

**FINAL
FISCAL NOTE**

Drafting Number: LLS 12-0652

Date: June 18, 2012

Prime Sponsor(s): Rep. Bradford
Sen. King S.

Bill Status: Signed into Law

Fiscal Analyst: Larson Silbaugh (303-866-4720)

TITLE: CONCERNING SALES AND USE TAX EXEMPTIONS FOR THE SALE AND USE OF WOOD FROM TREES HARVESTED IN COLORADO DAMAGED BY BEETLES.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014
State Revenue		
General Fund - Reduction*	(\$32,000)	(\$636,000)
State Expenditures		
FTE Position Change		
Effective Date: The bill was signed into law by the Governor and took effect May 21, 2012. The bill applies to sales that occur on or after July 1, 2012.		
Appropriation Summary for FY 2012-2013: None Required		
Local Government Impact: See the Local Government Impact section.		

Summary of Legislation

This bill expands and extends the beetle killed wood products sales and use tax exemption.

This bill expands the sales and use tax exemption for timber products made from trees in Colorado killed by *spruce beetles*. Wood wholesalers must certify on a Department of Revenue form that a product is lawfully harvested in Colorado and from a salvaged tree killed or infested by spruce beetle. The sales tax exemption for these timber products is effective July 1, 2012, and would expire on July 1, 2020. The expansion of the credit is the only fiscal impact in the first fiscal year.

This bill also extends the sales and use tax exemption for the sale, storage, and use of wood from salvaged trees killed or infested in Colorado by *mountain pine beetles*. Under current law *mountain pine beetle* killed wood products are taxable in FY 2013-14, because the exemption expires July 1, 2013. This bill extends that exemption until July 1, 2020.

State Revenue

Sales tax revenue to the General Fund will be reduced by an estimated \$32,000 in FY 2012-13 and \$636,000 in FY 2013-14. The large increase in the fiscal impact in the second year is from extending the exemption for *mountain pine beetle*, which is about 95 percent of the beetle killed wood products market.

This estimate is based on an analysis done by the Colorado State Forest Service and adjusted using the 10 year average growth rate for wood products manufacturers in Colorado. The reduced revenue for FY 2012-13 represents the new *spruce beetle* exemption which applies to salvaged lumber worth about \$1.1 million, about 5.0 percent of all beetle killed lumber sold in Colorado. The FY 2013-14 reduction in revenue represents the new *spruce beetle* kill exemption and the continuation of the *mountain pine beetle* exemption. The exemption for both types of beetle kill trees in FY 2013-14 will apply to products with a value of about \$21.9 million.

The fiscal note dated February 7, 2012 included the value of firewood and wood pellets which are exempt because they are a home heating fuel. This fiscal note has been adjusted for the fact that this bill does not change how these wood products will be taxed. In addition, the 10 year compound average growth rate was used, instead of the forecasted growth in building permits, to reflect that the wood products manufacturing sector in Colorado is close to capacity.

State Expenditures

This bill extends and expands an existing exemption, which can be communicated and administered within existing resources.

Local Government Impact

The sales tax exemption for wood products from beetle killed trees is an optional exemption for local governments. To the extent that any local governments adopt and extend the beetle kill wood products exemption, there would be a reduction in tax revenue for those local governments.

Departments Contacted

Revenue State Forest Service Local Affairs Natural Resources