



Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number: LLS 22-0167
Prime Sponsors:

Date: October 25, 2021
Bill Status: Bill Request
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Bill Topic: **NO C CORP FARM EQUIPMENT SALES & USE TAX EXEMPTION**

Summary of Fiscal Impact:

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

The bill excludes C corporations from the state sales and use tax exemption for farm equipment and parts. The bill will increase state revenue on an ongoing basis and will minimally increase one-time expenditures. The bill will increase local government revenues in tax districts that conform to the state tax base.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: The fiscal note reflects the bill draft requested by the Legislative Oversight Committee Concerning Tax Policy.

Table 1
State Fiscal Impacts Under Bill 7

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	\$4.8 million	\$5.1 million
Expenditures	General Fund	minimal increase	minimal increase
Transfers		-	-
TABOR Refund	General Fund	\$4.8 million	\$5.1 million

Summary of Legislation

The bill excludes C corporations from the state sales and use tax exemption for farm equipment and parts.

Background

Purchases of farm equipment and parts are exempt from state sales and use tax. The exemption covers purchases of tractors and trailers, dairy equipment, irrigation equipment, agricultural aircraft, shipping pallets and crates, electronic identification, and other items. The exemption also includes parts used for farm equipment maintenance and repair. In the Department of Revenue's 2020 Tax Profile and Expenditure Report, the value of the sales tax exemption was estimated to be \$16.3 million in 2019.¹ To claim the exemption, farm equipment sellers must obtain a signed affidavit that the equipment will be used in a farm operation for the exemption.

State Revenue

The bill is estimated to increase General Fund revenue by an estimated \$4.8 million in FY 2022-23 and \$5.1 million in FY 2023-24, with ongoing impacts of similar amounts in subsequent years. Sales and use tax revenue is subject to TABOR.

Data and assumptions. This analysis assumes the value of the farm equipment exemption has grown relative to overall growth in sales and use tax revenue since 2019 based on the rising cost of farm equipment. Further, the revenue impact was estimated assuming that C corporations utilize about 23 percent of the farm equipment exemption, equal to the share of Colorado's farm sales and receipts for non-family corporations reported in the U.S. Department of Agriculture's 2017 Agricultural Census. The Census only differentiates corporate farm sales and receipts by those held in families or not. Many family corporations are likely not C corporations and are excluded from the analysis. To the extent that family corporations are C corporations the estimates will be understated. Conversely, the extent that nonfamily corporations are not C corporations, the estimates will be overstated.

State Expenditures

The bill will minimally increase workload for the Department of Revenue for one-time updates to instructions and forms, training, and information sharing in FY 2022-23. The fiscal note assumes that workload impacts can be absorbed as part of the normal operations of administering sales and use taxes.

TABOR refunds. The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above for FY 2022-23 and FY 2023-24. TABOR refunds are paid from the General Fund. This estimate is based on the September 2021 Legislative Council Staff forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2023-24.

¹ For more information see: Colorado Department of Revenue, 2020 Tax Profile & Expenditure Report. <https://drive.google.com/file/d/1jaDRJGE7FFUbsuBzTu95F4mJ5WuZFxwt/view>

Local Government

Excluding C corporations from the farm equipment and parts sales and use tax exemption will increase sales and use tax revenue for local governments and special districts that conform to the state tax base. This analysis does not estimate the pattern of purchases for each area within the state.

Effective Date

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

State and Local Government Contacts

Counties	Information Technology
Municipalities	Regional Transportation District
Revenue	Special Districts