



Colorado Legislative Council Staff Fiscal Note
STATE
FISCAL IMPACT

Drafting Number: LLS 11-0153
Prime Sponsor(s): Rep. Sonnenberg
 Sen. Brophy

Date: January 27, 2011
Bill Status: House Agriculture
Fiscal Analyst: Fiona Sigalla (303-866-3556)

TITLE: CONCERNING THE REPEAL OF HOUSE BILL 10-1195 REGARDING A SUSPENSION OF THE EXEMPTION FROM THE STATE SALES AND USE TAXES FOR CERTAIN ITEMS USED IN AGRICULTURAL PRODUCTION.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012	FY 2012-2013
State Revenue General Fund - Reduction	(Up to \$1.3 million)	(\$3.7 million)	(\$3.7 million)
State Expenditures General Fund	\$5,780		
FTE Position Change			
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.			
Appropriation Summary for FY 2011-2012: See the State Appropriations section.			
Local Government Impact: None.			

Summary of Legislation

This bill reinstates the exemption from sales and use taxes for the sale or storage, use, or consumption of agricultural compounds used in caring for livestock, semen for agricultural and ranching purposes, and pesticides for use in the production of agricultural and livestock products. This bill repeals House Bill 10-1195 that suspended this exemption through June 30, 2013. The bill reinstates the exemption between the effective date of this bill and June 30, 2013. The exemption will remain after June 30, 2013.

Agricultural compounds include insecticides, fungicides, growth-regulating chemicals, enhancing compounds, hormones, and vaccines. They also include drugs, whether dispensed in accordance with a prescription or not, that are used for the prevention or treatment of disease or injury in livestock, and animal pharmaceuticals that have been approved by the Food and Drug Administration.

State Revenue

General Fund revenue will be reduced by up to \$1.3 million in FY 2010-11, \$3.7 million in FY 2011-12, and \$3.7 million in FY 2012-13. The bill is effective through the end of FY 2012-13.

The revenue estimate for FY 2010-11 represents a partial-year impact, assuming the bill takes effect March 1, 2011. The revenue impact in FY 2010-11 will depend on when the bill is actually signed into law. The estimates for FY 2011-12 and FY 2012-13 were adjusted to account for the fact that vendors will begin retaining a vendor fee of 3.33 percent of the taxes they collect on July 1, 2011.

Between April and September 2010, the Department of Revenue estimates that an additional \$2.4 million has been collected in sales tax revenue compared to 2009 from vendors that were likely to be affected by HB 10-1195. While affected by other factors, this revenue change gives an indication of the increased revenue attributable to HB 10-1195. Two-thirds of the revenue collected is assumed to be from agrichemicals, and 85 percent of chemical sales are assumed to occur between April and September. The remaining one-third of revenue collected is assumed to be from bull semen. This revenue estimate assumes that sales or use tax will be paid on purchases from out-of-state vendors.

The revenue estimate for House Bill 11-1005 is nearly \$1 million lower than the revenue estimate for House Bill 10-1195. New data has allowed for a more precise estimate that more closely approximates the compounds affected by this legislation.

State Expenditures

Department of Revenue: \$5,780 in FY 2010-11. The Department of Revenue will incur one-time expenses in FY 2010-11 to notify vendors that agricultural compounds will no longer be subject to the state sales tax. The department anticipates personnel costs to answer questions from vendors and taxpayers regarding the change. Table 1 summarizes costs incurred by the Department of Revenue.

Table 1. Expenditures Under HB 11-1005	
Cost Components	FY 2010-2011
Mailing Costs to Notify Agricultural Retailers	\$363
Increased Call Center Expenses	5,417
TOTAL	\$5,780

Departmental Differences

It is the position of the Department of Revenue that additional funds will be necessary to process erroneous claims for refunds because some taxpayers will believe the tax exemption will be retroactive to the enactment of HB 10-1195. The department states that it would require \$4,667 in FY 2010-11 to hire temporary staff for processing erroneous refund claims and an additional \$407 in FY 2011-12 for mailing costs. The fiscal note assumes that erroneous claims would not be filed; therefore, these costs are not included in the fiscal note.

State Appropriations

For FY 2010-11, the bill requires a General Fund appropriation of \$5,780 for the Department of Revenue.

Departments Contacted

Revenue Agriculture Law