



*Colorado Legislative Council Staff Fiscal Note*  
**FINAL**  
**FISCAL NOTE**

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

**Date:** March 8, 2010  
**Bill Status:** Signed Into Law  
**Fiscal Analyst:** Natalie Mullis (303-866-4778)

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

<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> The bill was signed by the Governor and became law on February 24, 2010.			
<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.

The department is required to account for the revenue attributable to this bill, and to the extent information is available, make quarterly reports to the legislature about the revenue gain. The bill directs that none of the new revenue be used to fund additional state FTE.

## **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.

It is assumed that the Department of Revenue can absorb the costs of providing information on the amount of money foregone by taxpayers to the extent that data are available using their current information systems.

<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>	0.9
Operating Expenses	
Printing	5,999
Postage	52,084
<b>TOTAL</b>	<b>\$95,892</b>

**Local Government Impact**

Special districts that couple their sales tax base to the state's sales tax base, such as the Regional Transportation District, may experience an increase in revenue. Municipalities and counties should not be affected.

**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  
Law

Colorado Municipal League  
Colorado Counties

RTD