



## Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

# Final Fiscal Note

**Drafting Number:** LLS 23-0143  
**Prime Sponsors:** Rep. Lynch  
Sen. Simpson

**Date:** August 9, 2023  
**Bill Status:** Deemed Lost  
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**Bill Topic:** **TIMBER INDUSTRY INCENTIVES**

**Summary of Fiscal Impact:**

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

The bill would have created an income tax credit for equipment used in the timber, wood product manufacturing, forest health, and wildfire mitigation industries. The bill would have decreased state revenue and increased state expenditures on an ongoing basis.

**Appropriation Summary:**

For FY 2023-24, the bill would have required an appropriation of \$96,329 to the Department of Revenue.

**Fiscal Note Status:**

The fiscal note reflects the introduced bill, as amended by the House Agriculture, Water, and Natural Resources. The bill was recommended by the Wildfire Matters Committee. The bill was deemed lost in the House Appropriations committee on May 9, 2023; therefore, the impacts identified in this analysis do not take effect.

**Table 1**  
**State Fiscal Impacts Under HB 23-1018**

		Current Year FY 2022-23	Budget Year FY 2023-24	Out Year FY 2024-25
<b>Revenue</b>	General Fund	up to (\$3.2 million)	up to (\$6.5 million)	up to (\$6.5 million)
	<b>Total Revenue</b>	<b>up to (\$3.2 million)</b>	<b>up to (\$6.5 million)</b>	<b>up to (\$6.5 million)</b>
<b>Expenditures</b>	General Fund	-	\$96,329	\$7,683
	Centrally Appropriated	-	\$2,703	-
	<b>Total Expenditures</b>	-	<b>\$99,032</b>	<b>\$7,683</b>
	<b>Total FTE</b>	-	<b>0.2 FTE</b>	-
<b>Transfers</b>		-	-	-
<b>Other Budget Impacts</b>	TABOR Refund	up to (\$3.2 million)	up to (\$6.5 million)	up to (\$6.5 million)
	General Fund Reserve	-	\$14,449	\$1,152

## Summary of Legislation

The bill creates an income tax credit for tax years 2023 through 2027 for businesses involved in forestry, logging, timber, wood product manufacturing, forest health, and wildfire mitigation. The tax credit is allowed for businesses that purchase the following:

- mechanized equipment that is used for harvesting, skidding, processing, and loading trees;
- trucks and trailers used for hauling logs;
- equipment used to manufacture wood products;
- equipment used in small-diameter tree removal and processing; and
- equipment used in prescribed burning.

The tax credit is valued at 20 percent of the purchase cost for qualifying items, capped at \$10,000 per taxpayer per year. The bill requires that a taxpayer purchase a Colorado-produced or electric-powered product in order to qualify for the credit, and allows the credit for products produced elsewhere or using other power sources only if the preferred version is unavailable. The credit is nonrefundable and any excess amount may be carried forward for up to five years.

## State Revenue

The bill is expected to decrease General Fund revenue up to \$3.2 million in FY 2022-23, and up to \$6.5 million in FY 2023-24, with similar impacts in subsequent years as explained below.

In 2021, there were an estimated 500 employer firms in Colorado involved in logging, sawmills, and wood product manufacturing based on data from the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW). Additionally, another 100 employer firms involved in tree removal services for wildfire mitigation may claim the credit based on QCEW data and industry research. The number of employers in the state has fluctuated little through the last economic expansion and is assumed constant through the analysis period. This analysis assumes that 100 percent of employer firms claim the maximum tax credit each year.

Taxpayers eligible under the bill could include firms without employees. In 2019, there were 415 sole proprietors in wood product manufacturing based on data from the Department of Revenue. Based on business receipts statistics for proprietors from the Internal Revenue Service, and assuming capital expenditures represent a similar proportion of business receipts for proprietors as for employer firms, each proprietor is estimated to claim the tax credit for 20 percent of qualifying purchases, or about \$1,100 each tax year.

Assuming that tax liability for each business claiming the income tax credit exceeds the value of the credit, the bill will reduce General Fund revenue by \$3.2 million in FY 2022-23 (half-year impact), and \$6.5 million in FY 2023-24, with similar impacts in subsequent years. To the extent that employer firms claim less than the maximum allowable credit or the credit is carried-forward and claimed against income tax in subsequent years, the timing and magnitude of the revenue impact will vary.

**State Expenditures**

The bill increases state General Fund expenditures by \$99,032 in FY 2023-24 and \$7,683 in FY 2024-25, with similar impacts in future years. Expenditures are shown in Table 2 and detailed below.

**Table 2  
Expenditures Under HB 23-1018**

<b>Cost Components</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>
<b>Department of Revenue</b>		
Personal Services	\$5,353	-
Computer and User Acceptance Testing	\$49,468	-
GenTax Computer Programming	\$22,500	-
Office of Research and Analysis	\$7,392	\$7,328
Postage and Document Management	\$11,616	\$355
Centrally Appropriated Costs <sup>1</sup>	\$2,703	-
<b>Total</b>	<b>\$99,032</b>	<b>\$7,683</b>
<b>Total FTE</b>	<b>0.2 FTE</b>	<b>-</b>

<sup>1</sup> Centrally appropriated costs are not included in the bill's appropriation.

**Department of Revenue.** The Department of Revenue will require 0.2 FTE to review and process returns claiming the new income tax credit and to resolve errors in returns. The credit will also require 100 hours of GenTax computer programming billed at a contractor rate of \$225 per hour in FY 2023-24. Computer and user acceptance testing associated with the programming changes will result in an additional cost of \$49,468 in FY 2023-24. The Office of Research and Analysis will also incur additional costs, an estimated \$7,392 in FY 2023-24 and subsequent years, to track and report on the new and expanded tax expenditures. Lastly the department will have an increase in expenditures for postage and document management, with funds reappropriated to the Department of Personnel and Administration.

**Centrally appropriated costs.** Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are shown in Table 2.

**Other Budget Impacts**

**TABOR refunds.** The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate assumes the December 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save.

**General Fund reserve.** Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing the amount of General Fund available for other purposes.

## Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed, except the bill's income tax credit is effective January 1, 2023.

## State Appropriations

For FY 2023-24, the bill requires a General Fund appropriation of \$96,329 to the Department of Revenue and 0.2 FTE. Of this amount, \$11,616 is reappropriated to the Department of Personnel and Administration.

## State and Local Government Contacts

Forest Service  
Revenue

Information Technology  
State Auditor

Personnel