

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 14-0569
Prime Sponsor(s): Rep. Pabon
Sen. Jahn

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Bill Status: House Finance
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SHORT TITLE: SALES & USE TAX HOLIDAY FOR BACK-TO-SCHOOL ITEMS

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue	(\$3.11 million)	(\$3.16 million)
General Fund	(\$3.11 million)	(\$3.16 million)
State Expenditures	\$154,693	\$134,491
General Fund	\$147,591	\$127,123
Centrally Appropriated Costs**	\$7,102	\$7,368
FTE Position Change	0.8	0.8
Appropriation Required: \$147,591 - 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 tax holiday" on the first weekend in August for five consecutive years, beginning in the first August after a fiscal year in which the March revenue forecast indicates that General Fund revenue exceeds \$8.5 billion. Any school supply with a sales price not exceeding \$50 and any article of clothing with a sales price not exceeding \$75 is exempt from the state sales tax during this three day holiday. Clothing includes shoes and 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. The sales tax holiday is voluntary at the local level.

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. Some states, however, had sales tax holidays for other items, such as energy efficiency appliances, hurricane preparedness supplies, firearms, ammunition, and hunting supplies.

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

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

This bill will reduce sales tax revenue by \$3.1 million in FY 2014-15 and \$3.2 million in FY 2015-16.

Assumptions. Based on the most recent Legislative Council Staff revenue forecast, the first sales tax holiday will occur in August 2014. It is estimated that Colorado taxpayers will purchase about \$110.8 million of goods that would qualify for the sales tax exemption in August 2014. This is based on the experience of other states with a similar sales tax holiday and data from the National Retail Federation's 2013 survey of back-to-school shopping. The reduction in sales tax revenue is reached by applying the state sales tax rate of 2.9 percent and allowing for the 3.33 percent vendor fee starting in FY 2014-15.

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 \$147,591 and 0.8 FTE in FY 2014-15 and \$127,123 and 0.8 FTE in FY 2015-16.

Table 1. Expenditures Under HB 14-1094		
Cost Components	FY 2014-15	FY 2015-16
Personal Services	\$111,028	\$111,028
FTE	0.8	0.8
Operating Expenses and Capital Outlay Costs	36,563	16,095
Centrally Appropriated Costs*	7,102	7,368
TOTAL	\$154,693	\$134,491

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

Assumptions. The Department of Revenue will need to communicate with taxpayers, businesses, and other entities about the sales tax holiday. This will involve sending 20,738 retailers a mailing and answering phone calls from businesses and consumers that have questions about the sales tax holiday with temporary staff. Table 1 shows the costs associated with the temporary staff in the personal services line, but they are not included as FTE. The 0.8 FTE are needed to process claims for sales tax refunds and issue refund checks.

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 14-1094*		
Cost Components	FY 2014-15	FY 2015-16
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$4,805	\$4,805
Supplemental Employee Retirement Payments	2,297	2,563
TOTAL	\$7,102	\$7,368

*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 takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2014-15, the Department of Revenue requires a General Fund appropriation of \$147,591.

State and Local Government Contacts

Revenue
Cities

Personnel and Administration
RTD

Counties