

Colorado Sales Tax Exemption Study 2002



Prepared By

Ann Dueñas

Office Of Research and Analysis
Colorado Department Of Revenue
1375 Sherman Street
Denver, CO 80261
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INTRODUCTION

Tax Expenditures

Economic conditions, social issues and political views on tax policy shape the general landscape of public finance. Tax expenditures are tools that policymakers can use to align public finance with social and economic goals. Tax expenditures are defined as “a loss of tax revenue because some item is excluded from the tax base” (Rosen 537). Tax expenditures include deductions and exclusions from tax liability, reduced tax rates, tax credits, tax deferrals, tax exemptions, and tax refunds.

Tax expenditures are also enacted by government to address market failures and to promote social equity (Stiglitz pp. 249-251). Tax expenditures can be utilized to promote parity, commerce, provide incentives for certain economic behavior, and promote social equity through income redistribution programs.

The enactment of legislation resulting in tax expenditures can prove useful for promoting certain economic outcomes. However, a resulting increase in the complexity of tax laws often results in higher administrative and compliance costs, and market distortions. Tax expenditures also reduce the tax base. As a result, governmental revenues may need to be raised from other sources and/or tax rates may need to increase in order to provide the same level of revenues to finance government services.

Sales Tax Exemptions

Sales tax exemptions are a form of tax expenditures which refer to the sale, use, storage, or consumption of a good. A sales tax is typically associated with the sale of a final product to households or businesses that will consume or use the product. Statutorily, sales tax liabilities occur when any tangible good is purchased. This implies that manufacturers who purchase goods as component parts of the product they produce should also incur a sales tax event. However, specific sales tax exemptions for manufacturers and businesses that produce intermediate and final products are often an effort to avoid double taxation, or pyramiding of taxes, onto the final consumer of a good.

Generally, the sales tax exemptions in this study conform with the definition of tax expenditures; they promote parity within an industry (e.g., investing in gold bullion and coins versus other financial investments), they promote social equity (e.g., removing the regressivity of the sales tax on food purchases and prescription drugs), and they promote certain desirable behavior (e.g., buying vehicles with lower emissions). Colorado’s various sales tax exemptions are similar to many other states. The similarities in the tax treatment of a product provide parity among businesses and individuals when conducting sales transactions with different taxing jurisdictions.

Purpose of the Study

Sales tax exemptions have been enacted throughout the state's history. Estimates of the magnitude of sales tax exemptions should incorporate methodologies and data that reflect recent changes in the economy, population, and technology. Updated estimates are helpful to policy makers for the review and analysis of fiscal policies and to examine the relevance and trends of an exemption as it relates to the current economic climate. Additionally, policy analysts from other states and entities are interested in the methodologies, measurements, and the impacts of various Colorado sales tax exemptions.

In this study, the estimate of the value of each sales tax exemption received detailed research and analysis. Estimates of sales tax exemptions were derived using various data sources such as the U.S. Bureau of the Census, the Colorado Department of Labor and Employment, the Urban Institute, Colorado Department of Revenue, industry sources, and academic studies.

This study was produced to be used as a tool by decision makers when evaluating the magnitude of enacted Colorado sales tax exemptions. This study is not meant to be used as a definitive statement or implication of the taxability of sales transactions by the Colorado Department of Revenue.

Data and Methodologies

Ideally, the measurement of sales tax exemptions is drawn from actual data points. However, the existence of actual data for many of these exemptions is rare. In order to overcome data shortcomings, this study is predominantly based on the last full U.S. Census year, 2002. Using Census data, methodologies were developed in order to produce many of the estimates contained in this study. However, some exemption estimates were derived from other valid data sources as well.

Estimates contained in this study will be revisited after the publication of each major Census year. For years in between, the value of exemptions will be updated by applying an appropriate price index. For certain exemptions where it is not appropriate to apply a price index, alternative methods will be used to develop an estimate.

Caution should be made in evaluating estimates and their direct effect on the revenue base; an elasticity response is not incorporated into each estimate. The state sales tax is currently 2.9 percent. However, because many localities adopt the state sales tax base as their basis for taxation, the relative price of a good can become more expensive if an exemption is repealed. Depending on the consumer's elasticity of demand, sales of the product may decrease if the price increases, resulting in lower sales tax collected. Interdependencies between the exempt good and other goods (complements and substitutes) are factors that also affect consumption of the exempt good and are not accounted for in this study. Therefore, an estimate of a sales tax exemption should not be

considered as an absolute magnitude. Consideration of an estimate's relative magnitude is a more appropriate approach in using these estimates.

TABLE 1: 2002 Estimates of Sales Tax Exemptions by Statute Number

Colorado Revised Statute	Colorado State Sales Tax Exemption	2002 Estimated Amount	Enacted Date
§39-26-102(10)(f)	Transfers of assets in certain types of business formation or dissolution	1/	1977
§39-26-102(15)	Newspapers	\$6,683,952	1943
§39-26-102(15)	Newspaper advertising supplements	1,348,517	1985
§39-26-102(15)	Direct mail advertising materials distributed by persons engaged solely and exclusively in providing cooperative direct mail advertising	1,378,658	1990
§39-26-102(19)	Sales of materials used in the printing process	16,165	1992
§39-26-102(20)(a)	Tangible property becoming an ingredient or component part of the product or service manufactured	395,107,964	1935
§39-26-102(20)(b)	Property for use in food manufacturing when such property becomes part of the product or is left unfit for further use	6,189,458	1982
§39-26-102(21)	Energy used for industrial, manufacturing, and similar purposes	23,926,389	1937
§39-26-102(21)	Printers ink and newsprint	2,269,011	1943
§39-26-102(21)	Nuclear fuel when deemed a wholesale sale	1/	1982
§39-26-104(1)(c)(l)	Cell phone service to customers whose primary use is outside Colorado	1/	2002
§39-26-104(1)(e)	Value of meals furnished to employees of food service establishments for free or at reduced rates and considered part of their incomes	37,222	1978
§39-26-106(3)(a)	Sales of commercial vehicles over 26,000 pounds in gross vehicle weight	2/	2000
§39-26-113(5)(a)	Sales of motor vehicles by nonresidents purchased for use by nonresidents outside Colorado	2,608,097	1977
§39-26-202(1)(c)	Sales of wireless telecommunications equipment	1,383,713	1996
§39-26-402(1)	Sales of biotechnology equipment	515,427	1999
§39-26-502(2)	Sales of pollution control equipment sold to businesses	2/	2000
§39-26-704(1)	Sales to governmental units	64,552,978	1937
§39-26-704(2)	Sales to residents of a bordering state within 20 miles of the state border if the bordering state does not have a sales tax	1/	1963
§39-26-704(3)	Lodging for permanent residents	8,014,313	1959
§39-26-704(4)	Sales to public schools	18,822,034	1969
§39-26-706(1)(a)	Cigarettes	27,002,016	1959
§39-26-706(2)(a)	Internet access service	14,213,812	1998
§39-26-706(3)	Refractory materials and carbon electrodes used in manufacturing iron and steel, and inorganic chemicals used in processing uranium-vanadium ores	3,173	1982
§39-26-706(4)	Sales of precious metal bullion and coins	249,838	1999
§39-26-707(1)(a)	Sales of food purchased with food stamps	4,797,823	1987
§39-26-707(1)(b)	Food purchased with funds from the supplemental food program for women, infants, and children (WIC)	894,047	1987
§39-26-707(1)(c) & (1)(d)	Sales of any article, container, or bag to a retailer or vendor of food if provided to the consumer without a separate charge	1,734,960	1978
§39-26-707(1)(e)	Sales of food for domestic home consumption	202,692,687	1979

Colorado Revised Statute	Colorado State Sales Tax Exemption	2002 Estimated Amount	Enacted Date
§39-26-708(1)	Sales of construction and building materials for use by contractors on public works projects, tax-exempt organizations (charitable organizations) and public schools	\$62,448,547	1979
§39-26-709(1)	Purchases of machinery or machine tools used in manufacturing process	75,415,979	1979
§39-26-710(1)(a)	Sales of construction materials to a common carrier by rail	802,763	1977
§39-26-710(1)(b) & (1)(c)	Sales of railroad capital equipment (combined with §39-26-710(1)(a))	3/	1992
§39-26-711(1)(a)	Sales of aircraft used or purchased for use in interstate commerce by commercial airlines	9,048,000	1984
§39-26-711(1)(b)	Sales of aircraft component parts	634,520	1991
§39-26-712(1)(a) & (1)(b)	New and used commercial trucks and trailers purchased in Colorado for use outside Colorado or in interstate commerce and permanently licensed and registered outside this state	3,941,704	1976
§39-26-713(1)(a)	Leases of personal property for three years or less if tax is paid upon original acquisition	1/	1977
§39-26-713(1)(b)	Property transferred by a supplier to out-of-state vendors for use in selling products at wholesale by the supplier	33,019	1978
§39-26-713(1)(c)	The sale of tangible personal property for testing, modification, inspection, or similar type of activities in the state if the ultimate use of the property in manufacturing or similar type of activities occurs outside of this state and if the test, modification, or inspection period does not exceed ninety days	1/	1977
§39-26-713(1)(d)	Sales and purchases of personal property used as a component part of manufactured goods donated to tax-exempt organizations	333,264	1998
§39-26-714(1)	Sales of personal property through vending machines of 15 cents or less	1/	1986
§39-26-714(2)	Sale of food through vending machines	7,037,824	1999
§39-26-715(1)(a)(I)	Gasoline and special fuel	97,014,323	1935
§39-26-715(1)(a)(II)	Sales of fuel for residential heat, light, and power	56,655,757	1979
§39-26-716(2)(a)	Special fuel for farm vehicles	1,581,928	1977
§39-26-716(2)(b) & (3)(b)	Sales of farm equipment	4,369,129	1999
§39-26-716(2)(b) & (3)(b)	Sales of farm parts used in the repair or maintenance of farm equipment (combined with §39-26-716(2)(b) & (3)(b), sales of farm equipment)	3/	2000
§39-26-716(2)(b) & (3)(b)	Sales of dairy equipment	39,835	2001
§39-26-716(2)(d) & (3)(d)	Sales of agricultural compounds & bull semen	2,741,602	1999
§39-26-716(2)(e) & (3)(e)	Sales of pesticides	1,658,754	1999
§39-26-716(3)(a) & (4)(a)	Sales and purchases of neat cattle, sheep, lambs, poultry, swine, goats, and horse breeding stock	48,221,113	1943
§39-26-716(4)(a)	Farm auction close-out sales	2,870,297	1945
§39-26-716(4)(a)	Sales of live fish for stocking	52,448	1970
§39-26-716(4)(b)	Sales of feed for livestock, seeds, and orchard trees	28,423,451	1943
§39-26-716(4)(c)	Sales of straw for livestock bedding	52,600	1961
§39-26-716(4)(c)	Sales of straw for poultry bedding (combined with §39-26-716(4)(c) , sales of straw for livestock bedding)	3/	1979

**Colorado
Revised
Statute**

Colorado State Sales Tax Exemption

**2002
Estimated
Amount**

**Enacted
Date**

§39-26-717(1)(a)	Sales of prescription drugs	\$48,243,441	1965
§39-26-717(1)(a)	Sales of insulin	447,559	1977
§39-26-717(1)(a)	Sales of glucose for treatment of insulin reactions and insulin measuring and injecting devices	1,837,832	1979
§39-26-717(1)(b) & (1)(c)	Certain medical supplies and equipment; eyeglasses, contacts, and hearing aids; therapeutic devices, appliances or related accessories	6,939,648	1980
§39-26-718(1)(a)	Sales to charitable organizations	32,300,102	1937
§39-26-718(1)(a)	Special events sales by veterans' organizations	1,881,868	1999
§39-26-718(1)(b)	Occasional sales by charitable organizations (combined with §39-26-718(1)(a), special events sales by veterans organizations)	3/	1995
§39-26-719(1)	Sales of low-emitting vehicles	< \$500, 4/	1999
§39-26-720(1)	Sales of bingo and raffle equipment	218,740	2001
§39-26-721(1)	Forty-eight percent of purchase price of factory-built housing	3,769,088	1979
Total 2002 Value of Sales Tax Exemptions		\$1,283,457,388	

1/ Not Available

2/ Only available as a refund of sales tax paid if state excess revenues under Article X, Section 20 of the State Constitution exceed threshold levels.

3/ Amount combined with other exemption

4/ Non-Disclosable

TABLE 2: 2002 Estimate of Sales Tax Exemptions by Date Enacted

Colorado Revised Statute	Colorado State Sales Tax Exemption	2002 Estimated Amount	Enacted Date
§39-26-102(20)(a)	Tangible property becoming an ingredient or component part of the product or service manufactured	\$395,107,964	1935
§39-26-715(1)(a)(l)	Gasoline and special fuel	97,014,323	1935
§39-26-102(21)	Energy used for industrial, manufacturing, and similar purposes	23,926,389	1937
§39-26-704(1)	Sales to governmental units	64,552,978	1937
§39-26-718(1)(a)	Sales to charitable organizations	32,300,102	1937
§39-26-102(15)	Newspapers	6,683,952	1943
§39-26-102(21)	Printers ink and newsprint	2,269,011	1943
§39-26-716(3)(a) & (4)(a)	Sales and purchases of neat cattle, sheep, lambs, poultry, swine, goats, and horse breeding stock	48,221,113	1943
§39-26-716(4)(b)	Sales of feed for livestock, seeds, and orchard trees	28,423,451	1943
§39-26-716(4)(a)	Farm auction close-out sales	2,870,297	1945
§39-26-704(3)	Lodging for permanent residents	8,014,313	1959
§39-26-706(1)(a)	Cigarettes	27,002,016	1959
§39-26-716(4)(c)	Sales of straw for livestock bedding	52,600	1961
§39-26-704(2)	Sales to residents of a bordering state within 20 miles of the state border if the bordering state does not have a sales tax	1/	1963
§39-26-717(1)(a)	Sales of prescription drugs	48,243,441	1965
§39-26-704(4)	Sales to public schools	18,822,034	1969
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§39-26-712(1)(a) & (1)(b)	New and used commercial trucks and trailers purchased in Colorado for use outside Colorado or in interstate commerce and permanently licensed and registered outside this state	3,941,704	1976
§39-26-102(10)(f)	Transfers of assets in certain types of business formation or dissolution	1/	1977
§39-26-113(5)(a)	Sales of motor vehicles by nonresidents purchased for use by nonresidents outside Colorado	2,608,097	1977
§39-26-710(1)(a)	Sales of construction materials to a common carrier by rail	802,763	1977
§39-26-713(1)(a)	Leases of personal property for three years or less if tax is paid upon original acquisition	1/	1977
§39-26-713(1)(c)	The sale of tangible personal property for testing, modification, inspection, or similar type of activities in the state if the ultimate use of the property in manufacturing or similar type of activities occurs outside of this state and if the test, modification, or inspection period does not exceed ninety days	1/	1977
§39-26-716(2)(a)	Special fuel for farm vehicles	1,581,928	1977
§39-26-717(1)(a)	Sales of insulin	447,559	1977
§39-26-104(1)(e)	Value of meals furnished to employees of food service establishments for free or at reduced rates and considered part of their incomes	37,222	1978
§39-26-707(1)(c) & (1)(d)	Sales of any article, container, or bag to a retailer or vendor of food if provided to the consumer without a separate charge	1,734,960	1978
§39-26-713(1)(b)	Property transferred by a supplier to out-of-state vendors for use in selling products at wholesale by the supplier	33,019	1978

Colorado Revised Statute	Colorado State Sales Tax Exemption	2002 Estimated Amount	Enacted Date
§39-26-707(1)(e)	Sales of food for domestic home consumption	\$202,692,687	1979
§39-26-708(1)	Sales of construction and building materials for use by contractors on public works projects, tax-exempt organizations (charitable organizations) and public schools	62,448,547	1979
§39-26-709(1)	Purchases of machinery or machine tools used in manufacturing process	75,415,979	1979
§39-26-715(1)(a)(II)	Sales of fuel for residential heat, light, and power	56,655,757	1979
§39-26-716(4)(c)	Sales of straw for poultry bedding (combined with §39-26-716(4)(c) , sales of straw for livestock bedding)	2/	1979
§39-26-717(1)(a)	Sales of glucose for treatment of insulin reactions and insulin measuring and injecting devices	1,837,832	1979
§39-26-721(1)	Forty-eight percent of purchase price of factory-built housing	3,769,088	1979
§39-26-717(1)(b) & (1)(c)	Certain medical supplies and equipment; eyeglasses, contacts, and hearing aids; therapeutic devices, appliances or related accessories	6,939,648	1980
§39-26-102(20)(b)	Property for use in food manufacturing when such property becomes part of the product or is left unfit for further use	6,189,458	1982
§39-26-102(21)	Nuclear fuel when deemed a wholesale sale	1/	1982
§39-26-706(3)	Refractory materials and carbon electrodes used in manufacturing iron and steel, and inorganic chemicals used in processing uranium-vanadium ores	3,173	1982
§39-26-711(1)(a)	Sales of aircraft used or purchased for use in interstate commerce by commercial airlines	9,048,000	1984
§39-26-102(15)	Newspaper advertising supplements	1,348,517	1985
§39-26-714(1)	Sales of personal property through vending machines of 15 cents or less	1/	1986
§39-26-707(1)(a)	Sales of food purchased with food stamps	4,797,823	1987
§39-26-707(1)(b)	Food purchased with funds from the supplemental food program for women, infants, and children (WIC)	894,047	1987
§39-26-102(15)	Direct mail advertising materials distributed by persons engaged solely and exclusively in providing cooperative direct mail advertising	1,378,658	1990
§39-26-711(1)(b)	Sales of aircraft component parts	634,520	1991
§39-26-102(19)	Sales of materials used in the printing process	16,165	1992
§39-26-710(1)(b) & (1)(c)	Sales of railroad capital equipment (combined with §39-26-710(1)(a))	2/	1992
§39-26-718(1)(b)	Occasional sales by charitable organizations (combined with §39-26-718(1)(a), special events sales by veterans organizations)	2/	1995
§39-26-202(1)(c)	Sales of wireless telecommunications equipment	1,383,713	1996
§39-26-706(2)(a)	Internet access service	14,213,812	1998
§39-26-713(1)(d)	Sales and purchases of personal property used as a component part of manufactured goods donated to tax-exempt organizations	333,264	1998
§39-26-402(1)	Sales of biotechnology equipment	515,427	1999
§39-26-706(4)	Sales of precious metal bullion and coins	249,838	1999
§39-26-714(2)	Sale of food through vending machines	7,037,824	1999
§39-26-716(2)(b) & (3)(b)	Sales of farm equipment	4,369,129	1999
§39-26-716(2)(d) & (3)(d)	Sales of agricultural compounds & bull semen	2,741,602	1999

**Colorado
Revised
Statute**

Colorado State Sales Tax Exemption

**2002
Estimated
Amount** **Enacted
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§39-26-716(2)(e) & (3)(e)	Sales of pesticides	\$1,658,754	1999
§39-26-718(1)(a)	Special events sales by veterans' organizations	1,881,868	1999
§39-26-719(1)	Sales of low-emitting vehicles	<\$500, 3/	1999
§39-26-106(3)(a)	Sales of commercial vehicles over 26,000 pounds in gross vehicle weight	4/	2000
§39-26-502(2)	Sales of pollution control equipment sold to businesses	4/	2000
§39-26-716(2)(b) & (3)(b)	Sales of farm parts used in the repair or maintenance of farm equipment (combined with §39-26-716(2)(b) & (3)(b), sales of farm equipment)	2/	2000
§39-26-716(2)(b) & (3)(b)	Sales of dairy equipment	39,835	2001
§39-26-720(1)	Sales of bingo and raffle equipment	218,740	2001
§39-26-104(1)(c)(I)	Cell phone service to customers whose primary use is outside Colorado	1/	2002

Total 2002 Value of Sales Tax Exemptions **\$1,283,457,388**

1/ Not Available

2/ Amount combined with other exemption

3/ Non-Disclosable

4/ Only available as a refund of sales tax paid if state excess revenues under Article X, Section 20 of the State Constitution exceed threshold levels.

TABLE 3: 2002 Estimate of Sales Tax Exemptions by Ascending Value

Colorado Revised Statute	Colorado State Sales Tax Exemption	2002 Estimated Amount	Enacted Date
§39-26-716(4)(c)	Sales of straw for poultry bedding (combined with §39-26-716(4)(c) , sales of straw for livestock bedding)	1/	1979
§39-26-710(1)(b) & (1)(c)	Sales of railroad capital equipment (combined with §39-26-710(1)(a))	1/	1992
§39-26-718(1)(b)	Occasional sales by charitable organizations (combined with §39-26-718(1)(a), special events sales by veterans organizations)	1/	1995
§39-26-716(2)(b) & (3)(b)	Sales of farm parts used in the repair or maintenance of farm equipment (combined with §39-26-716(2)(b) & (3)(b), sales of farm equipment)	1/	2000
§39-26-704(2)	Sales to residents of a bordering state within 20 miles of the state border if the bordering state does not have a sales tax	2/	1963
§39-26-102(10)(f)	Transfers of assets in certain types of business formation or dissolution	2/	1977
§39-26-713(1)(a)	Leases of personal property for three years or less if tax is paid upon original acquisition	2/	1977
§39-26-102(21)	Nuclear fuel when deemed a wholesale sale	2/	1982
§39-26-714(1)	Sales of personal property through vending machines of 15 cents or less	2/	1986
§39-26-104(1)(c)(l)	Cell phone service to customers whose primary use is outside Colorado	2/	2002
§39-26-713(1)(c)	The sale of tangible personal property for testing, modification, inspection, or similar type of activities in the state if the ultimate use of the property in manufacturing or similar type of activities occurs outside of this state and if the test, modification, or inspection period does not exceed ninety days	2/	1977
§39-26-719(1)	Sales of low-emitting vehicles	< \$500, 3/	1999
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§39-26-502(2)	Sales of pollution control equipment sold to businesses	4/	2000
§39-26-706(3)	Refractory materials and carbon electrodes used in manufacturing iron and steel, and inorganic chemicals used in processing uranium-vanadium ores	3,173	1982
§39-26-102(19)	Sales of materials used in the printing process	16,165	1992
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§39-26-716(4)(c)	Sales of straw for livestock bedding	52,600	1961
§39-26-720(1)	Sales of bingo and raffle equipment	218,740	2001
§39-26-706(4)	Sales of precious metal bullion and coins	249,838	1999
§39-26-713(1)(d)	Sales and purchases of personal property used as a component part of manufactured goods donated to tax-exempt organizations	333,264	1998
§39-26-717(1)(a)	Sales of insulin	447,559	1977

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§39-26-710(1)(a)	Sales of construction materials to a common carrier by rail	802,763	1977
§39-26-707(1)(b)	Food purchased with funds from the supplemental food program for women, infants, and children (WIC)	894,047	1987
§39-26-102(15)	Newspaper advertising supplements	1,348,517	1985
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§39-26-716(2)(b) & (3)(b) & (3)(b)	Sales of farm equipment	4,369,129	1999
§39-26-707(1)(a)	Sales of food purchased with food stamps	4,797,823	1987
§39-26-102(20)(b)	Property for use in food manufacturing when such property becomes part of the product or is left unfit for further use	6,189,458	1982
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§39-26-717(1)(b) & (1)(c)	Certain medical supplies and equipment; eyeglasses, contacts, and hearing aids; therapeutic devices, appliances or related accessories	6,939,648	1980
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§39-26-711(1)(a)	Sales of aircraft used or purchased for use in interstate commerce by commercial airlines	9,048,000	1984
§39-26-706(2)(a)	Internet access service	14,213,812	1998
§39-26-704(4)	Sales to public schools	18,822,034	1969
§39-26-102(21)	Energy used for industrial, manufacturing, and similar purposes	23,926,389	1937
§39-26-706(1)(a)	Cigarettes	27,002,016	1959
§39-26-716(4)(b)	Sales of feed for livestock, seeds, and orchard trees	28,423,451	1943
§39-26-718(1)(a)	Sales to charitable organizations	32,300,102	1937

**Colorado
Revised
Statute**

Colorado State Sales Tax Exemption

**2002
Estimated
Amount** **Enacted
Date**

§39-26-716(3)(a) & (4)(a)	Sales and purchases of neat cattle, sheep, lambs, poultry, swine, goats, and horse breeding stock	\$48,221,113	1943
§39-26-717(1)(a)	Sales of prescription drugs	48,243,441	1965
§39-26-715(1)(a)(II)	Sales of fuel for residential heat, light, and power	56,655,757	1979
§39-26-708(1)	Sales of construction and building materials for use by contractors on public works projects, tax-exempt organizations (charitable organizations) and public schools	62,448,547	1979
§39-26-704(1)	Sales to governmental units	64,552,978	1937
§39-26-709(1)	Purchases of machinery or machine tools used in manufacturing process	75,415,979	1979
§39-26-715(1)(a)(I)	Gasoline and special fuel	97,014,323	1935
§39-26-707(1)(e)	Sales of food for domestic home consumption	202,692,687	1979
§39-26-102(20)(a)	Tangible property becoming an ingredient or component part of the product or service manufactured	395,107,964	1935
Total 2002 Value of Sales Tax Exemptions		\$1,283,457,388	

1/ Amount combined with other exemption

2/ Not Available

3/ Non-Disclosable

4/ Only available as a refund of sales tax paid if state excess revenues under Article X, Section 20 of the State Constitution exceed threshold levels.

**DETAIL ON SALES TAX EXEMPTIONS BY COLORADO
REVISED STATUTE NUMBER**

§39-26-102(10)(f)

Transfers of assets in certain types of business formation or dissolution

Enacted 1977

2002 Estimated Value of Sales Tax Exemption: N/A

This exemption addresses the transfer of assets from certain types of corporations in exchange for stock or securities. Sufficient data is unavailable to arrive at a reasonable estimate.

§39-26-102(15)

Newspapers

Enacted 1943

2002 Estimated Value of Sales Tax Exemption: \$6,683,952

This statute exempts the sale of newspapers.

§39-26-102(15)

Newspaper advertising supplements

Enacted 1985

2002 Estimated Value of Sales Tax Exemption: \$1,348,517

This statute exempts the sale of newspaper advertising supplements.

§39-26-102(15)

Direct mail advertising materials

Enacted 1990

2002 Estimated Value of Sales Tax Exemption: \$1,378,658

This statute exempts direct mail advertising materials distributed by persons engaged solely and exclusively in providing cooperative direct mail advertising.

§39-26-102(19)
Sales of materials used in certain printing processes
Enacted 1992

2002 Estimated Value of Sales Tax Exemption: \$16,165

This statute exempts materials used in the printing process that are unique enough where they cannot be reused for another order as they are customized to the print job requirements for one particular customer order.

§39-26-102(20)(a)
Tangible property becoming an ingredient or component part of the product or service manufactured
Enacted 1935

2002 Estimated Value of Sales Tax Exemption: \$395,107,964

This statute exempts tangible property that becomes an ingredient or component part of the final product or service manufactured from sales tax.

§39-26-102(20)(b)
Property for use in food manufacturing when such property becomes part of the product or is left unfit for further use
Enacted 1982

2002 Estimated Value of Sales Tax Exemption: \$6,189,458

In food manufacturing, certain processes occur which require materials to be consumed that do not become a final component part of the manufactured good and are unfit for further use. Along with the property which becomes part of the food product, those goods that are unfit for further use and are not a part of the final product manufactured are exempt from sales tax.

§39-26-102(21)
Energy used for industrial, manufacturing, and similar purposes
Enacted 1937

2002 Estimated Value of Sales Tax Exemption: \$23,926,389

This statute exempts the sales and purchases of energy derived from specific sources for use in processing; manufacturing; mining; refining; irrigation; construction; street and rail transportation; telephone and telegraph; radio and television broadcasting; and industrial uses.

§39-26-102(21)
Printer's ink and newsprint
Enacted 1943

2002 Estimated Value of Sales Tax Exemption: \$2,269,011

This statute exempts the sale of printer's ink and newsprint used by publishers of newspapers and commercial printers.

§39-26-102(21)
Nuclear fuel when deemed a wholesale sale
Enacted 1982

2002 Estimated Value of Sales Tax Exemption: N/A

This statute exempts nuclear fuel when deemed to be a wholesale sale. Colorado's only nuclear plant, the Fort St. Vrain Power Station, closed in 1989.

§39-26-104(1)(c)(I)
Cell phone service to customers whose primary use is outside Colorado
Enacted 2002

2002 Estimated Value of Sales Tax Exemption: N/A

This statute was enacted to comply with the "Mobile Telecommunications Sourcing Act", 4 U.S.C. secs. 116 to 126. The provisions are intended to simplify how cell phone service is taxed by having customers designate a billing address for their service. Cell phone service is billed according to the tax laws at the billing address. In summary, only those who have cell phone service billed to a Colorado address are subject to the Colorado state sales tax. Otherwise, they are exempt from paying the Colorado sales tax.

§39-26-104(1)(e)
Value of meals furnished to employees of food service establishments free or at reduced rates and considered part of their income
Enacted 1978

2002 Estimated Value of Sales Tax Exemption: \$37,222

This statute exempts the value of free or reduced rate meals given to employees in food service establishments when considered part of their income.

§39-26-106(3)(a)

**Sales of commercial vehicles over 26,000 pounds in gross vehicle weight
Enacted 2000**

2002 Estimated Value of Sales Tax Exemption: N/A

If the state collects a threshold level of surplus revenues under Article X, Section 20 of the State Constitution (TABOR), a sales tax exemption is granted for the sales of commercial vehicles over 26,000 pounds in gross vehicle weight. Because there was no TABOR surplus in 2002, no sales tax exemption was granted.

§39-26-113(5)(a)

**Sales of motor vehicles by nonresidents purchased for use by nonresidents outside
Colorado
Enacted 1977**

2002 Estimated Value of Sales Tax Exemption: \$2,608,097

This statute exempts the sales of new or used automobiles for use outside Colorado by nonresident purchasers.

§39-26-202(1)(c)

**Sales of wireless telecommunications equipment
Enacted 1996**

2002 Estimated Value of Sales Tax Exemption: \$1,383,713

This statute exempts the sales of wireless equipment used as an inducement to enter into or continue a contract for taxable telecommunication services.

§39-26-402(1)

**Sales of biotechnology equipment
Enacted 1999**

2002 Estimated Value of Sales Tax Exemption: \$515,427

This statute provides a sales tax exemption for the sales of tangible personal property that is to be used in Colorado directly and predominantly in research and development of biotechnology during the calendar year.

§39-26-502(2)

Sales of pollution control equipment sold to businesses

Enacted 2000

2002 Estimated Value of Sales Tax Exemption: N/A

If the state collects a threshold level of surplus revenues under Article X, Section 20 of the State Constitution (TABOR), a sales tax exemption is granted for the sales of pollution control equipment sold to businesses. Because there was no TABOR surplus in 2002, no sales tax exemption was granted.

§39-26-704(1)

Sales to governmental units

Enacted 1937

2002 Estimated Value of Sales Tax Exemption: \$64,552,978

This statute exempts sales to the United States government and the state of Colorado, its departments and institutions, and political subdivisions.

§39-26-704(2)

Sales to residents of a bordering state within twenty miles of the state border if the bordering state does not have a sales tax

Enacted 1963

2002 Estimated Value of Sales Tax Exemption: N/A

This exemption prohibits a Colorado sales tax on retail sales within a distance of twenty miles within the boundaries of this state to persons resident, excluding corporations, of adjoining states, which adjoining states do not impose or levy a retail sales tax on such sales, if the residents of the adjoining states are in the same state for the express purpose of making purchases and not as tourists. For 2002, all states contiguous to Colorado impose retail sales taxes, and thus this exemption is not applicable.

§39-26-704(3)

Lodging for permanent residents

Enacted 1959

2002 Estimated Value of Sales Tax Exemption: \$8,014,313

This statute exempts the sales of lodging fees for those who stay in lodging more than thirty consecutive days.

§39-26-704(4)
Sales to public schools
Enacted 1969

2002 Estimated Value of Sales Tax Exemption: \$18,822,034

This statute exempts all sales made to schools, other than schools held or conducted for private or corporate profit.

§39-26-706(1)(a)
Cigarettes
Enacted 1959

2002 Estimated Value of Sales Tax Exemption: \$27,002,016

This statute exempts sales of all cigarettes.

§39-26-706(2)(a)
Internet access service
Enacted 1998

2002 Estimated Value of Sales Tax Exemption: \$14,213,812

This statute exempts sales of internet access service but does not include that portion of packaged or bundled services providing phone or television cable services when the package or bundle includes the sale of internet access services.

§39-26-706(3)
**Refractory materials and carbon electrodes used in manufacturing iron and steel,
and inorganic chemicals used in processing uranium-vanadium ores**
Enacted 1982

2002 Estimated Value of Sales Tax Exemption: \$3,173

This statute exempts the sales and purchases of refractory materials and carbon electrodes used by a person manufacturing iron and steel for sale or profit and all sales and purchases of inorganic chemicals used in the processing of vanadium-uranium ores.

§39-26-706(4)
Sales of precious metal bullion and coins
Enacted 1999

2002 Estimated Value of Sales Tax Exemption: \$249,838

This statute exempts all sales of precious metal bullion and coins, as defined in C.R.S. §39-26-102(2.6) and (6.5)

§39-26-707(1)(a)
Sales of food purchased with food stamps
Enacted 1987

2002 Estimated Value of Sales Tax Exemption: \$4,797,823

This statute exempts all sales of food purchased with food stamps. “Food” has the same definition as 7 U.S.C. section 2012 (g), as it exists on October 1, 1987, or is thereafter amended.

§39-26-707(1)(b)
Food purchased with funds from the supplemental food program for women, infants, and children (WIC)
Enacted 1987

2002 Estimated Value of Sales Tax Exemption: \$894,047

This statute exempts all sales of food purchased with funds provided by the special supplemental food program for women, infants, and children (WIC), as provided for in 42 U.S.C. sec. 1786. “Food” has the same definition as 7 U.S.C. section 2012 (g), as it exists on October 1, 1987, or is thereafter amended.

§39-26-707(1)(c) & (1)(d)
Sales of any article, container, or bag to a retailer or vendor of food if provided to the consumer without a separate charge
Enacted 1978

2002 Estimated Value of Sales Tax Exemption: \$1,734,960

These statutes exempt any sale of any article, container, or bag to a retailer or vendor of food if the article, container, or bag is given to the consumer with no additional charge.

§39-26-707(1)(e)
Sales of food for domestic home consumption
Enacted 1979

2002 Estimated Value of Sales Tax Exemption: \$202,692,687

This statute exempts the sale of food for domestic home consumption.

§39-26-708(1)
Sales of construction and building materials for use by contractors on public works projects, tax-exempt organizations (charitable organizations) and public schools
Enacted 1979

2002 Estimated Value of Sales Tax Exemption: \$62,448,547

This statute exempts the sales of construction and building materials to contractors and subcontractors for use in the building, erection, alteration, or repair of structures, highways, roads, streets, and other public works owned and used by the United States government, the state of Colorado, its departments and institutions, political subdivisions, charitable organizations, and public schools.

§39-26-709(1)
Purchases of machinery or machine tools used in manufacturing process
Enacted 1979

2002 Estimated Value of Sales Tax Exemption: \$75,415,979

This statute exempts the sales of machinery and machine tools used in the manufacturing process. The statute is specific in its definition of “machinery”, “manufacturing” and “direct use”.

§39-26-710(1)(a)
Sales of construction materials to a common carrier by rail
Enacted 1977

2002 Estimated Value of Sales Tax Exemption: \$802,763

This statute exempts the sales of construction and building materials to a common carrier by rail operating in interstate or foreign commerce for use by the common carrier in construction and maintenance of its railroad tracks. This estimate is combined with §39-26-710(1)(b) & (1)(c), Sales of railroad capital equipment.

§39-26-710(1)(b) & (1)(c)
Sales of railroad capital equipment
Enacted 1992

2002 Estimated Value of Sales Tax Exemption: combined with §39-26-710(1)(a)

These statutes exempt the sales of tangible personal property that is to be affixed or attached as a component part of a locomotive, freight car, railroad work equipment, or other railroad rolling stock, or the sale of locomotives, freight cars, railroad work equipment, and other railroad rolling stock used or purchased for use in interstate commerce by a railroad company.

§39-26-711(1)(a)
Sales of aircraft used or purchased for use in interstate commerce by commercial airlines
Enacted 1984

2002 Estimated Value of Sales Tax Exemption: \$9,048,000

This statute exempts the sales of aircraft purchased by commercial airlines who have regularly scheduled flights.

§39-26-711(1)(b)
Sales of aircraft component parts
Enacted 1991

2002 Estimated Value of Sales Tax Exemption: \$634,520

This statute exempts the sale of tangible personal property that is to be permanently affixed or attached as a component part of an aircraft.

§39-26-712(1)(a) & (1)(b)
New and used commercial trucks and trailers purchased in Colorado for use outside Colorado or in interstate commerce and permanently licensed and registered outside this state
Enacted 1976

2002 Estimated Value of Sales Tax Exemption: \$3,941,704

These statutes exempt new and used trucks and trailers that are purchased for interstate commerce or use outside of the state that will be permanently licensed and registered outside the state of Colorado.

§39-26-713(1)(a)

Leases of personal property for three years or less if tax is paid upon original acquisition

Enacted 1977

2002 Estimated Value of Sales Tax Exemption: N/A

This statute is not an exemption but specifies the timing of taxation. The tax takes place either upon acquisition of the asset or throughout the lifetime use of the asset.

§39-26-713(1)(b)

Property transferred by a supplier to out-of-state vendors for use in selling products at wholesale by the supplier

Enacted 1978

2002 Estimated Value of Sales Tax Exemption: \$33,019

This statute exempts the transfer of tangible personal property when used for the purchase, sale, or promotion of the transferor's product, to an out-of-state vendee for use outside the state in selling products normally sold at wholesale by the transferor.

§39-26-713(1)(c)

The sale of tangible personal property for testing, modification, inspection, or similar type of activities in the state if the ultimate use of the property in manufacturing or similar type of activities occurs outside of this state and if the test, modification, or inspection period does not exceed ninety days.

Enacted 1977

2002 Estimated Value of Sales Tax Exemption: N/A

Sufficient data are not available to arrive at a reasonable estimate.

§39-26-713(1)(d)

Sales and purchases of personal property used as a component part of manufactured goods donated to tax-exempt organizations

Enacted 1998

2002 Estimated Value of Sales Tax Exemption: \$333,264

This exemption exempts the value of a manufactured good donated directly from the manufacturer to a tax-exempt organization.

§39-26-714(1)
Sales of personal property through vending machines of 15 cents or less
Enacted 1986

2002 Estimated Value of Sales Tax Exemption: N/A

This statute exempts the sales of vending machine items less than fifteen cents. Industry data shows that there are generally no items sold for less than fifteen cents for 2002.

§39-26-714(2)
Sale of food through vending machines
Enacted 1999

2002 Estimated Value of Sales Tax Exemption: \$7,037,824

This statute exempts the sales of food through vending machines.

§39-26-715(1)(a)(I)
Gasoline and special fuel
Enacted 1935

2002 Estimated Value of Sales Tax Exemption: \$97,014,323

This statute exempts the sale of gasoline and special fuel.

§39-26-715(1)(a)(II)
Sales of fuel for residential heat, light, and power
Enacted 1979

2002 Estimated Value of Sales Tax Exemption: \$56,655,757

This statute exempts fuel used for residential heat, light, and power.

§39-26-716(2)(a)
Special fuel for farm vehicles
Enacted 1977

2002 Estimated Value of Sales Tax Exemption: \$1,581,928

This statute exempts special fuel for farm vehicles when such vehicles are being used on farms and ranches.

§39-26-716(2)(b) & (3)(b)
Sales of farm equipment
Enacted 1999

2002 Estimated Value of Sales Tax Exemption: \$4,369,129

This statute exempts the sales of farm equipment. This estimate contains farm parts used in the repair or maintenance of farm equipment.

§39-26-716(2)(b) & (3)(b)
Sales of farm parts used in the repair or maintenance of farm equipment
Enacted 2000

2002 Estimated Value of Sales Tax Exemption: combined with §39-26-716(2)(b) & (3)(b), sales of farm equipment

This statute exempts the sales of parts used in the repair and maintenance of farm equipment.

§39-26-716(2)(b) & (3)(b)
Sales of dairy equipment
Enacted 2001

2002 Estimated Value of Sales Tax Exemption: \$39,835

This statute exempts the sales of dairy equipment.

§39-26-716(2)(d) & (3)(d)
Sales of agricultural compounds & bull semen
Enacted 1999

2002 Estimated Value of Sales Tax Exemption: \$2,741,602

This statute exempts the sales of agriculture compounds that are consumed by, administered to, or used while caring for livestock and all sales and purchases of semen for agricultural or ranching purposes.

§39-26-716(2)(e) & (3)(e)
Sales of pesticides
Enacted 1999

2002 Estimated Value of Sales Tax Exemption: \$1,658,754

This statute exempts the sales of pesticides that are registered by the commissioner of agriculture for use in the production of agricultural and livestock products and offered for sale by dealers licensed to sell such pesticides.

§39-26-716(3)(a) & (4)(a)

**Sales of neat cattle, sheep, lambs, poultry, swine, goats, and horse breeding stock
Enacted 1943**

2002 Estimated Value of Sales Tax Exemption: \$48,221,113

This statute provides an exemption for the sales of livestock.

§39-26-716(4)(a)

**Farm auction close-out sales
Enacted 1945**

2002 Estimated Value of Sales Tax Exemption: \$2,870,297

This statute provides an exemption for goods sold at farm close-out sales.

§39-26-716(4)(a)

**Sales of live fish for stocking
Enacted 1970**

2002 Estimated Value of Sales Tax Exemption: \$52,448

This statute provides an exemption for live fish purchases used for stocking.

§39-26-716(4)(b)

**Sales of feed for livestock, seeds, and orchard trees
Enacted 1943**

2002 Estimated Value of Sales Tax Exemption: \$28,423,451

This statute exempts the sale of feed for livestock, seeds, and orchard trees.

§39-26-716(4)(c)

**Sales of straw for livestock bedding
Enacted 1961**

2002 Estimated Value of Sales Tax Exemption: \$52,600

This statute exempts the sale of straw for livestock bedding. This estimate includes the value of the exemption for straw used in poultry bedding, §39-26-716(4)(c).

§39-26-716(4)(c)
Sales of straw for poultry bedding
Enacted 1979

2002 Estimated Value of Sales Tax Exemption: combined with §39-26-716(4)(c) , sales of straw for livestock bedding

This statute exempts straw bedding for poultry.

§39-26-717(1)(a)
Sales of prescription drugs
Enacted 1965

2002 Estimated Value of Sales Tax Exemption: \$48,243,441

This statute exempts the sale of prescription drugs.

§39-26-717(1)(a)
Sales of insulin
Enacted 1977

2002 Estimated Value of Sales Tax Exemption: \$447,559

This statute exempts the sale of insulin.

§39-26-717(1)(a)
Sales of glucose for treatment of insulin reactions and insulin measuring and injecting devices
Enacted 1979

2002 Estimated Value of Sales Tax Exemption: \$1,837,832

This statute exempts various items needed by diabetics, other than insulin, from sales tax.

§39-26-717(1)(b) & (1)(c)
Certain medical supplies and equipment; eyeglasses, contacts, and hearing aids;
therapeutic devices, appliances or related accessories
Enacted 1980

2002 Estimated Value of Sales Tax Exemption: \$6,939,648

This statute exempts various medical equipment, devices, and accessories as defined in detail in the statute.

§39-26-718(1)(a)
Sales to charitable organizations
Enacted 1937

2002 Estimated Value of Sales Tax Exemption: \$32,300,102

This statute exempts sales to charitable organizations.

§39-26-718(1)(a)
Special event sales by veterans' organizations
Enacted 1999

2002 Estimated Value of Sales Tax Exemption: \$1,881,868

This statute exempts special event sales by veteran's organizations.

§39-26-718(1)(b)
Occasional sales by charitable organizations
Enacted 1995

2002 Estimated Value of Sales Tax Exemption: combined with §39-26-718(1)(a), special event sales by veterans' organizations.

This statute exempts special event sales by charitable organizations.

§39-26-719(1)
Sales of low-emitting vehicles
Enacted 1999

2002 Estimated Value of Sales Tax Exemption: less than \$500 and non-disclosable

This statute exempts the sale of low emitting vehicles greater than 10,000 lbs. and any kits to convert them.

§39-26-720(1)
Sales of bingo and raffle equipment
Enacted 2001

2002 Estimated Value of Sales Tax Exemption: \$218,740

This statute exempts the sales to bingo-raffle licensees of bingo and raffle equipment.

§39-26-721(1)
Forty-eight percent of purchase price of factory-built housing
Enacted 1979

2002 Estimated Value of Sales Tax Exemption: \$3,769,088

This statute exempts forty-eight percent of the purchase price of factory-built housing.

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