



Legislative
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FISCAL NOTE

Drafting Number:	LLS 20-0537	Date:	February 4, 2020
Prime Sponsors:	Rep. Catlin; McLachlan Sen. Coram	Bill Status:	House Finance
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Bill Topic: SALES TAX EXEMPTION FOR FARM FENCING MATERIAL

Summary of Fiscal Impact:

<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input checked="" type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

This bill exempts fencing material used in a farm operation from state sales and use tax. It will reduce state revenue on an ongoing basis beginning in FY 2021-22.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: This fiscal note represents the introduced bill.

**Table 1
State Fiscal Impacts Under HB 20-1115**

		FY 2020-21	FY 2021-22	FY 2022-23
Revenue	General Fund	-	(\$0.4 million - \$0.7 million)	(\$0.8 million - \$1.3 million)
Expenditures		-	-	
Transfers		-	-	
TABOR Refund	General Fund	-	(\$0.4 million - \$0.7 million)	(\$0.8 million - \$1.3 million)

Summary of Legislation

This bill exempts fencing material from sales and use tax used in a farm operation by agricultural or livestock producers. This bill also defines fencing material to include: barbed wire, smooth wire, strainers, tensioners, fencing staples, "T" posts and wire clips, treated round posts, prefabricated welded fence panels, agricultural corral-type gates, electric fencing posts, solar panels for electric fences, ribbon, rope, and braided wire.

Background

Fencing material is not exempt from state sales and use tax under current law; however, some retailers have interpreted the farm equipment definition in Section 39-26-716 (1)(d), C.R.S. to include fencing material. Therefore, some agricultural or livestock producers have been receiving an exemption when purchasing fencing material for their farm operation.

State Revenue

This bill will decrease state revenue by between \$0.4 million and \$0.7 million in FY 2021-22 (partial-year impact) and by between \$0.8 million and \$1.3 million in FY 2022-23. This revenue is subject to TABOR.

This revenue estimate assumes that a mile of fencing costs on average \$6,000 and that it will last for about 20 years, with average annual maintenance costs of \$300. According to the 2017 Census of Agriculture for Colorado by the U.S. Department of Agriculture, there were 38,893 farms in the state, 12,682 of which had a cattle herd on the land. It is also assumed that approximately one-third of agriculture and livestock producers currently receive a sales tax exemption when purchasing fencing material for their farm operations.

State Expenditures

This bill may increase the workload for the Department of Revenue to report tax expenditure information in its biannual Tax Profile and Expenditure Report, and for the Department of Personnel and Administration if the volume of scanned images related to this exemption increases. Both workload increases can be accomplished within existing appropriations.

TABOR refund. The bill is expected to decrease state General Fund obligations for TABOR refunds by between \$0.4 million and \$0.7 million in FY 2021-22. Under current law and the December 2019 Legislative Council Staff forecast, the bill will correspondingly decrease the amount refunded to taxpayers via sales tax refunds made available on income tax returns for tax year 2022. A forecast of state revenue subject to TABOR is not available beyond FY 2021-22.

Local Government

Local government revenue will decrease for those sales tax jurisdictions that choose to exempt farm equipment from their sales tax base.

Effective Date

The bill takes effect August 5, 2020, if the General Assembly adjourns on May 6, 2020, as scheduled, and no referendum petition is filed. This bill applies to fencing material purchased after January 1, 2021.

State and Local Government Contacts

Agriculture

Revenue

Personnel

Information Technology

Counties

Municipalities

Special Districts

Regional Transportation District