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DISASTER MITIGATION AND RELIEF TAX BREAKS

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In response to natural disasters that have hit Colorado in recent years, the General Assembly has enacted a number of tax breaks aimed at mitigating or relieving the impact of these disasters on taxpayers. Tax breaks can take a number of different forms, such as an income tax deduction, exemption, or credit.

Specifically, this issue brief provides information on:

- tax reimbursements for property destroyed by a natural cause;
- the Nonresident Disaster Relief Worker Tax Exemption;
- the Wildfire Mitigation Tax Deduction; and
- local marketing districts tax remittance.

Property tax reimbursements for property destroyed by a natural cause. House Bill 14-1001 established a state reimbursement for certain property taxes owed or paid for real property and business personal property destroyed by a natural cause, which is defined as a fire, explosion, flood, tornado, action of the elements, act of war or terror, or similar cause beyond the control of and not caused by the party holding title to the property destroyed. The reimbursement is available for tax years starting on or after January 1, 2013.

Property taxes are assessed and collected by counties one year in arrears. Following a natural disaster, county assessors and county treasurers compile a list of destroyed property and its tax liability. This report is submitted to the State Treasurer, who then distributes to counties payments from the state General Fund for the tax liability of the destroyed property for the tax year in which it was destroyed. County treasurers, in return, are then required to pay the tax owed on a property or reimburse each affected taxpayer directly if the tax has already been paid.

Reimbursements from the State Treasurer are subject to appropriation by the General Assembly. Based on destroyed property reports compiled by counties, the Department of Treasury was appropriated $2.2 million for county property tax reimbursements in FY 2014-15 for property destroyed by natural causes in 2013. Table 1 shows actual State Treasurer property tax reimbursements as of November 2014.

Table 1
FY 2014-15 Reimbursements for Property Destroyed by Natural Causes in 2013

County	Reimbursement
Boulder	$380,580
El Paso	$377,381
Weld	$196,888
Larimer	$84,473
Logan	$50,945
Jefferson	$6,277
Huerfano	$3,411
Total Reimbursed:	**$1,099,956**

Source: State Treasurer's Office

The discrepancy between the State Treasurer appropriation and county reimbursements to date is due to an initial overestimation of destroyed property, which resulted in an excess of available funds for reimbursement. Any remaining funds not provided to counties will be returned to the state General Fund.

Nonresident disaster relief worker tax exemption. Under current law, nonresidents who perform work within Colorado are required to file a Colorado income tax return and the employers of these individuals must withhold Colorado state income taxes for any income earned. House Bill 14-1003 provides a state withholding tax exemption, meaning nonresident workers who come to the state to assist in disaster relief during a disaster period do not need to pay income tax on their earnings from this work, and that an employer does not need to withhold this income tax. The withholding exemption is available in tax years 2015 through 2019.

Once a disaster emergency has been declared by the Governor, the state enters a disaster period. The disaster period lasts up to 60 days after the expiration of the disaster emergency. Disaster-related work is defined as "repairing, renovating, installing, building, or rendering services that relate to infrastructure that has been damaged, impaired or destroyed by a declared state emergency or providing emergency medical, firefighting, law enforcement, hazardous material, search and rescue, or other emergency related to a declared state disaster emergency."

Wildfire mitigation tax deduction. The Wildfire Mitigation Income Tax Deduction was created by House Bill 08-1110 and extended by House Bill 13-1012. Homeowners in a wildland-urban interface (WUI) area may deduct half of up to $5,000 in costs for wildfire mitigation measures, with a maximum potential deduction of $2,500, from their Colorado taxable income. A WUI is any area specified by the Colorado State Forest Service where man-made improvements are built within or close to natural terrain and flammable vegetation, and where high potential for wildland fire exists.

Wildfire mitigation measures include: the establishment of defensible space around a residence, such as firebreaks, which are a gap in vegetation and act as a barrier against the spread of fire; thinning vegetation; and other site work. The wildfire mitigation income tax deduction is available until tax year 2024.

The deduction was claimed by 1,789 taxpayers in income tax year 2012, for a total of $1.5 million in deductions from taxable income. In income tax year 2013, 1,889 taxpayers claimed a total of $1.8 million in deductions from taxable income.

Local marketing districts tax remittance. House Bill 14-1006 changed the remittance of lodging taxes to provide relief to local marketing districts (LMD) by allowing monthly distributions of local marketing and promotion tax revenue from the Department of Revenue, rather than quarterly distributions.

The bill helps LMDs to access the revenue collected through LMD taxes on a regular basis, stabilizing the revenue cash flow and giving LMDs increased opportunity to market themselves as open for business following a natural disaster.

LMD taxes are imposed on the leasing or renting of rooms or other accommodations in commercial lodging establishments. They are collected by the owner of the establishment, remitted to the Department of Revenue, and then distributed to the LMD in which the lodging is located.