



Colorado Legislative Council Staff Fiscal Note
**STATE and LOCAL
 FISCAL IMPACT**

Note: This fiscal note is provided pursuant to Joint Rule 22 (b) (2) and reflects strike-below Amendment L.001.

Drafting Number: LLS 11-0181	Date: February 15, 2011
Prime Sponsor(s): Rep. Liston Sen. Morse	Bill Status: House Finance
	Fiscal Analyst: Fiona Sigalla (303-866-3556)

TITLE: CONCERNING THE SALES TAX EXEMPTION FOR PURCHASES OF MEDICAL EQUIPMENT.

Fiscal Impact Summary	FY 2011- 2012	FY 2012-2013
State Revenue General Fund	(\$298,877)	(\$304,458)
State Expenditures General Fund	\$45,816	
FTE Position Change		
Effective Date: August 10, 2011, if the General Assembly adjourns on May 11, 2011, as scheduled, and no referendum petition is filed.		
Appropriation Summary for FY 2011-2012: See State Appropriation section.		
Local Government Impact: See Local Government Impact section.		

Summary of Legislation

The bill, as amended by HB1091_L.001, clarifies and modifies the sales and use tax exemption for medical equipment and therapeutic devices. The bill provides for a sales and use tax exemption for *all* medical equipment that is dispensed with a prescription. The definition of durable medical equipment is extended to include mobility enhancing equipment, repair and replacement parts. The bill removes the sales and use tax exemption for medical equipment purchased without a prescription.

Background

Under current law, it is not clear which types of medical equipment are exempt from sales and use tax. The Department of Revenue has given some guidance to vendors and taxpayers about the taxability of some items. This bill will clarify in statute which items are and which items are not subject to sales and use tax.

Some medical equipment purchased *without a prescription* are currently exempt from sales and use tax, such as items recommended by a chiropractor. This bill would make those items taxable.

Some items that are purchased *with a prescription* are currently subject to tax, such as bandages, incontinence products, and mobility enhancing equipment, such as scooters and car kit conversions. This bill would exempt these items from sales and use tax.

State Revenue

The bill will reduce sales and use tax revenue to the General Fund by (\$295,877) in FY11-12 and (\$304,458) in FY 2012-13. Revenue impacts were adjusted to account for the fact that vendors will begin retaining a vendor fee of 3.33 percent of the taxes they collect on July 1, 2011.

This bill will increase revenue by making some items taxable, and will reduce revenue by providing an exemption for other items. The largest revenue effect will be from providing a sales tax exemption for mobility enhancing equipment, such as scooters and car kit conversions. The Department of Health and Human Services, Office of Inspector General, estimates that 173,300 Medicare beneficiaries received power wheelchairs in 2007. This figure was apportioned to Colorado using the state's share of personal income. The average price per vehicle was estimated to be \$3,636 in FY 2011-12, increasing by 2.9 percent in FY 2012-13, which is the Legislative Council Staff December 2010 inflation forecast.

State Expenditures

Department of Revenue: \$45,816 in FY 2011-12. The Department of Revenue will incur one-time expenses in FY 2011-12 to notify retailers of the change in sales tax treatment for medical equipment. The department will incur personnel costs to answer questions from vendors and taxpayers regarding the change and process refunds in the first year. Table 2 summarizes costs incurred by the Department of Revenue.

Cost Components	FY 2011-2012
Costs to Notify Retailers and Mail Refunds	\$18,650
Increased Expenses to Process Refunds and Answer Questions from Taxpayers and Retailers	\$27,166
TOTAL	\$45,816

Local Government

The bill will reduce local government revenue. Special districts and statutory cities and counties that have a sales and use tax base tied to the state tax base will experience a revenue loss by the change in taxable items in this bill.

Departmental Differences

It is the position of the Department of Revenue that additional funds will be necessary to process claims for refunds in FY 2012-13 and beyond because some taxpayers will have ongoing questions about what is taxable and will request refunds. The department states that it would require \$40,267 in FY 2012-13 for 0.3 FTE, operating and postage expenses ongoing. The fiscal note assumes that questions and requests for refund will not be ongoing, and the department can seek additional funding through the budget process if the workload is greater than expected.

State Appropriations

For FY 2011-12, the bill requires a General Fund appropriation of \$45,816 for the Department of Revenue.

Departments Contacted

Colorado Counties, Inc.
Law

Regulatory Agencies
Regional Transportation District

Revenue
Special Districts