SB15-127

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 15-0716	**Date:**	February 6, 2015
Prime Sponsor(s):	Sen. Garcia Rep. Dore	**Bill Status:**	Senate Agriculture
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BILL TOPIC: TAX INCENTIVES FOR AGRITOURISM-RELATED ACTIVITIES

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016	FY 2016-2017
State Revenue	**($249,500)**	**($525,742)**	**($565,484)**
Revenue Change General Fund	($249,500)	($525,742)	($565,484)
State Expenditures		**$28,760**	**$29,670**
General Fund		$28,760	$29,670
TABOR Set Aside		($525,742)	($565,484)
FTE Position Change			
Appropriation Required: None.			

* *This summary shows changes from current law under the bill for each fiscal year. Parentheses indicate a decrease in funds.*

Summary of Legislation

This bill creates the following two tax incentives related to agritourism:

- The bill provides an income tax credit of up to $500 to offset the cost of purchasing agritourism equipment. It is available for tax years 2015 through 2019 to taxpayers that own or lease an agritourism facility. The tax credit is not refundable but can be carried forward for up to five years.

- In addition, the bill allows a private advertising or marketing agency to deduct 50 percent of advertising services donated to governments with a population of less than 120,000 in tax years 2016 through 2020. The deduction is limited to $10,000 per taxpayer, per year.

Background

Recreational and educational activities that occur on a farm or ranch, food based activities, and activities that celebrate farm and ranch heritage are all classified as agritourism. This includes hayrides, U-pick operations for harvesting fruits and vegetables, farmers' markets, wine tours, barn dances, rodeos, and dude ranches. Agritourism can supplement other activity on a farm or ranch or be the primary activity.

State Revenue

The combination of both agritourism tax incentives will **reduce General Fund revenue by $249,500 in FY 2014-15, $525,742 in FY 2015-16, and $565,484 in FY 2016-17.** Table 1 shows the revenue impact of each agritourism tax incentive in this bill.

Table 1. Revenue Impact of Agritourism Tax Incentives in SB 15-127

Tax Incentive	FY 2014-15	FY 2015-16	FY 2016-17
Agritourism Tax Credit	($249,500)	($511,250)	($536,500)
Agritourism Tax Deduction	$0	($14,492)	($28,984)
Total	**($249,500)**	**($524,742)**	**($565,484)**

Tax credit. According to the 2012 Census of Agriculture, there were 864 farms and ranches that received income from agritourism activities. The number of farms and ranches that offered agritourism activities increased at an average annual rate of 4.9 percent between 2007 and 2012. Applying this growth rate, there will be 998 qualifying farms and ranches in 2015 and 1,048 in 2016. The bill provides a tax credit for the purchase price of equipment used in agritourism activities, up to $500, but the equipment does not have to be used exclusively for agritourism activities. Because the equipment does not have to be used exclusively for agritourism activities, it is assumed that all farms and ranches that offer any agritourism activities would be eligible to claim the full $500 credit. This will reduce income tax collections by $499,000 in tax year 2015, $523,500 in 2016, and $549,500 in 2017. Adjusting for fiscal years, income tax revenue will be reduced by $249,500 in FY 2014-15, $511,250 in FY 2015-16, and $536,500 in FY 2016-17.

Income tax deduction. This bill creates an income tax deduction for advertising and marketing agencies that donate advertising services to promote agritoursim activities to local governments with a population of less than 120,000. Agencies are allowed to deduct 50 percent of the value of advertising services donated to local governments, up to $10,000 for tax years 2016 through 2020. According to the Bureau of Labor Statistics, in 2013 there were 626 advertising agencies in the state. For this fiscal note, it is assumed that 10 percent of advertising agencies will claim the full deduction amount. In total, this would reduce Colorado taxable income by $626,000 per tax year. Applying the state tax rate, this will reduce General Fund revenue by $28,984 each tax year. Accounting for fiscal years, the income tax deduction will reduce General Fund revenue by $14,492 in FY 2015-16, and $28,984 in each year beginning in FY 2016-17 through FY 2019-20.

TABOR Impact

This bill reduces state revenue from individual income taxes in FY 2014-15, but based on the December Legislative Council Staff forecast, a TABOR surplus is not expected. A TABOR surplus is expected beginning in FY 2015-16 through the forecast period, so this bill will reduce the amount required to be refunded under TABOR in those years.

State Expenditures

This bill will increase state General Fund expenditures by $28,760 in FY 2015-16 and $29,670 in FY 2016-17. Table 2 and the discussion that follows describe the costs under the bill.

Table 2. Expenditures Under SB 15-127		
Cost Components	**FY 2015-16**	**FY 2016-17**
Operating Expenses - DOR	27,560	28,470
Operation Expenses - DPA	1,200	1,200
TOTAL	**$28,760**	**$29,670**

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

Department of Revenue (DOR). The state's tax administration software will need to be programmed to accommodate the new agritourism credit on the individual income tax form. The hourly rate charged by the computer vendor for programming and development in FY 2015-16 is $212. This will take the vendor 130 hours to implement and test the changes and require $27,560 in FY 2015-16.

The state's tax administration software will also need to be programmed to accommodate the new agritourism deduction on the individual income tax form. The hourly rate charged by the computer vendor for programming and development in FY 2016-17 is $219. This will take the vendor 130 hours to implement and test the changes and require $28,470 in FY 2016-17.

Department of Personal and Administration (DPA). The DPA receives, opens, prepares, scans, enters and shreds tax correspondence on behalf of DOR. DPA's scanning and imaging software will need to be programmed to accept the additional supporting documentation for the agritourism tax credit, which would cost $1,200 in FY 2015-16, and the additional supporting documentation for the agritourism tax deduction, which will cost $1,200 in FY 2016-17.

Effective Date

The bill takes effect August 5, 2015, if the General Assembly adjourns on May 6, 2015, as scheduled, and no referendum petition is filed, but the tax credit is available starting in tax year 2015, which begins January 1, 2015.

State Appropriations

To implement this bill, the Department of Revenue requires a $28,760 General Fund appropriation in FY 2015-16. The Department of Revenue will reappropriate $1,200 to the Department of Personnel and Administration for document management fees.

State and Local Government Contacts

Revenue   Personnel and Administration   OEDIT