

Colorado Legislative Council Staff Fiscal Note

**FINAL  
FISCAL NOTE**

<b>Drafting Number:</b> LLS 14-0714	<b>Date:</b> August 11, 2014
<b>Prime Sponsor(s):</b> Rep. Ferrandino; DelGrosso Sen. Hodge; Grantham	<b>Bill Status:</b> Signed into Law <b>Fiscal Analyst:</b> Larson Silbaugh (303-866-4720)

**SHORT TITLE:** SALES & USE TAX EXEMPTION FOR SPACE FLIGHT PROP

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
<b>State Revenue</b>	<b><u>(\$74,327)</u></b>	<b><u>(\$77,895)</u></b>
Revenue Change General Fund	(\$74,327)	(\$77,895)
<b>State Expenditures</b>	<b><u>\$31,930</u></b>	<b><u>\$0</u></b>
General Fund	\$31,930	\$0
<b>FTE Position Change</b>		
<b>Appropriation Required: \$31,930 - Department of Revenue (FY 2014-15)</b>		

\* This summary shows changes from current law under the bill for each fiscal year. Transfers and diversions result in no net change to state revenue. Parentheses indicate a decrease in funds.

\*\* These costs are not included in the bill's appropriation. See the State Expenditures section for more information.

**Summary of Legislation**

This bill creates a sales and use tax exemption for tangible personal property used in space flight starting in FY 2014-15 and the following four fiscal years. This bill includes a reporting requirement for the Department of Revenue to annually report to the House and Senate finance committees how many times the exemption is claimed.

**Background**

Sales taxes are equal to 2.9 percent of the sales price of tangible personal property and is due when the property is sold unless there is a specific exemption in statute. The use tax is a complementary tax, due when property is used or stored within the state and sales taxes would have been due but none were collected. There are very few sales of completed space property that occur within the state, but vehicles used in space are built within the state. Tangible personal property that is a component part of a finished product is exempt from sales and use taxes,<sup>1</sup> so sales and use taxes are not paid on the tangible personal property used while building space vehicles. If the completed vehicle is stored within the state before it is launched into space, use taxes are due.

Both sales and use taxes are deposited in the state General Fund.

<sup>1</sup>Section 29-26-713, (2)(e)(I), C.R.S.

**State Revenue**

This bill will decrease use tax revenue by \$74,327 in FY 2014-15 and \$77,895 in FY 2015-16 assuming there are no sales of completed space vehicles inside Colorado and the storage of property used for space travel would not increase without the passage of this bill.

**Assumptions.** The Department of Revenue was able to identify 12 companies named in a Brookings Institution report on the space industry within Colorado that have use tax accounts with the Department. Collectively, these companies paid an average of \$70,725 in use taxes over the three most recent fiscal years. If use tax collections in the space industry grow at the same rate as forecasted growth for total use tax collections, this bill will reduce use tax collections by \$74,327 in FY 2014-15 and \$77,895 in FY 2015-16.

The sale of property used in space travel rarely occurs within the borders of Colorado, so this revenue impact is based on use tax returns. If there are sales taxes collected based on the sale of personal property used in space travel in Colorado, then this revenue impact is too small.

**State Expenditures**

The Department of Revenue will require an additional \$31,930 in FY 2014-15 to administer this bill.

<b>Cost Components</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>
Operating Expenses and Capital Outlay Costs	\$31,930	\$0
<b>TOTAL</b>	<b>\$31,930</b>	<b>\$0</b>

*\* Centrally appropriated costs are not included in the bill's appropriation.*

**Assumptions.** This bill requires the Department of Revenue to report the number of space property exemptions claimed to the House and Senate Finance Committees each year. The state's tax administration software will need to be reprogrammed to capture this information. This will require 155 hours of programming and testing from the software vendor at a rate of \$206 per hour, costing \$31,930 in FY 2014-15.

**Local Government Impact**

This sales and use tax exemption for local governments is voluntary so local governments are only impacted if they choose to adopt the sales and use tax exemption.

**Effective Date**

The bill was signed into law by the Governor and took effect on May 20, 2014.

**State Appropriations**

For FY 2014-15, the Department of Revenue requires a General Fund appropriation of \$31,930.

**State and Local Government Contacts**

Revenue  
Municipalities

Personnel and Administration  
Counties

RTD