



## Legislative Council Staff

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# Revised Fiscal Note

(replaces fiscal note dated )

**Drafting Number:**  
**Prime Sponsors:**

LLS 21-0907  
Rep. Catlin; Cutter  
Sen. Bridges

**Date:** April 30, 2021  
**Bill Status:** House Appropriations  
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**Bill Topic:**

**EXTEND BEETLE KILL WOOD PRODUCT SALES TAX EXEMPTION**

**Summary of Fiscal Impact:**

- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

The bill retroactively extends the Colorado sales and use tax exemption for timber products made from trees killed or infested by mountain pine or spruce beetles through June 2026. The bill decreases state revenue beginning in FY 2020-21, and increases state expenditures in FY 2021-22 only.

**Appropriation Summary:**

For FY 2021-22, the bill requires a General Fund appropriation of \$55,560 to the Department of Revenue.

**Fiscal Note Status:**

The revised fiscal note reflects the introduced bill, which has been updated to reflect new information concerning the effective date of the bill.

**Table 1**  
**State Fiscal Impacts Under HB 21-1261**

		Current Year FY 2020-21	Budget Year FY 2021-22	Out Year FY 2022-23
<b>Revenue</b>	General Fund	(\$25,320)	(\$524,660)	(\$537,200)
<b>Expenditures</b>	General Fund	-	\$55,560	-
<b>Transfers</b>		-	-	-
<b>TABOR Refund</b>		-	-	-

## Summary of Legislation

The bill retroactively extends the sales and use tax exemption for timber products made from Colorado trees that were killed or infested by mountain pine or spruce beetles through June 30, 2026. The sales tax exemption previously expired as of June 30, 2020.

For products to be eligible for this exemption, wholesalers are required to certify to the Department of Revenue (DOR) that a product is lawfully harvested in Colorado from a salvaged tree killed or infested by mountain pine or spruce beetle. The sales and use tax exemption applies to products such as lumber, furniture, wood chips or wood pellets, and other wood products made with wood from salvaged trees killed or infested by mountain pine or spruce beetles.

## State Revenue

The bill reduces state sales and use tax revenue to the General Fund by an estimated \$25,320 in FY 2020-21 (current fiscal year), \$524,660 in FY 2021-22, and by \$537,200 in FY 2022-23 with ongoing impacts through FY 2025-26. Sales and use tax revenue is subject to TABOR.

This estimate is based on a 2020 tax expenditure evaluation by the Office of the State Auditor (available here: <https://leg.colorado.gov/node/1794686>). The evaluation found that the sales and use tax exemption for beetle kill wood products reduced state revenue by \$483,000 in 2018. This figure was adjusted for growth based on the "core" Denver-Aurora-Lakewood consumer price index for all urban consumer, which excludes food and energy prices.

This fiscal note assumes the bill takes effect as of July 1, 2021. The reduced revenue for FY 2020-21 represents refunds to be issued by the DOR for sales that occurred after the expiration of the sales and use tax exemption on June 30, 2020, and before the passage of this bill. As a result of the administrative hurdles to apply for a refund and relatively small refund per taxpayer, approximately five percent of the total value of the exemption are assumed to be refunded. While DOR will not issue refunds until FY 2021-22, these refunds are assumed to be recorded on an accrual basis in FY 2020-21 thereby tying them to the timing of the original purchases.

If the bill becomes effective prior to July 1, 2021, decreased revenue for FY 2020-21 will be larger due to the reimplementation of the sales and use tax exemption within the 2020-21 fiscal year.

## State Expenditures

In FY 2021-22 only, the bill increases state expenditures in the DOR by \$55,560 to review and issue sales and use tax refunds associated with the retroactive extension of the sales and use tax exemption for beetle kill wood products.

The bill extends an existing exemption, which can be communicated and administered within existing resources, however, the bill also retroactively extends the exemption which creates additional workload to review and issue retroactive sales and use tax refunds. As such, the DOR will hire a temporary contractor to assist with this increased workload. Approximately 500 retroactive refunds claims are expected to be filed with the DOR, and each claim can be resolved in 4 hours on average.

The DOR will hire a contractor at a rate of \$27.78 for approximately 2,000 hours of work, for a total cost of \$55,560.

**Tabor refund.** The bill decreases state revenue subject to TABOR. The March 2021 LCS forecast projects that revenue will fall short of the TABOR limit through at least FY 2022-23, though revenue expectations are close enough to the limit that a refund obligation is possible within normal forecast error. If actual revenue would exceed the limit under current law, the bill will decrease the amount required to be refunded to taxpayers.

## Local Government

The sales and use tax exemption for beetle kill wood products is an optional exemption for local governments. To the extent that any local governments adopt and extend the beetle kill wood products exemption, there would be a reduction in tax revenue for those local governments.

## Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

## State Appropriations

For FY 2021-22, the bill requires a General Fund appropriation of \$55,560 to the Department of Revenue.

## State and Local Government Contacts

Counties	Forest Service	Local Affairs
Natural Resources	Personnel	Revenue