

STATE and LOCAL FISCAL IMPACT

Drafting Number: LLS 12-0574**Date:** January 25, 2012**Prime Sponsor(s):** Rep. Miklosi; Pabon**Bill Status:** House Finance**Fiscal Analyst:** Larson Silbaugh (303-866-4720)**TITLE:** CONCERNING TAX EXPENDITURES.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014
State Revenue General Fund — Sales and Use Tax Reduction	(\$5.8 million)	(\$5.9 million)
State Expenditures General Fund	\$142,226	\$140,836
FTE Position Change	0.8 FTE	0.9 FTE
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2012-2013: See the State Appropriations section.		
Local Government Impact: See the Local Government Impact section.		

Summary of Legislation

This bill creates a "sales tax holiday" on the first weekend in August each year starting in 2012 and ending in 2016. School supplies not exceeding \$50, clothing not exceeding \$100, and computers not exceeding \$1,500 would be exempt from the state sales tax during this three day holiday. Clothing includes sport and recreational equipment worn in conjunction with a sport or recreational activity, but not clothing accessories like jewelry, handbags, wallets, and hats. This exemption also applies to use tax for online and catalog orders made during the sales tax holiday.

Background

During 2011, 16 states offered some form of a sales tax holiday. Most were related to back-to-school items and occurred during August. Some states, however, had sales tax holidays for other items, such as energy efficiency appliances, hurricane preparedness supplies, firearms, ammunition, and hunting supplies.

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 \$5.8 million in FY 2012-13 and \$5.9 million in FY 2013-14. The revenue impact estimate is based on the experience of other states with a similar sales tax holiday.

It is estimated that Colorado taxpayers will purchase about \$203.3 million dollars of goods that qualify for the sales tax exemption during the holiday in 2012, about \$39 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 2.2 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.

State Expenditures

Department of Revenue: The department will have additional costs of \$142,226 in FY 2012-13 and \$140,836 in FY 2013-14. The department will hire additional FTE in FY 2012-13 and FY 2013-14 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 2012-13	FY 2013-14
Additional FTE	0.8	0.9
Personnel costs		
Year Round FTE	\$35,399	\$38,617
Temporary Staff	\$69,224	\$69,224
Operating costs	\$5,602	\$994
Mailing costs	\$31,428	\$31,428
TOTAL	\$142,226	\$140,836

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 2010-11	FY 2011-12
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$5,007	\$5,617
Supplemental Employee Retirement Payments	\$5,609	\$6,655
TOTAL	\$12,626	\$14,283

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

Local Government Impact

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

State Appropriations

The bill requires a General Fund appropriation of \$142,226 and 0.8 FTE in FY 2012-13 for the Department of Revenue.

Departments Contacted

Revenue