FISCAL NOTE

Bill #: HB362

Title: Tax exemption for machinery and equipment used in producing ethanol.

Primary Sponsor: Joe McKenney

Status: Introduced

____ Sponsor signature Date

____ Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Net Impact on General Fund Balance:	**0**	**0**

Yes	No		Yes	No	
	x	Significant Local Gov. Impact	x		Technical Concerns
	x	Included in the Executive Budget		x	Significant Long-Term Impacts
	x	Dedicated Revenue Form Attached		x	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. The proposal would exempt from taxation all manufacturing machinery, fixtures, equipment and tools used for the production of ethanol from grain during the course of construction and 10 years after completion.
2. There currently is no machinery or equipment used for the production of ethanol (or gasohol) in the state, hence the proposal does not impact revenue generated from the present tax base.
3. Impact of the proposal on revenue generated from any future tax base would depend on several factors. The first factor is the amount and value of manufacturing machinery, fixtures, equipment and tools used for the production of ethanol that would be located in the state. Second, since the proposal classifies manufacturing machinery, fixtures, equipment and tools used for the production of ethanol as class 8 property, the effects of this proposal will be mute if the statutory trigger that reduces the taxable rate of class 8 property to zero is reached and the class 8 tax rate is zero. Lastly, in some recent cases, tax increment finance districts have been created to accommodate new large industrial facilities. If that were the case with a new industrial ethanol producing facility, there would be no impact to state and local governments because the tax increment district receives all revenues collected on the increment value within its boundaries (with the exception of the university system 6 mills).

4. There is estimated to be no fiscal impact to the Department of Revenue.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Revenues will not be impacted by this proposal, considering that currently there is not any machinery or equipment used for the production of ethanol (or gasohol) statewide.

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TECHNICAL NOTES:

1. Classifying ethanol equipment as exempt in 15-6-201 may be in conflict with 15-6-135(1)(d). Gasohol and ethanol machinery and equipment are essentially the same, since gasohol and ethanol differ only in the amount of gasoline that is added to ethyl alcohol. Provisions for gasohol machinery and equipment to be classified as class 5, with a taxable rate of 3% during construction and the first 3 years of operation are already in place in 15-6-135(1)(d).
2. There is some ambiguous language in 15-6-138(1)(d) that may need some clarification. Class 8 properties under 15-6-138(1)(d) do not currently include the first $15,000 value of manufacturing hand held tools. This proposal, by striking the language “that are not exempt under 15-6-201(1)(r) or (1)(bb)” from 15-6-138(1)(d) could be in conflict with 15-6-201(1)(r), which exempts the first $15,000 or less of market value of hand held tools.
3. The proposal includes language in 15-6-138(1)(d) that also exempts personal property related to space vehicles, industrial dairies, and milk processors. Personal property related to space vehicles, industrial dairies, and milk processors is currently statutorily exempt under 15-6-201(1)(r)(ii) and 15-6-201(1)(bb) respectively.