

**FINAL
FISCAL NOTE**

Drafting Number: LLS 14-0312
Prime Sponsor(s): Rep. Navarro
 Sen. Rivera

Date: September 2, 2014
Bill Status: Postponed Indefinitely
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SHORT TITLE: SALES & USE TAX HOLIDAY FIREARMS AMMO ACCESSORIES

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue	<u>(\$39,509)</u>	<u>(\$41,563)</u>
<i>Revenue Change</i>		
General Fund	(\$39,509)	(\$41,563)
State Expenditures	<u>\$4,871</u>	<u>\$4,904</u>
General Fund	\$4,134	\$4,134
Centrally Appropriated Costs**	\$737	\$770
FTE Position Change	0.1	0.1
Appropriation Required: \$4,134 - Department of Revenue (FY 2014-15)		

* This summary shows changes from current law under the bill for each fiscal year. Transfers and diversions result in no net change to state revenue. Parentheses indicate a decrease in funds.

** These costs are not included in the bill's appropriation. See the State Expenditures section for more information.

Summary of Legislation

This bill creates a sales and use "tax holiday" for firearms and firearm accessories during the first Friday and Saturday of August starting in 2014 and going through 2016. On the first Friday and Saturday of August, firearms, ammunition, and firearm accessories would be exempt from sales and use taxes if the vendor chooses to participate in the holiday.

Background

During 2013, 18 states¹ offered some form of a sales tax holiday. Most were related to back-to-school items and occurred during August. However, some states had sales tax holidays for other items, such as energy efficient appliances and hurricane preparedness supplies. In 2013, Louisiana and South Carolina both had a sales tax holiday for 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

¹ Alabama, Arkansas, Connecticut, Florida, Georgia, Iowa, Louisiana, Maryland, Massachusetts, Mississippi, Missouri, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Virginia.

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

This bill will reduce **General Fund** revenue by \$31,979 in FY 2014-15 and \$33,641 in FY 2015-16.

Assumptions. Based on recent articles, it is estimated that the firearms industry had about \$11 billion in U.S. sales in 2013. The Federal Bureau of Investigation reports that 414,838 criminal background checks were run in Colorado to purchase firearms, 2.1 percent of the total nationwide. Assuming that 2.1 percent of total firearm industry sales occurred in Colorado, this would account for \$232.9 million in annual retail sales. About \$1.3 million of firearms and firearm accessories would be expected to be sold during any two day period. Exempting this amount from sales taxes would have reduced sales tax revenue by \$35,973 in 2013. Sales and use tax revenue will decrease by \$39,509 in FY 2014-15 and \$41,563 in FY 2015-16, assuming firearm industry sales increase at the same rate as total sales and use tax revenue.

This estimate does not account for a shift in sales that may occur during a sales tax holiday or for firearms retailers that do not participate in the sales tax holiday. For this fiscal note, the increased sales of exempt items from some retailers is assumed to be offset by the fact that some retailers may choose not to participate in the sales tax holiday.

Some retailers may sell more taxable goods during the sales tax holiday, but if those sales would have occurred at another time during the fiscal year, or if that money would have been spent on other taxable purchases, then the increase in sales does not represent an increase in taxable sales activity.

State Expenditures

The Department of Revenue will require an additional \$4,134 and 0.1 FTE in FY 2014-15 and \$4,134 and 0.1 FTE in FY 2015-16.

Table 1. Expenditures Under HB 14-1097		
Cost Components	FY 2014-15	FY 2015-16
Personal Services	\$4,134	\$4,134
FTE	0.1	0.1
Centrally Appropriated Costs*	\$737	\$770
TOTAL	\$4,871	\$4,904

* Centrally appropriated costs are not included in the bill's appropriation.

Assumptions. The Department of Revenue will notify 2,611 vendors that sell firearms and firearm accessories about the sales tax holiday. In addition, it is estimated that 2,500 people will call the Department of Revenue with questions about the sales tax holiday and each call will take approximately five minutes. Other impacts can be absorbed within existing resources.

Because vendors have the option of participating in the sales tax holiday, there will not be claims for sales tax refunds. If sales taxes were collected for firearms or firearm accessories during the holiday, then they are taxable and any sales tax refunds would be denied.

Centrally appropriated costs. 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 estimated in the fiscal note for informational purposes and summarized in Table 2.

Table 2. Centrally Appropriated Costs Under HB 14-1097*		
Cost Components	FY 2014-15	FY 2015-16
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$450	\$450
Supplemental Employee Retirement Payments	\$287	\$320
TOTAL	\$737	\$770

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

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.

Effective Date

The bill was postponed indefinitely by the House Finance Committee on February 19, 2014.

State Appropriations

For FY 2014-15, the Department of Revenue requires a General Fund appropriation of \$4,134.

State and Local Government Contacts

Revenue
Municipalities

Personnel and Administration

Counties