



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

Drafting Number: LLS 10-0867
Prime Sponsor(s): Rep. Liston
 Sen. Scheffel

Date: February 18, 2010
Bill Status: House Finance
Fiscal Analyst: Kate Watkins (303-866-6289)

TITLE: CONCERNING AN EXEMPTION FOR MACHINERY USED TO PROVIDE TELECOMMUNICATIONS SERVICE FROM THE STATE SALES AND USE TAX.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012	FY 2012-2013	FY 2015-2016 End of Phase-In Pd.
State Revenue General Fund			At least (\$1.8 million)	At least (\$7.9 million)
State Expenditures General Fund			\$47,633	\$47,633
FTE Position Change			0.9 FTE	0.9 FTE
Effective Date: August 11, 2010, assuming the General Assembly adjourns May 12, 2010, as scheduled and no referendum petition is filed.				
Appropriation Summary for FY 2010-2011: None required.				
Local Government Impact: See Local Government Impact section.				

Summary of Legislation

Current law allows for a sales and use tax exemption on machinery and machine tool purchases under \$500. This bill phases in an exemption on sales and use tax for purchases in excess of \$500 of machinery and machine tools used to provide telecommunications services. The sales and use tax exemption would be on 25 percent of the purchase price of this machinery in FY 2012-13, 50 percent of the price in FY 2013-14, 75 percent in FY 2014-15, and the entire price starting in FY 2015-16.

Unless a local government expressly decides to exempt such purchases, telecommunication machinery purchases will remain subject to local sales and use tax.

State Revenue

This bill will reduce General Fund revenue by at least \$1.8 million in FY 2012-13, \$3.7 million in FY 2013-14, \$5.7 million in FY 2014-15, and upwards of \$7.9 in fiscal years thereafter. While sales tax revenue data is not available specific to the telecommunications industry, use tax data is. On average, total use tax paid by telecommunications companies on all purchases

in FY 2007-08 and FY 2008-09 was approximately \$6.8 million. While this amount may overstate use tax on the bill because it covers *all* purchases by telecommunications companies, other items that are purchased in-state and subject to sales tax are assumed to more than offset the overstatement of use tax purchases. General Fund revenue impact estimates are grown from the average use tax revenue in FY 2007-08 and FY 2008-09 by projected Colorado population growth. Table 1 summarizes the revenue impact of this bill starting in FY 2012-13.

Fiscal Year	Percent of Machinery Purchase Price Exempted	Minimum General Fund Revenue Impact
2012-13	25%	(\$1.8 million)
2013-14	50%	(\$3.7 million)
2014-15	75%	(\$5.7 million)
2015-16	100%	(\$7.9 million)
2016-17	100%	(\$8.1 million)
2017-18 and beyond	100%	(\$8.3 million or more)

State Expenditures

Department of Revenue: \$47,633 General Fund and 0.9 FTE per year beginning in FY 2012-13. Given the potential difficulty in retailers tracking whether sold machinery will be used for telecommunications services, it is assumed that all purchases would continue be taxed at the time of purchase and purchasers would submit claims for refunds. Processing refund claims will drive costs for the Department of Revenue starting in FY 2012-13, as shown in Table 2. These costs are based on an estimated 800 accounts each filing an average of 6 times a year.

Cost Components	FY 2012-2013
Personal Services	\$38,617
<i>FTE</i>	0.9
Operating Expenses	2,180
Capital Outlay	500
Printing	264
Postage	2,112
Contract Services (Imaging 4,800 Claims)	3,960
TOTAL	\$47,633

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, certain costs associated with this resolution are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this resolution. The centrally appropriated costs subject to this policy are summarized in Table 3.

Cost Components	FY 2012-13
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$6,390
Supplemental Employee Retirement Payments	1,436
TOTAL	\$7,826

**More information is available at: <http://www.colorado.gov/cs/Satellite/CGA-LegislativeCouncil/CLC/1200536133924>*

Local Government Impact

Under this bill, unless the local government expressly decides to exempt such purchases, telecommunication machinery purchases will remain subject to local governments' sales and use tax.

State Appropriations

No new appropriations are necessary until FY 2012-13.

Departments Contacted

Colorado Counties
Legislative Council Staff

Revenue
Property Taxation

Regulatory Agencies