



*Colorado Legislative Council Staff Fiscal Note*  
**STATE & LOCAL  
 FISCAL IMPACT**

**Drafting Number:** LLS 10-0741  
**Prime Sponsor(s):** Rep. Ferrandino  
 Sen. Heath

**Date:** January 25, 2010  
**Bill Status:** House Appropriations  
**Fiscal Analyst:** Leora Starr (303-866-4105)

**TITLE:** CONCERNING THE SUSPENSION OF THE EXEMPTION FROM THE STATE SALES AND USE TAXES FOR CERTAIN ITEMS USED IN AGRICULTURAL PRODUCTION.

<b>Fiscal Impact Summary</b>	<b>FY 2009-2010</b>	<b>FY 2010-2011</b>	<b>FY 2011-2012</b>
<b>State Revenue</b> General Fund	\$0.9 million	\$4.6 million	\$4.6 million
<b>State Expenditures</b> General Fund	\$95,892*		
<b>FTE Position Change</b>	0.9 FTE		
<b>Effective Date:</b> Upon signature of the Governor, or upon becoming law without his signature. Effective for sales occurring on or after March 1, 2010 through June 30, 2013.			
<b>Appropriation Summary for FY 2010-2011:</b> See the State Appropriations Section.			
<b>Local Government Impact:</b> See the Local Government Impact Section.			

\* *This amount includes \$1,570 for which no separate appropriation is required because of ongoing appropriations in the Long Bill to the Department of Revenue for computer programming for new legislation.*

**Summary of Legislation**

This bill temporarily suspends the sales and use tax exemption 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. The exemption is suspended through the end of FY 2012-13.

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.

This bill does not apply to sales and use tax in any town, city, county, or special district unless the local jurisdiction expressly subjects such products to its sales tax.

## **State Revenue**

General Fund revenue will increase \$0.9 million in FY 2009-10, \$4.6 million in FY 2010-11, \$4.6 million in FY 2011-12, and \$4.8 million in FY 2012-13. The bill is effective through the end of FY 2012-13.

The revenue estimate for FY 2009-10 represents a partial-year impact. Although expenditures on affected agricultural products are expected to increase in FY 2011-12, the revenue impact does not because, under current law, vendors will begin retaining 3.33 percent of the taxes they collect on July 1, 2011.

Colorado sales of agricultural chemicals and agricultural-related animal health products are estimated to be \$104 million and \$51.5 million, respectively, in 2010. These estimates, which are expected to increase somewhat in 2011 and 2012, are based on figures published by the National Agricultural Statistics Service (NASS) in the 2007 Census of Agriculture.

The NASS reports figures for Colorado-specific expenditures on agricultural chemicals separately from other products. The estimate for expenditures on agricultural-related animal health products, which are not reported separately, was estimated using information on U.S. expenditures on animal health products reported by the Animal Health Institute, of which 47 percent is estimated to have been spent on agricultural-related animals. Data from the 2007 Census of Agriculture was used to estimate Colorado's share of these expenditures.

## **State Expenditures**

**Department of Revenue: \$95,892 and 0.9 FTE in FY 2009-10.** The Department of Revenue will incur one-time expenses in FY 2009-10 to notify vendors of the elimination of the state sales tax exemption on direct mail advertising. The department anticipates personnel costs to answer questions from vendors regarding the elimination of the exemption. The department will also incur additional General Fund information technology costs to adjust the state's computer systems. No appropriation for these information technology costs is necessary because of ongoing appropriations to the department for computer programming provided in the Long Bill for new legislation. Table 1 summarizes costs incurred by the Department of Revenue.

***Economies of Scale.*** It should be noted that there are several pieces of legislation currently proposed that, if enacted, would affect sales and use tax account holders. If multiple bills are enacted, no separate appropriation may be required by this bill. The department will send one letter, two pages in length, to each sales and use tax account holder advising them of all enacted changes, rather than sending one notification for each legislative change.

<b>Table 1. Total Expenditures Under HB10-1195</b>	
<b>Cost Components</b>	<b>FY 2009-2010</b>
Information Technology Services	\$1,570
Personal Services	36,239
<i>FTE</i>	<i>0.9</i>
Operating Expenses	
Printing	5,999
Postage	52,084
<b>TOTAL</b>	<b>\$95,892</b>

### **Local Government Impact**

Agriculture products affected by this bill will remain exempt from local sales and use tax, unless local governments or political subdivisions of the state choose to eliminate the exemption.

### **State Appropriations**

For FY 2009-10, the bill requires a General Fund appropriation of \$94,322 and 0.9 FTE for the Department of Revenue. If multiple sales and use tax bills are enacted, no separate appropriation may be necessary for this bill.

### **Departments Contacted**

Revenue