounts statewide.

Table 6 reports the number and percent of personal property accounts by value range. The table also shows the proportion of total personal property taxable value represented by each value range. The table shows that nearly 89% of the taxable personal property value is found in only 7.2% of personal property accounts. In fact, over 52% of the value is found in only 0.22% of the accounts. It is striking that nearly 93% of all tax accounts total only 11.5% of taxable value.

Excluding all accounts with a taxable value in excess of $1 million, the median tax obligation for remaining firms, using 2014 mill rates, is $251. This analysis of actual personal property accounts indicates that the personal property tax in Connecticut is a tax on large businesses. For the majority of

[6] The jurisdictions included were Bloomfield, Fairfield, Greenwich, Groton, Hartford, Killingly, Middletown, Montville, Norwich, Stamford, Waterford, West Hartford, and Windsor.

businesses, it is more nuisance than financial burden. It is likely that it costs firms more to comply and cities more to administer the tax than can be justified by the amount of revenue collected from the large majority of taxpayers.

Table 6: Distribution of Personal Property Taxable Values: 2014

Net assessment range	Personal Property Accounts (2014)	Percent of accounts	Total Net Personal Property taxable value ($ millions)	Percent of Personal Property tax base
$200,000-$299,999	665	2.20%	161.1	2.95%
$300,000-$599,999	657	2.18%	270.3	4.95%
$600,000-$999,999	304	1.01%	235.7	4.32%
$1,000,000-$1,499,999	166	0.55%	200.6	3.67%
$1,500,000-$1,999,999	80	0.26%	137.2	2.51%
$2,000,000-$2,999,999	97	0.32%	238.2	4.36%
$3,000,000-$9,999,999	143	0.47%	730.6	13.38%
$10,000,000-$49,999,999	54	0.18%	1,253.8	22.96%
Over $50 million	13	0.04%	1,606.5	29.42%
Sub-total	2,179	7.22%	4,834.1	88.52%
Remaining accounts	28,016	92.78%	626.8	11.48%
Total	30,195	100.00%	5,460.8	100.00%

Source: 2014 Grand List from 13 assessment offices and calculations by the author

Comparisons with other states and within Connecticut

An important question is whether businesses with large investments in Personal Property are taxed more heavily in Connecticut than elsewhere? Comparing the personal property tax burden across states is very difficult, given variations in definitions, exemptions, valuation practices and even within state differences. (Catherine Collins 2015)

One way that comparisons can be made is to use a standard business configuration that includes both real and personal property and then calculate the total tax obligation in several specific jurisdictions. This is the approach taken by the Minnesota Center for Fiscal Excellence and the Lincoln Institute of Land Policy. The two organizations partner to produce an annual study making comparisons between large cities in each state. The following tables are extracted from their most recent study. (LILP/MCFE 2015)

Table 7 compares a **hypothetical** commercial property with $1 million in current real estate market value and $200,000 in fixtures. The total property tax obligation is compared because the differences in valuation practices and base definitions, as well as different rates, can be quite confusing. As a result, the Lincoln Institute/Minnesota study compares the total statutory tax obligation.

Table 7: Comparative property tax obligations for $1 million in commercial real property and $200,000 in fixtures, payable in 2014

State	City	Net Tax	Effective Tax Rate[7]	National rank

[7] The effective tax rate is calculated by dividing the tax due by the total market value of the property being taxed. Thus it adjusts for differences in assessment ratios and nominal rates to produce a rate that is more comparable across states.

State	City	Net Tax	Effective Tax Rate[7]	National rank
Urban property				
New York	New York City	47,597	3.966%	2
Rhode Island	Providence	43,757	3.646%	4
Connecticut	**Bridgeport**	**40,978**	**3.415%**	**7**
Massachusetts	Boston	34,610	2.884%	13
New York	Buffalo	32,608	2.717%	16
New Jersey	Newark	28,945	2.412%	20
Vermont	Burlington	27,767	2.314%	23
National average		25,883	2.157%	
New Hampshire	Manchester	24,370	2.031%	28
Maine	Portland	24,000	2.000%	29
Rural property				
New York	Warsaw	35,847	2.987%	4
Massachusetts	Adams	24,954	2.330%	10
Maine	Rockland	24,192	1.016%	17
New Hampshire	Lancaster	24,125	2.010%	18
New Jersey	Maurice River Township	23,668	1.972%	19
Vermont	Hartford	23,112	1.926%	21
Rhode Island	Hopkinton	22,787	1.899%	22
National average		20,945	1.745%	
Connecticut	**Litchfield**	**20,833**	**1.736%**	**25**

Source: Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence (2015)

Table 8 is a similar comparison for an industrial (manufacturing) company with a current market value of $25 million in real property, $12.5 million in machinery and equipment, $10 million in inventories and $2.5 million in fixtures. Again, there are variations in how states either tax or exempt such property, and the Lincoln Institute/Minnesota study compares the total property tax obligation for such a firm in different states.

Table 8: Comparative property tax obligations for an industrial (manufacturing) property comparison

State	City	Net Tax	Effective Tax Rate	National rank
Urban				
New York	New York City	1,189,931	2.380%	7
Rhode Island	Providence	954,431	1.909%	16
Connecticut	**Bridgeport**	**950,615**	**1.901%**	**17**
New York	Buffalo	815,189	1.630%	22
National average		798,309	1.597%	
Massachusetts	Boston	795,090	1.590%	24
Vermont	Burlington	775,514	1.551%	26
New Jersey	Newark	723,618	1.447%	29
New Hampshire	Manchester	609,238	1.218%	38
Maine	Portland	550,000	1.100%	41
Rural				
New York	Warsaw	896,175	1.792%	9
National average		647,029	1.294%	
Massachusetts	Adams	639,630	1.279%	22

New Hampshire	Lancaster	603,135	1.206%	23
New Jersey	Maurice River Township	591,697	1.183%	24
Vermont	Hartford	573,407	1.147%	26
Maine	Rockland	554,400	1.109%	27
Rhode Island	Hopkinton	518,064	1.036%	30
Connecticut	**Litchfield**	**476,721**	**0.953%**	**35**

Source: Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence (2015)

The Lincoln Institute/Minnesota study selects Bridgeport, CT for the urban comparisons and Litchfield, CT for the rural comparisons. The mill rate in Bridgeport is in the 95th percentile of all Connecticut cities and towns, while Litchfield is in the 36th percentile. This means that the calculations for Bridgeport are 48.2% higher than the tax obligation calculated at the state median, while the estimates for Litchfield are 10.1% lower than they would be at the state median.

The two tables suggest that the Connecticut property tax (real estate and business personal property combined) is above the national average for urban areas and below the national average for rural areas. But even for the urban areas, there are a number of states that appear to have higher combined property tax burdens for commercial and industrial property.

The treatment of business personal property in Connecticut does not appear to set Connecticut apart from other states. There are several reasons for this. First, many states use a different approach to valuing large complex properties such as those owned by electric utilities, natural gas transmission and distribution companies, railroads and similar large complex firms. In 40 of the 50 states, such companies are valued by state tax assessment entities using an approach that values the assets of these firms as a unified whole without distinguishing between real and personal property. Consequently, reports on the structure of the tax base from such states may appear to understate the amount of personal property in the tax base.

A second likely reason is that states which appear to exempt personal property compensate by raising the rate on real property to offset the lost revenue. This appears to be the case in New York. It is also likely that in some states with apparently low tax rates, aggressive valuation practices and high assessment ratios result in net tax obligations that do not differ much from or may even be higher than the national average. For example, if the assessment ratio in Connecticut were 100% rather than 70%, all mill rates could be reduced by 30%, but the final tax bills would not change.

A similar point can be made with a more direct comparison of states that tax personal property and those that do not. Combining the analysis presented in the Lincoln Institute/Minnesota study with information taken from the Lincoln Institute/George Washington University database on state property tax systems, it is possible to compare the effective tax rates for states that do and do not tax personal property and even two segments of personal property.

If the tax on personal property creates an increased tax burden for businesses, that burden should show up as a higher effective tax rate in states that tax personal property. Table 9 compares the average effective tax rates for commercial firms in states that do and do not tax personal property in general, inventories and specifically machinery and equipment. The table clearly shows that there is very little difference in the average rate regardless of firm size. If anything, the average rate is lower in states that tax personal property. The averages mask a certain amount of within group variation, so the differences shown in the table should not be overstressed. They are consistent with expectations about broad versus narrow tax bases (i.e., the broader the tax base, the lower the tax rates overall). But the key point is that there is no evidence that tax burdens are higher for commercial firms in states that tax any of the types of personal property.

Table 9: Effective property tax rates for urban commercial property by tax status of personal property and size of firm

State tax policy	Number of states	Average effective rate for		
		Small firm[a]	Medium firm[b]	Large firm[c]
	Is personal property taxed?			
Yes	37	1.98	2.01	2.03
No	14	2.36	2.50	2.56
	Are inventories taxed?			
Yes	12	1.81	1.83	1.83
No	39	2.18	2.25	2.29
	Are machinery and equipment taxed?			
Yes	36	1.96	1.98	2.00
No	15	2.40	2.52	2.58

a. Small firm: $100,000 in real property value; $20,000 in fixtures
b. Medium firm: $1 million in real property value; $200,000 in fixtures
c. Large firm: $25 million in real property value; $5 million in fixtures

Source: Lincoln Institute/Minnesota Center for Fiscal Excellence (2015), Lincoln Institute/George Washington University (2015) and calculations by the author

Table 10 presents a similar analysis for industrial (manufacturing) firms using the same two data sources. Here the differences are even smaller. Thus, for manufacturing firms, there appears to be no evidence that the overall effective tax rates differ between states that tax personal property and those that do not.

Table 10: Effective property tax rates for urban industrial (manufacturing) property by tax status of personal property and size of firm

State tax policy	Number of states	Average effective rate for		
		Small firm[a]	Medium firm[b]	Large firm[c]
	Is personal property taxed?			
Yes	37	1.53	1.57	1.58
No	14	1.42	1.59	1.63
	Are inventories taxed?			
Yes	12	1.57	1.58	1.60
No	39	1.47	1.57	1.58
	Are machinery and equipment taxed?			
Yes	36	1.53	1.57	1.58
No	15	1.43	1.59	1.63

a. Small firm: $100,000 in real property value; $50,000 in machinery and equipment; $40,000 in inventories; $10,000 in fixtures
b. Medium firm: $1 million in real property value; $500,000 in machinery and equipment; $400,000 in inventory; $100,000 in fixtures

c. Large firm: $25 million in real property value; $12.5 million in machinery and equipment; $10 million in inventory; $2.5 million in fixtures

Source: Lincoln Institute/Minnesota Center for Fiscal Excellence (2015), Lincoln Institute/George Washington University (2015) and calculations by the author

Comparisons within the state

The Lincoln Institute/Minnesota comparisons vary the size of the firm because some states apply different tax rates depending on the size of the firm. Such is not the case in Connecticut, and it is therefore possible to compare jurisdictions within the state based on a single firm configuration. Table 11 summarizes such a comparison for a manufacturing firm configured as follows:

- Real property with a current market value of $25 million
- Machinery and equipment with a depreciated value of $12.5 million, two-thirds of which is exempt
- Other fixtures with a depreciated value of $2.5 million.
- Total estimated market value: $40 million
- Total taxable value based on these assumptions: $22.17 million

Table 11: Distribution of estimated tax obligations for a manufacturing plant in Connecticut

	Lowest 20%	2nd quintile	3rd quintile	4th quintile	Top quintile
Minimum	$299,600	$691,880	$770,000	$854,000	$968,520
Maximum	$678,720	$769,160	$851,200	$961,800	$2,080,120
Average	$530,181	$731,530	$811,936	$897,291	$1,117,436

Source: Calculations by the author using 2014 mill rates
(See text for assumed plant configuration and values)

The table compares the 169 local governments using only their 2014 base mill rate. No attempt is made to incorporate variations for special districts, etc. If such adjustments were made, the resulting estimated tax would fall within the ranges shown in the table.[8] The cities are divided into five equally sized groups (quintiles) based on the resulting estimated tax. The minimum, maximum and average tax within each quintile is reported in the table.

What the table suggests is that Connecticut cities would tax such a plant at rates similar to other jurisdictions around the country. The overall median in Connecticut ($811,536) would be slightly higher than the national average shown for urban areas in the Table 8, and most Connecticut cities would be within about 12% of that tax level. Hartford had by far the highest estimated tax in this exercise. Five other cities had estimated tax levels at about the same level as New York City shown in Table 8.

Summary observations on the relative burden of the personal property tax on Connecticut businesses

In considering the relative burden of the personal property tax on Connecticut businesses, the following points should be kept in mind.

1. The median tax obligation on business personal property at least among the cities sampled was $252 at 2014 tax rates for firms with less than $1 million in taxable personal property.

[8] Quintile means would likely vary somewhat but the overall width of the distribution would not change.

2. The total value of taxable personal property from the bottom 93% of personal property taxpayers was 11.5% of total taxable personal property.
3. The average personal property tax bill for those firms below the median tax was about $50.
4. The 7.3% of business accounts with personal property valued at $200,000 or more represented 88.5% of all personal property tax obligations. And many of these separate accounts appear to be essentially the same taxpayer (e.g., Connecticut Light and Power has multiple accounts even within the same jurisdiction)
5. For the large majority of Connecticut businesses, the property tax on business personal property appears to be an administrative nuisance but not a significant cost in terms of the amount of tax paid.

Options and observations

If the state is determined to make changes in the personal property tax, there are relatively few options available. First, the state could adopt an alternative tax to replace any "relief" granted for the personal property tax. This was done in Illinois in 1970 (Cornia and Wheeler 1999) and between 2008 and 2014 at least eight states have taken this course (Catherine Collins 2015). Two examples illustrate the challenges. In the case of Ohio, revenues from the new tax fell short and the result was that local funds from the personal property tax were reduced by almost half (Catherine Collins 2015).

Michigan, with voter approval, is diverting a portion of the sales tax to reimburse local governments as they phase out the personal property tax between 2012 and 2023. But local governments will also be expected to raise local taxes on other property. State transfers will assume local taxes are increased, thus local governments will have to choose between "tax relief" and maintaining spending levels. There will also be a significant impact on the state government's general fund. (Catherine Collins 2015)

A second option is to eliminate the tax and do nothing to compensate local governments. Locals will be forced to adapt as the tax is phased out over time. Wisconsin did this in 1973. Twenty years later the consequences were still being felt. (Cornia and Wheeler 1999) The effects were quite uneven depending on the percentage of personal property in a jurisdiction.

If the personal property tax is to be eliminated, there are really only three options available to local governments: cut spending, replace the revenue with another tax or increase the tax rate on the remaining property.

Another option that might be considered in Connecticut is similar to a proposal regarding the property tax overall. (1000 Friends of Connecticut 2015) This option acknowledges that there are relatively few very large personal property taxpayers, and that there are significant disparities between communities in the total personal property tax base. The proposal would pool the base from these large accounts and share it among all cities. Proposals such as this have been studied for a number of years. (See for example, Ladd (1976), Reschovsky (1980), Fox (1981), Stark (1992).) There seems little evidence to suggest that such a radical change would produce the desired effect. At the same time, the purpose of the tax should be kept in mind. If the property tax is intended to serve as a charge for services and benefits received from local government, that objective would argue strongly for keeping the tax in the community where the business is located.

It is not clear that any of these very difficult options are in the best interest of Connecticut. There are however several options that should be considered for improving the existing tax on personal property. They can be classed as compliance relief and administrative improvements.

Compliance relief options

The first set of options derive from the observation that the personal property in Connecticut results in very little revenue considering the thousands of businesses required to complete the obligatory declaration. Four options should be considered.

1) Exempt taxpayers with $5,000 or less in taxable personal property. Simulations based on the sample taken from 12 cities indicates that the revenue impact would be about 0.42% of personal property tax revenue and 0.006% of total property tax revenue. At the same time about 35% of all personal property accounts would become exempt.
2) Exempt taxpayers with $7,500 or less in taxable personal property. An exemption at this level would reduce revenue from the personal property tax by 0.68% and total property tax revenue by 0.01%. About 42% of all personal property tax accounts would become exempt.
3) Exempt taxpayers with $10,000 or less in taxable personal property. An exemption at this level would reduce revenue from the personal property tax by about 0.97% and overall property tax revenue by 0.014%. About 46% of all personal property accounts would become exempt.
4) Leave the system as is.

The exemption could be designed in a variety of ways. Firms should still be required to register with the local assessor, but the declaration form could simply collect relevant statistical information and ask the taxpayer to certify that the depreciated value of their current personal property falls below the designated level. Of course, auditing would need to increase to assure compliance, but it seems likely the administrative savings resulting from the large reduction in paper work could be redeployed for auditing.

Administrative improvement options

The improvement options suggested here are derived from a review of practices in other states, from interviews with local assessors in Connecticut and from interviews with taxpayer representatives. The first suggestion is that the approach to depreciation should be revisited. The forms employed are often too narrow as evidenced by the number of cities that feel compelled to design their own. The 30% residual value in many categories is perceived to be too high at least by taxpayers. A richer, more flexible approach could be developed that more closely approximates market value without overburdening assessors or taxpayers.

The assessment process also needs to allow for the possibility of economic obsolescence in an industry, such as the current chemical products manufacturing industry. In may prove to be desirable to give the assignment to evaluate the possibility of obsolescence to OPM who can then provide guidance to the entire state.

Audit procedures and frequency need to be improved. Contingency audits should be carefully evaluated for their effectiveness and fairness, and audit standards for such audits should be very clear.

The role of OPM in overseeing uniformity in assessment administration should be strengthened. There needs to be an active state agency that provides training, oversight and standards enforcement to assure that the state property tax system is operating efficiently and fairly.

The Connecticut Business and Industry Association (CBIA) has also put forward several potential administrative improvements that the state should consider. At present the annual filing must be completed in hard copy, signed by either the owner or the owner's agent, and the signature must be notarized or witnessed by one of several possible local officials. Failure to sign the form or have it properly witnessed results in a 25% penalty for filing an incomplete form. CBIA proposes that firms be allowed to file their personal property declaration electronically and that the requirement for a notarized

signature be eliminated. Such a change would reduce compliance costs for many businesses and after a transition period would also likely reduce administrative costs for assessors. According to CBIA, state statutes allow for the possibility of electronic filing, though it is not clear what the cost of implementing such a system would be, especially for smaller jurisdictions.

Personal property taxation in Connecticut is not much different than in other states, when all appropriate adjustments are made. To be sure, there are policy and administrative improvements that should be carefully considered. But the basic structure seems sound and the resulting tax burdens are consistent with the performance of the business property tax in other states.

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