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Nonpartisan Services for Colorado's Legislature

Fiscal Note

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Prime Sponsors:

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Bill Topic: INCENTIVES TO PROMOTE THE COLORADO TIMBER INDUSTRY

Summary of Fiscal Impact:

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

The bill broadens the sales and use tax exemption for beetle kill wood so that it applies to all timber products harvested in Colorado, creates an income tax credit for purchases of timber processing machinery, and creates a program for state sponsorship of internships with timber industry businesses. It decreases state revenue and increases state expenditures on an ongoing basis.

Appropriation Summary:

For FY 2022-23, the bill requires appropriations totaling at least \$100,361 to various state agencies. Additional appropriations for an internship program are at the discretion of the General Assembly, but are included for illustrative purposes in Table 1 below.

Fiscal Note Status:

The fiscal note reflects the bill draft requested by the Wildfire Matters Review Committee.

**Table 1
State Fiscal Impacts Under Bill 10**

		Current Year FY 2021-22	Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	(\$250,000)	(\$1,050,000)	(\$1,050,000)
	Total Revenue	(\$250,000)	(\$1,050,000)	(\$1,050,000)
Expenditures	General Fund*	-	\$150,361	\$133,337
	Centrally Appropriated	-	\$6,331	\$7,797
	Total Expenditures	-	\$156,692	\$141,134
	Total FTE	-	0.4 FTE	0.5 FTE
Transfers		-	-	-
TABOR Refund	General Fund	(\$250,000)	(\$1,050,000)	(\$1,050,000)

*This line includes \$50,000 in FY 2022-23 and \$100,000 in FY 2023-24 for internship reimbursements. Actual expenditures for this program are at the discretion of the General Assembly and will depend on appropriations.

Summary of Legislation

The bill broadens a current law sales and use tax exemption for the purchase of certain wood products, creates an income tax credit for capital investments by timber industry businesses, and creates a state reimbursement program for internships with timber industry businesses. These provisions are discussed below.

Sales and use tax exemption. Under current law, sales of wood from salvaged trees killed or infested in Colorado by mountain pine beetles or spruce beetles are exempt from the state sales and use tax through FY 2025-26. The bill broadens the exemption so that all wood harvested in Colorado is exempt from the state sales and use tax for FY 2022-23 through FY 2025-26. Like the current law exemption, the broadened exemption is available for raw timber and manufactured products including lumber, wooden furniture, and wood chips or pellets.

Income tax credit. Beginning in tax year 2022, the bill creates an income tax credit for businesses in the forestry, logging, timber, and wood product manufacturing industries that purchase capital equipment, including machinery, vehicles, or other equipment infrastructure. The credit is equal to 20 percent of the purchase price of the qualifying equipment, up to \$10,000 per business per year. Businesses must document their purchases following procedures to be established by the Department of Revenue. Any credit amount that exceeds the business's tax liability is carried forward and may be applied in up to five subsequent tax years.

State-sponsored internships. The bill creates a program in the State Forest Service to reimburse timber industry businesses for their costs associated with employing interns. Eligible businesses include those working in forestry, logging, timber trading, and wood product manufacturing. Up to 50 percent of costs associated with an internship, including wages, an allocation for overhead expenses, and incidental costs directly related to the internship, are eligible for reimbursement. Internships must provide at least 130 hours of work experience and may last no more than six months. A business may be reimbursed for no more than three internships in a single fiscal year. The bill requires the State Forest Service to promulgate other policies, procedures, and guidelines for the program by January 1, 2023.

State Revenue

The bill decreases General Fund revenue by an estimated \$250,000 in the current FY 2021-22, and by \$1,050,000 in FY 2022-23, FY 2023-24, and subsequent years. The revenue impact for FY 2021-22 represents a half-year impact for tax year 2022 for the income tax credit only. The bill decreases income and sales tax revenue, both of which are subject to TABOR.

Sales and use tax exemption. Broadening the sales and use tax exemption in the bill is expected to decrease state sales and use tax revenue by \$550,000 annually beginning in FY 2022-23.

In 2016, the most recent year for which data are available, the U.S. Forest Service reported that 64 percent of timber harvested in Colorado was from dead trees, most of which were killed by beetle infestation. Beetle infestation has declined since 2009; however, the share of timber harvested from dead trees continued to increase between 2012 and 2016. This fiscal note assumes that approximately half of timber harvested in Colorado is from trees killed by beetles.

For calendar year 2018, the Office of the State Auditor estimates that the sales and use tax exemption for beetle kill timber and manufactured products reduced state revenue by \$483,000. The value of the current law exemption is estimated to reach \$550,000 in FY 2022-23, reflecting inflation in wood prices. Broadening the exemption to all Colorado timber is expected to double the revenue impact of the exemption to \$1,100,000 total, with \$550,000 of that attributable to the expansion in this bill.

Income tax credit. Data to estimate the revenue impact of the income tax credit in the bill are limited. Based on the number of businesses registered as wood, paper, and furniture manufacturers, it is estimated that 50 firms will claim the credit annually, approximately half of those with 20 or more employees, for a total revenue impact of \$500,000 per tax year. Depending on utilization, the revenue impact of the credit could be less or greater than estimated. An analogous credit for plastic recycling investment reduced state revenue by \$6,000 in tax year 2015, but data for that credit cannot be reported for subsequent tax years due to taxpayer confidentiality requirements.

State Expenditures

The bill increases General Fund expenditures by \$156,692 in FY 2022-23 and \$141,134 in FY 2023-24. Expenditures are shown in Table 2 and detailed below.

**Table 2
Expenditures Under Bill 10**

Cost Components	FY 2022-23	FY 2023-24
Department of Higher Education – Forest Service		
Personal Services	\$25,884	\$31,062
Operating Expenses	\$675	\$675
Capital Outlay Costs	\$6,200	-
Internship Reimbursements ¹	\$50,000	\$100,000
Centrally Appropriated Costs ²	\$6,331	\$7,797
FTE	0.4 FTE	0.5 FTE
CDHE Subtotal	\$89,090	\$139,534
Department of Revenue		
Computer Programming and Testing	\$64,674	-
Tax Form Changes	\$1,328	-
Data Management and Reporting	\$1,600	\$1,600
DOR Subtotal	\$67,602	\$1,600
Total	\$156,692	\$141,134
Total FTE	0.4 FTE	0.5 FTE

¹ Cost estimates are for informational purposes only; the General Assembly may choose to appropriate a different amount.

² Centrally appropriated costs are not included in the bill's appropriation.

Department of Higher Education – State Forest Service. The State Forest Service operates within Colorado State University in the Department of Higher Education. Personal services, operating, capital, and centrally appropriated costs for the Forest Service are for the addition of 0.5 FTE to administer the state-sponsored internship program and distribute and oversee funding. Costs for FY 2022-23 are prorated to reflect an August start date and the General Fund pay date shift.

Funding for the internship program is at the discretion of the General Assembly. This fiscal note assumes that state expenditures for the program will increase by \$50,000 for FY 2022-23, reflecting a January 2023 start date, and \$100,000 per year beginning in FY 2023-24. This amount would allow funding for 10 internships per year at a cost of \$20,000 per internship to businesses, of which \$10,000 per internship would be reimbursed by the state. Estimated costs are included in Table 2 and will be updated depending on selected program funding levels.

Department of Revenue. The bill requires one-time General Fund expenditures for implementation and ongoing expenditures for data management and reporting. Implementation costs are primarily for computer programming and testing in the department's GenTax software system, and are elevated due to the tax credit in the bill being made available to fiduciary and estate taxpayers in addition to individuals and corporations. The bill also requires one-time changes to four tax forms at a cost of \$1,328. Tax form changes occur in the Department of Personnel and Administration and are paid using reappropriated DOR funds.

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 estimated to be \$6,331 in FY 2022-23 and \$7,797 in FY 2023-24.

TABOR refunds. The bill reduces state revenue subject to TABOR, which reduces the state obligation for refunds to taxpayers by \$250,000 for the current FY 2021-22 and \$1,050,000 for FY 2022-23 and FY 2023-24. TABOR refunds are paid from the General Fund. A forecast of state revenue subject to TABOR is not available beyond FY 2023-24.

Local Government

Under current law, counties, statutory municipalities, and special districts that levy sales and use tax may choose to extend the state sales and use tax exemption for beetle kill wood to purchasers in their jurisdictions. Beginning in FY 2022-23, local governments that have adopted this exemption will experience a revenue decrease when the exemption is broadened. Among counties, only Douglas, La Plata, and Mesa counties are expected to be affected. The amount of lost revenue will depend on the amount of qualifying purchases, and will differ across jurisdictions.

Technical Note

The current bill draft creates the income tax credit beginning in tax year 2021, which would make the credit retroactive if the bill were passed in 2022. This fiscal note assumes that the bill will be amended to allow the credit beginning in tax year 2022. If this amendment is not adopted, revenue impacts will occur earlier than expected, and required expenditures for computer programming, tax return processing, and legal services will be significantly greater in order to accommodate retroactive claims of the credit for the completed tax year 2021.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2022-23, the bill requires General Fund appropriations of:

- at least \$32,759 to the State Forest Service in the Department of Higher Education, plus an amount of money for internship reimbursements to be determined at the discretion of the General Assembly; and
- \$67,602 to the Department of Revenue, of which \$1,328 should be reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Counties	Forest Service	Municipalities
Personnel	Revenue	