



# Legislative Council Staff

*Nonpartisan Services for Colorado's Legislature*

## **FISCAL NOTE**

**Drafting Number:** LLS 18-0797  
**Prime Sponsors:** Rep. Kraft-Tharp  
Sen. Priola

**Date:** April 9, 2018  
**Bill Status:** House Business  
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**Bill Topic:** MACHINE TOOL SALES TAX EXEMPTION FOR SCRAP METAL

<b>Summary of Fiscal Impact:</b>	<input checked="" type="checkbox"/> State Revenue <input checked="" type="checkbox"/> State Expenditure <input type="checkbox"/> State Transfer	<input checked="" type="checkbox"/> TABOR Refund <input checked="" type="checkbox"/> Local Government ( <i>conditional</i> ) <input type="checkbox"/> Statutory Public Entity
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This bill expands the definition of machinery and machine tools purchased by scrap metal processors for sales and use tax exemption purposes. This bill will result in an ongoing annual decrease in state revenue and increase in state expenditures.

**Appropriation Summary:** For FY 2018-19, this bill requires an appropriation of \$14,292 to the Department of Revenue.

**Fiscal Note Status:** This fiscal note represents the introduced bill.

**Table 1**  
**State Fiscal Impacts under HB 18-1350**

		FY 2018-19	FY 2019-20
<b>Revenue</b>	General Fund	(\$37,400)	(\$76,700)
<b>Expenditures</b>	General Fund	\$14,292	\$38,620
	Centrally Appropriated	\$3,610	\$12,257
	<b>Total</b>	<b>\$17,902</b>	<b>\$50,877</b>
	<b>Total FTE</b>	<b>0.3 FTE</b>	<b>0.7 FTE</b>
<b>Transfers</b>		-	-
<b>TABOR Refund</b>	General Fund	(\$37,400)	(\$76,700)

## **Summary of Legislation**

Beginning January 1, 2019, this bill expands the definition of recovered materials under the machinery and machine tools sales and use tax exemption. The current law definition exempts machinery or machine tool or part purchases in excess of \$500 used for manufacturing of tangible personal property, including manufacturing using recovered materials, which are defined as those materials that have been removed from the waste stream. Under this bill, recovered materials can also refer to scrap metal or end-of-lifecycle metals, which are remanufactured into new metal that meets the standards set by the industry for recycled commodities.

This bill also defines scrap metal processors, the primary activity they engage in, and what they produce.

## **Background**

Scrap metal processors purchase recovered materials, separate and process them, and then sell them to domestic mills for the purpose of creating new products or export. Under this bill, scrap metal processors will receive a sales and use tax exemption on machinery and machine parts used in the processing of scrap metals. An example of scrap metal is the excess metal used in construction, while an example of end-of-lifecycle metals is the debris from a building demolition or an old refrigerator. According to the Bureau of International Recycling, about 40 percent of the world's steel production is made from scrap metal, and between 30 and 40 percent of major non-ferrous materials (e.g. aluminum, copper, lead, and zinc) is made from scrap metals. There are approximately 25 scrap metal processors of varying sizes in the state.

## **Assumptions**

Based on available information, about 25 scrap metal recycling companies are in operation in the state, and about 5 of these are larger companies. This fiscal note assumes that the expanded sales tax exemption under this bill will apply to these companies' expenditures on a combination of replacement parts for current equipment, and purchases of new equipment to either replace older equipment or expand operations. For larger scrap metal processors, defined as those who own and operate metal shredders, the average annual cost to maintain their equipment is around \$62,500 per year. Smaller scrap metal processors' average annual parts costs are around \$30,000. Average prices for the machinery listed in the bill range between several hundred dollars for a torch to a few million dollars for a metal shredder.

## **State Revenue**

This bill is expected to reduce General Fund revenue by \$37,400 in FY 2018-19 (half-year impact) and \$76,700 in FY 2019-20, with similar reductions in future years. To the extent that sales differ from the assumptions used in this fiscal note, actual revenue impacts may vary.

## **TABOR Refund**

This bill reduces state revenue by \$37,400 in FY 2018-19 and \$76,700 in FY 2019-20, which will reduce the amount of money required to be refunded under TABOR. Since the bill reduces revenue to the General Fund and the refund obligation by equal amounts, there is no net

impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money for the General Fund budget in the future during years when the state does not collect revenue above the TABOR limit. State revenue subject to TABOR is not estimated for years beyond FY 2019-20.

### **State Expenditures**

This bill increases General Fund expenditures for the Department of Revenue by \$17,902 and 0.3 FTE in FY 2018-19, and by \$50,877 and 0.7 FTE in FY 2019-20, with similar impacts in future years. As summarized in Table 2, expenditures are for personnel costs for additional tax examiners needed to review additional claims for sales tax refunds.

**Table 2**  
**Expenditures Under HB 18-1350**

<b>Cost Components</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>
<b>Department of Revenue</b>		
Personal Services	\$14,007	\$33,252
Operating Expenses and Capital Outlay Costs	\$285	\$5,368
Centrally Appropriated Costs*	\$3,610	\$12,257
FTE – Personal Services	0.3 FTE	0.7 FTE
<b>Total</b>	<b>\$17,902</b>	<b>\$50,877</b>
<b>Total FTE</b>	<b>0.3 FTE</b>	<b>0.7 FTE</b>

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

**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, supplemental employee retirement payments, and leased space are estimated to be \$3,610 in FY 2018-19 and \$12,257 in FY 2019-20.

### **Local Government**

Under current law, the sales tax exemption for scrap metal processing machinery is not by default extended to counties or municipalities. However, the bill is expected to reduce revenue to special districts collecting sales taxes on the same tax base as the state — the Regional Transportation District and Scientific and Cultural Facilities District — by a minimal amount.

To the extent that other local governments have chosen to authorize the exemption at a local level, sales tax revenue collected by these jurisdictions will be reduced. These impacts are not estimated.

### **Effective Date**

The bill takes effect August 8, 2018, if the General Assembly adjourns on May 9, 2018, as scheduled, and no referendum petition is filed.

**State Appropriations**

This bill requires a General Fund appropriation to the Department of Revenue of \$14,292 and an allocation of 0.3 FTE in FY 2018-19.

**State and Local Government Contacts**

Counties  
Law  
Revenue  
Regional Transportation District

Information Technology  
Municipalities  
Special Districts