

Sales tax holidays tend to attract more shoppers into stores, which often relates to increased sales on taxable items that would not have occurred otherwise during the holiday period. This increased spending may partially offset the loss of sales tax revenue to the state and local governments due to the sale of exempt items during the sales tax holiday. Increased sales, however, may only represent a shift of purchases as consumers wait for the anticipated tax holiday to purchase items that they were already going to purchase at some point in the recent past or future.

State Revenue

HB12-1069 is estimated to reduce state General Fund revenue by approximately \$4.5 million in FY 2014-15. The revenue impact estimate is based on the experience of other states with a similar sales tax holiday and back-to-school shopping data from the National Retail Federation.

The sales tax holiday will not occur until the first August after personal income in Colorado grows by 5.0 percent. The March 2012 Legislative Council Economic Forecast estimates personal income will grow by more than 5.0 percent starting in 2013. If this forecast is correct, the first sales tax holiday will occur in August of 2014.

It is estimated that Colorado taxpayers will purchase about \$161.4 million of goods that qualify for the sales tax exemption during the holiday in 2014, about \$30 per person, which would have been purchased without the bill. The revenue reduction is calculated by applying the 2.9 percent state sales tax rate and the 3.3 percent vendor fee to the total sales of products that would be tax exempt during the sales tax holiday. The exemption reduces sales tax revenue which is deposited in the state General Fund.

If personal income grows by more than 5.0 percent in 2012, then the fiscal impact of this bill would start in FY 2013-14.

State Expenditures

Department of Revenue: The department will have additional General Fund costs of \$142,227 in 0.8 FTE in FY 2014-15. The department will hire additional FTE in FY 2014-15 to process sales and use tax refund claims associated with the sales tax holiday. In addition, the department will hire temporary staff to answer taxpayer phone calls about the sales tax holiday. Personnel costs associated with the temporary staff are included, but they are not reflected in an increase in FTE. The department will also have ongoing mailing costs to notify approximately 65,000 vendors of the sales tax holiday. Table 1 summarizes the costs incurred by the department.

Table 1. Expenditures Under HB12-1069		
Cost Components	FY 2014-15	FY 2015-16
Additional FTE	0.8	0.9
Personnel costs		
Year Round FTE	\$35,399	\$38,617
Temporary Staff	\$69,798	\$69,798
Operating costs	\$5,602	\$994
Mailing costs	\$31,428	\$31,428
TOTAL	\$142,227	\$140,837

State Expenditures Not Included

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. The centrally appropriated costs subject to this policy are summarized in Table 2.

Table 2. Expenditures Not Included Under HB12-1069*		
Cost Components	FY 2014-15	FY 2015-16
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$5,007	\$5,617
Supplemental Employee Retirement Payments	\$5,609	\$6,655
TOTAL	\$10,616	\$12,272

**More information is available at: <http://1.usa.gov/CommonPolicies2012>*

Local Government Impact

The sales tax holiday for local governments is voluntary so local governments are only impacted if they choose to adopt a sales tax holiday.

Departments Contacted

Revenue