

**STATE and LOCAL  
FISCAL IMPACT**

**Drafting Number:** LLS 13-0177

**Date:** January 24, 2013

**Prime Sponsor(s):** Rep. Gerou

**Bill Status:** House Business, Labor, Economic, and Workforce Development

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**TITLE:** CONCERNING A SALES AND USE TAX EXEMPTION FOR EQUIPMENT USED BY A TELECOMMUNICATIONS PROVIDER IN THE PROVISION OF TELECOMMUNICATIONS SERVICES.

<b>Fiscal Impact Summary</b>	<b>FY 2013-2014</b>	<b>FY 2014-2015</b>
<b>State Revenue</b> General Fund - reduction	(\$8.24 Million)	(\$10.04 Million)
<b>State Expenditures</b> General Fund	\$54,631	\$65,787
<b>FTE Position Change</b>	1.1 FTE	1.5 FTE
<b>Effective Date:</b> September 1, 2013, if no referendum petition is filed.		
<b>Appropriation Summary for FY 2013-2014:</b> See the State Appropriations section.		
<b>Local Government Impact:</b> See local government impact section.		

**Summary of Legislation**

Beginning September 1, 2013, this bill exempts from state sales and use taxes any equipment used by a telecommunications company to provide telecommunications services in Colorado. Telecommunication services include land line and mobile telephone, cable television, and broadband communications. Sales taxes are charged on goods purchased in Colorado; use taxes are charged on goods purchased elsewhere. The bill also makes clear that a town, city, or county's sales tax exemption for telecommunications equipment must be the same as the state's sales tax exemption.

**State Revenue**

This bill reduces state General Fund revenue from sales and use taxes by an estimated **\$8.24 million in FY 2013-14 and \$10.04 million per year thereafter**, although the actual impact may vary. This estimate is based on the average amount of use taxes paid by telecommunications service providers in four recent fiscal years, adjusted for state population growth. A proxy is used because actual sales and use tax collections on equipment used by telecommunications companies to provide telecommunications services in Colorado is unknown. It should be noted, however, that this estimate may overstate the value of the bill's use tax exemption because it includes all

out-of-state equipment purchased by telecommunication service providers, including some that may remain taxable. However, it understates the value of the bill's sales tax exemption because it excludes in-state purchases that will no longer be taxable. This fiscal note assumes that the overstatement in use tax is offset by the understatement in sales tax. Because the effective date is September 1, 2013, the revenue impact in FY 2013-14 is a partial-year impact.

### **State Expenditures**

Given the potential difficulty for retailers to know whether sales of telecommunications equipment are taxable or exempt, it is assumed that companies will initially pay the tax and then submit claims for refunds to the Department of Revenue for exempt purchases. Processing these refunds will increase state General Fund expenditures by **\$54,631 in FY 2013-14** and **\$65,787 per year thereafter**. This effort will also require 1.1 FTE in FY 2013-14 and 1.5 FTE per year thereafter.

<b>Table 1. Expenditures Under HB13-1059</b>		
<b>Cost Components</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
Personal Services	\$48,271	\$64,362
FTE	1.1	1.5
Operating Expenses and Capital Outlay	\$6,360	\$1,425
<b>TOTAL</b>	<b>\$54,631</b>	<b>\$65,787</b>

The costs identified in Table 1 assume that the number of taxpayers applying for a refund under the bill is equal to the number of telecommunications companies that filed use tax returns in FY 2011-12, or 159 taxpayers. They also assume that these taxpayers will file sales tax refund claims quarterly. Sales tax refunds for manufacturing equipment, a similar exemption, take an average of 5 hours to process. Because the effective date is September 1, 2013, the expenditure impact for FY 2013-14 is a partial-year impact.

### **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.

<b>Table 2. Expenditures Not Included Under HB13-1059*</b>		
<b>Cost Components</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$4,949	\$6,745
Supplemental Employee Retirement Payments	\$3,307	\$4,988
<b>TOTAL</b>	<b>\$8,256</b>	<b>\$11,733</b>

*\*More information is available at: <http://colorado.gov/fiscalnotes>*

### **Local Government Impact**

Local governments currently have the option of creating a sales and use tax exemption for telecommunications equipment as long as it does not discriminate between telephone, cable television, or broadband communications services. The bill does not change this authority, and therefore has no impact on local government revenue.

### **State Appropriations**

This Department of Revenue requires a General Fund appropriation of \$54,631 and 1.1 FTE in FY 2013-14.

### **Departments Contacted**

Revenue      Counties      Municipalities      Property Taxation