

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 13-0278
Prime Sponsor(s): Rep. Moreno
 Sen. Kefalas

Date: February 11, 2013
Bill Status: House Finance
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TITLE: CONCERNING A SALES AND USE TAX HOLIDAY FOR TEXTBOOKS FOR USE AT AN INSTITUTION OF HIGHER EDUCATION.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue General Fund - reduction	(\$544,000)	(\$544,000)
State Expenditures General Fund	\$34,326	\$25,746
FTE Position Change	0.8 FTE	0.6 FTE
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2013-2014: See state appropriation summary.		
Local Government Impact: See local government impact section.		

Summary of Legislation

This bill creates a sales and use tax exemption for higher education textbooks for the next five years. In order to qualify for the exemption, new, used, or electronic textbooks must be: a) required or recommended for a course of higher education; b) purchased from the campus bookstore, and; c) purchased on the fourth Monday of August. In addition, the bill allows local governments to create a similar sales and use tax holiday.

State Revenue

This bill will reduce General Fund revenue by **\$544,000 in FY 2013-14 and \$544,000 in FY 2014-15**. The reduction in sales tax revenue is based on the following assumptions:

- **Average spent on textbooks in campus stores:** According to the National Association of College Stores, the average student spent \$449 on textbooks in campus bookstores in the 2010-11 school year. It is assumed that \$225.50, one half of the amount, is spent in the fall semester.

- **Number of higher education students:** The U.S. Census bureau reports that there were 368,903 undergraduate and graduate students in Colorado in 2011. This fiscal note assumes that the number of higher education students will increase by 0.1 percent per year, the most recent estimate available from Legislative Council Staff.
- **Timing of the start of classes:** Based on data from the Colorado Department of Higher education, about 66.6 percent of students start classes in the third week of August and 33.4 percent start classes in the fourth week of August. It is further assumed that 50 percent of students purchase textbooks on the first day of classes and 10 percent of students purchase textbooks on the second Monday of classes. Taken together, this suggests that about 23.4 percent of students will purchase textbooks on the fourth Monday in August, the day of the sales tax holiday.
- **Taxpayers do not change their behavior because of the sales tax holiday:** This revenue impact assumes that taxpayers do not change their behavior because of the higher education sales tax holiday. Oftentimes, textbooks are available online or from non-campus bookstores at a discount larger than the 2.9 percent state sales tax rate. In addition, it is assumed that any additional taxable sales made on the sales tax holiday would have been made at some point in the same fiscal year.

Using the above assumptions, there will be \$19.4 million in exempt retail sales in FY 2013-14 and FY 2014-15. Applying the state sales and use tax rate of 2.9 percent and the state vendor fee of 3.33 percent, this bill will reduce sales and use tax collections by \$544,000 in FY 2013-14 and \$544,000 in FY 2014-15.

State Expenditures

Department of Revenue. It will cost **\$34,326 General Fund and 0.8 FTE in FY 2013-14 and \$25,746 General Fund and 0.6 FTE in FY 2014-15** for the Department of Revenue to answer taxpayer's phone calls and process sales and use tax refunds. An estimated 15,000 taxpayers, less than 5 percent of college students, will call the Department of Revenue in the first year of the sales tax holiday and about 7,500 will call in following years. In addition, about 15,000 state sales and use tax refund claims for taxes paid on textbooks during the sales tax holiday will be processed each year.

Department of Higher Education. Campus bookstores will incur a minimal, but indeterminate, cost to reprogram cash registers so that state sales taxes are not charged on textbooks during the fourth Monday in August.

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 1.

Table 1. Expenditures Not Included Under HB13-1151*		
Cost Components	FY 2013-14	FY 2014-15
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$4,892	\$3,659
Supplemental Employee Retirement Payments	1,881	1,197
TOTAL	\$6,905	\$4,856

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

Local Government Impact

This bill has a conditional fiscal impact on local governments. For local jurisdictions that adopt the sales tax holiday, sales tax revenue will decline.

State Appropriations

The Department of Revenue requires a General Fund appropriation of \$34,326 and 0.8 FTE in FY 2013-14.

Departments Contacted

Revenue Higher Education Counties Municipalities