

*Colorado Legislative Council Staff Fiscal Note*

**STATE and LOCAL  
REVISED FISCAL IMPACT**

(replaces fiscal note dated January 24, 2013)

**Drafting Number:** LLS 13-0177

**Date:** March 12, 2013

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

**Bill Status:** House Finance

**Fiscal Analyst:** Larson Silbaugh (303-866-4720)

**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	(\$1.58 Million)	(\$1.93 Million)
<b>State Expenditures</b> General Fund	\$47,348	\$57,015
<b>FTE Position Change</b>	1.0 FTE	1.3 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**

*As Amended in the House Business, Labor, Economic, & Workforce Development Committee*, this bill exempts from state sales and use taxes any equipment used by a telecommunications company to provide broadband internet services in Colorado. Sales taxes are charged on goods purchased in Colorado; use taxes are charged on goods purchased elsewhere.

**State Revenue**

As amended, this bill reduces state General Fund revenue from sales and use taxes by an estimated **\$1.58 million in FY 2013-14 and \$1.93 million per year thereafter**, although the actual impact may vary. The most recent data available from the U.S. Census Bureau reports that 19.2 percent of sales in the telecommunications sector in 2007 was from internet services. This percentage is applied to the average amount of use taxes paid by telecommunications service providers in four recent fiscal years, adjusted for state population growth. Using 19.2 percent likely understates the fiscal impact of exempting broadband internet equipment because broadband services have expanded since 2007, but that is the most recent publicly available estimate from the U.S. Census Bureau.

**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 **\$47,348 in FY 2013-14** and **\$57,015 per year thereafter**. This effort will also require 1.0 FTE in FY 2013-14 and 1.3 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	\$41,836	\$55,780
FTE	1.0	1.3
Operating Expenses and Capital Outlay	\$5,512	\$1,235
<b>TOTAL</b>	<b>\$47,348</b>	<b>\$57,015</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 133 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)	\$4,495	\$5,846
Supplemental Employee Retirement Payments	\$2,866	\$4,323
<b>TOTAL</b>	<b>\$7,361</b>	<b>\$10,169</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 there fore has no impact on local government revenue.

**State Appropriations**

This Department of Revenue requires a General Fund appropriation of \$47,348 and 1.0 FTE in FY 2013-14.

**Departments Contacted**

Revenue                      Counties                      Municipalities                      Property Taxation