

**FINAL
FISCAL NOTE**

Drafting Number: LLS 11-0153 **Date:** June 20, 2011
Prime Sponsor(s): Rep. Sonnenberg; Becker **Bill Status:** Signed into Law
 Sen. Brophy **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, AND MAKING AN APPROPRIATION THEREFOR.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012	FY 2012-2013
State Revenue General Fund		(\$3.7 million)	(\$3.7 million)
State Expenditures General Fund	\$363	\$5,417	
FTE Position Change			
Effective Date: The bill was signed into law by the Governor on May 23, 2011 and takes effect July 1, 2011.			
Appropriation Summary for FY 2011-2012: See the State Appropriations section.			
Local Government Impact: None.			

Summary of Legislation

The 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 \$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 estimates were adjusted to account for the fact that vendors will begin retaining a vendor fee of 2.22 percent of the taxes they collect on July 1, 2011. The impact of this bill was affected by Senate Bill 11-223, which lowered the vendor fee from 3.33 percent to 2.22 percent until June 30, 2014.

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: \$363 in FY 2010-11 and \$5,417 in FY 2011-12. 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 in FY 2011-12 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	FY 2011-2012
Mailing Costs to Notify Agricultural Retailers	\$363	
Increased Call Center Expenses		5,417
TOTAL	\$363	\$5,417

State Appropriations

The bill requires a General Fund appropriation of \$363 in FY 2010-11 and \$5,417 in FY 2011-12 for the Department of Revenue.

Departments Contacted

Revenue Agriculture Law