

## Manufacturers banding together to end city's use tax

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Next month, local manufacturers plan to ask the city to eliminate its 2.5 percent use-tax on equipment. But it will be a hefty request because the tax pumps about \$7 million dollars a year into city coffers.

And even though the city isn't in position to cut revenue-producing measures, some believe this might be manufacturers' best chance to end the tax, because pro-business conditions and leadership are aligned for the first time in years.

Manufacturers are working with the Colorado Springs Regional Economic Development Corp. to scrap the tax that they say is a

huge burden on businesses, especially on small companies that don't meet a \$5 million threshold for tax breaks.

But, if manufacturers want to convince the City to give up millions in revenue they better be able to show the trade off, said Barry Baum, retired president of tool-making corporation Western Forge and member of the EDC's Local Industry Council.

Baum favors the elimination of the equipment use tax, but he knows the city will want details about the economic impact before waiving the multi-million revenue stream.

The city collected about \$7 million in 2011 from its use taxes and about \$101 million in sales tax, according to the city's January sales and use tax report, which reflected the year through December. Use-tax is levied on the purchase, lease or rental of tangible personal property — furniture, fixtures, equipment and operating supplies. "With our current economic situation, the city is going to be very reluctant to give up that \$7 million in use tax," said Baum, who volunteers on a city advisory council. "If we could show, here is the growth stimulus, we could show the tradeoff and maybe the City Council and the mayor will make a gamble on this."

Local manufacturers gathered at a forum this month hosted by the EDC and Pikes Peak Community College to discuss the issues that face their industry. One thing that has been on their minds for years is the 2.5 percent use-tax on new equipment purchases. When a company is buying equipment with hundred-thousand dollar price tags, that tax adds up, they said.

"It does unfairly tax businesses that are asset-heavy," said Tom Neppl, CEO of Springs Fabrication. "We are being penalized at a higher percent."

The tax burden was enough to make one small firm move out of the city to El Paso County where there is no use tax on equipment, said Jack Hutchens, a consultant for RP Machining. The small machine shop is growing and expects to buy several pieces of large equipment this year, he said.

The average CNC (computer numerical control) machine, a standard piece of manufacturing equipment, could cost between \$75,000 and \$200,000, and the 2.5 percent tax on each piece of equipment subtracts from the bottom line, Hutchens said.

"And that affects our ability to hire more people," he said.

Baum said the manufacturers need to show the city how much they add to the city's coffers by

way of sales taxes spent on goods and services in town when they hire more employees.

Manufacturing jobs, for example, have a tax multiplier. According to the Southern Colorado Economic Forum's 2011 report, manufacturing jobs have a tax multiplier of 8.29. That means that an additional \$7.29 in tax revenue is generated for each \$1 a typical manufacturing firm pays in taxes.

Baum, working with the EDC, will write a proposal to eliminate the equipment use tax and try to build momentum among local manufacturers.

"The EDC, through its interaction with the manufacturers in the Pikes Peak region, has learned that there is strong opposition to the sales and use tax on manufacturing equipment, and is developing a draft proposal to eliminate or reduce this tax," said Jennifer Taylor, EDC vice president of local industry.

Conditions at the state level make this an opportune time to jump on the manufacturing wave, said Belinda Popovich, Colorado Association for Manufacturing and Technology Southern Colorado program director.

Manufacturing is listed in the 15 key industries that the state's Office of Economic Development and International Trade is focused on growing in the next three years.

"It's the perfect storm right now for manufacturing," Popovich said. "The timing is right with the governor's effort; the Legislature is in session and the Chamber and EDC alignment."

OEDIT is launching a statewide business retention and expansion program to work with Economic Development Corp. to write up action plans, based on the governor's bottom-up to Colorado Blueprint to Business Plan.

In December, two dozen Colorado CEOs met to discuss barriers to business, list development ideas, talk about access to capital, look at workforce training and think about branding.

They easily identified their top barrier to business: the state's business personal property tax, which when combined with Colorado Springs' use-tax gives the city's manufacturing companies a double hit.

Elimination of the business tax would need state legislative approval. Last year such a proposal died in committee.

"Every year as long as I can remember, it's been brought up in the Legislature," said Bob Cope, Colorado Springs Business Development Analyst. "It always ends up dying because they don't know how to replace it."

Locally, however, there just might be an appetite by City Council and the Mayor to make some changes to the equipment use tax, Cope said. Now, there is a sliding scale on the rate of use taxes to encourage large investments into the community, Cope said. However, it only applies to companies that spend more than \$5 million on a single equipment purchase.

And, that does not help the smaller firms, said Harold Howell, who relocated his six-person firm, Howell Precision Machine and Engineering, Inc. from California to the Springs one year ago. He'll join the manufacturers in trying to eliminate the use tax.

Manufacturers will need to band together to make their case, Cope said.

"I think there is a will more than ever to help existing employers," he said. "Job retention is just as important as job growth."