



Legislative Council Staff

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HB 20-1025

FISCAL NOTE

Drafting Number: LLS 20-0242
Prime Sponsors: Rep. Benavidez; Snyder
Sen. Tate

Date: January 29, 2020
Bill Status: House Energy & Environment
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Bill Topic: SALES TAX EXEMPTION FOR INDUSTRY AND MANUFACTURING ENERGY USE

- Summary of Fiscal Impact:
- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

This bill requires the use of a meter to quantify energy or fuel use for manufacturing or industrial purposes in order to claim a sales tax exemption. This bill will increase state expenditures in FY 2020-21 only, and will increase state revenue starting in FY 2020-21.

Appropriation Summary: For FY 2020-21, this bill requires an appropriation of \$11,400 to the Department of Revenue.

Fiscal Note Status: This fiscal note reflects the introduced bill, as recommended by the Tax Expenditure Evaluation Interim Committee.

Table 1
State Fiscal Impacts Under HB 20-1025

Table with 4 columns: Category, Fund, FY 2020-21, FY 2021-22. Rows include Revenue, Expenditures, Transfers, and TABOR Refund.

## Summary of Legislation

This bill requires a metered machine be used to quantify the amount of energy or fuel used for industrial or manufacturing purposes in order to claim a sales tax exemption on that use of energy or fuel. Currently, the sales tax exemption exists; however, there is no metering system required.

## Background

The Office of the State Auditor (OSA) evaluated the sales tax exemption for industrial and manufacturing energy use and presented its report to the Tax Expenditure Evaluation Interim Committee. Their report estimated that approximately 10,400 out of 16,000 industrial energy consumers in the state claimed the exemption in tax year 2017, which reduced state revenue by between \$35.2 million and \$87.9 million that year. The Department of Revenue does not report complete data on this tax expenditure, so this estimate is based on U.S. Energy Information Administration data. OSA's report can be found here:

[https://leg.colorado.gov/sites/default/files/images/2019-te20\\_industrial\\_energy.pdf](https://leg.colorado.gov/sites/default/files/images/2019-te20_industrial_energy.pdf).

## Assumption

Based on information from industry contacts and the OSA report, this fiscal note assumes that 40 percent to 60 percent of taxpayers eligible to claim this exemption do not currently claim an exemption high enough to justify the cost of purchasing and installing metering equipment. This fiscal note assumes that these taxpayers account for roughly one-third of the estimated tax expenditure and that this bill will result in a reduction in the number of the exemptions claimed as a result.

## State Revenue

This bill will increase state General Fund revenue by between \$9.2 million and \$22.9 million in FY 2020-21 (partial-year impact), and by between \$12.4 million and \$31.1 million in FY 2021-22, with similar impacts in future years. If more companies that currently claim this exemption install the necessary metering equipment, this revenue impact may be lower than estimated. This revenue is subject to TABOR.

## State Expenditures

This bill will increase state General Fund expenditures for the Department of Revenue (DOR) by \$11,400 in FY 2020-21 only.

**Department of Revenue.** This bill requires one-time modifications to DOR's administration of the sales tax exemption, which includes programming changes to the GenTax software system. The GenTax programming changes will require 40 hours of work at \$225 per hour, for a total of \$9,000.

**Department of Personnel and Administration (DPA).** Two forms will need to be changed at \$1,200 per form, for a total of \$2,400, which will be reappropriated to DPA from DOR.

**TABOR Refunds.** The bill is expected to increase state General Fund obligations for TABOR refunds by between \$9.2 million and \$22.9 million in FY 2020-21 (partial-year impact), and by between \$12.4 million and \$31.1 million in FY 2021-22. Under current law and the December 2019 Legislative Council Staff forecast, the measure will correspondingly increase the amount refunded to taxpayers.

## Local Government

This bill will increase local sales tax revenue for statutory counties and cities which have their sales taxes collected by the Department of Revenue, as well as for any home rule municipalities that choose to apply this exemption.

## Effective Date

The bill takes effect on October 1, 2020, if no referendum petition is filed.

## State Appropriations

For FY 2020-21, the bill requires an appropriation from the General Fund of \$11,400 to the Department of Revenue, of which \$2,400 will be reappropriated to the Department of Personnel and Administration.

## State and Local Government Contacts

Counties	Information Technology
Municipalities	Personnel
Revenue	State Auditor
Regional Transportation District	