



**Colorado
Legislative
Council
Staff**

HB16-1087

FISCAL NOTE

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-0183
Prime Sponsor(s): Rep. Becker J.

Date: February 8, 2016
Bill Status: House SVMA
Fiscal Analyst: Greg Sobetski (303-866-4105)

BILL TOPIC: INCREASE VENDOR FEE FOR COLLECTING STATE SALES TAX

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2020-2021	FY 2021-2022
State Revenue	(\$2.3 million)	(\$12.3 million)	(\$65.9 million)	(\$78.3 million)
General Fund	(2.3 million)	(12.3 million)	(65.9 million)	(78.3 million)
State Expenditures	\$115,379	\$107,456	\$107,456	\$0
General Fund	109,735	101,735	101,735	
Centrally Appropriated Cost	5,644	5,721	5,721	
TABOR Impact	(\$2.3 million)	(\$12.3 million)	not estimated	
FTE Position Change	0.5 FTE	0.5 FTE	0.5 FTE	
Appropriation Required: \$109,735 - Department of Revenue (FY 2016-17).				

Summary of Legislation

This bill increases the share of state sales tax revenue allowed to be retained by vendors to cover their expenses for collecting and remitting the tax. This share, known as the vendor fee, is grown incrementally over five years following the schedule in Table 1.

Through 2016	2017	2018	2019	2020	Beginning 2021
3.33 percent	3.50 percent	4.00 percent	4.50 percent	5.00 percent	5.50 percent

Background

The state sales tax is collected by retailers selling taxable goods or services. Most retailers are responsible for filing returns and remitting sales tax collections to the Department of Revenue (DOR) on a monthly basis. All businesses filing on-time returns are allowed to retain a vendor fee, a fixed percentage of sales taxes, to cover the expenses of collecting and remitting the tax. A history of the vendor fee is shown in Table 2.

Dates	Vendor Fee
July 1, 1935 to June 30, 1965	5.00 percent
July 1, 1965 to June 30, 2003	3.33 percent
July 1, 2003 to June 30, 2005	2.33 percent
July 1, 2005 to February 28, 2009	3.33 percent
March 1, 2009 to June 30, 2009	1.35 percent
July 1, 2009 to June 30, 2011	0 percent
July 1, 2011 to June 30, 2014	2.22 percent
July 1, 2014 to current	3.33 percent

State Revenue

The bill reduces state General Fund revenue by **\$2.3 million in FY 2016-17 and \$12.3 million in FY 2017-18**, and by increasing amounts in subsequent years. In FY 2021-22, the last year of its incremental implementation, the bill reduces state General Fund revenue by **\$78.3 million**.

Assumptions. Through FY 2017-18, state sales tax collections are assumed to grow by the rates published in the December 2015 Legislative Council Staff forecast. For subsequent fiscal years, state sales tax collections are assumed to grow by 5.2 percent annually, the average annual rate of growth since FY 1991-92.

During FY 2014-15, 99.6 percent of state sales taxes were remitted on time and eligible for the vendor fee. It is assumed that this share will remain constant in future years.

TABOR Impact

This bill reduces state revenue from sales taxes, which will reduce the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. Since the bill reduces both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money available for the General Fund budget in the future during years the state does not collect money above the TABOR limit.

State Expenditures

State General Fund expenditures will increase by **\$115,379 and 0.5 FTE in FY 2016-17, and by \$107,456 and 0.5 FTE in each of FY 2017-18 through FY 2020-21**. Expenditures are summarized in Table 3 and detailed below.

Table 3. Expenditures Under HB16-1087		
Cost Components	FY 2016-17	FY 2017-18
Personal Services	\$19,245	\$19,245
FTE	0.5 FTE	0.5 FTE
Operating Expenses	82,490	82,490
Computer Programming	8,000	
Centrally Appropriated Costs*	5,644	5,721
TOTAL	\$115,379	\$107,456

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

Department of Revenue. The bill's most significant costs are for notifying each of the state's approximately 145,000 retailers of changes to the vendor fee each year between FY 2016-17 and FY 2020-21. Paper and postage costs, respectively, are expected to total \$5,800 and \$70,700 each year. Additional DOR workload for processing and mailing notifications is estimated at 0.3 FTE annually.

This bill requires changes to the DOR's GenTax software system. Changes are programmed by a contractor at a rate of \$200 per hour. The changes in this bill are expected to increase General Fund expenditures by \$8,000 in FY 2016-17, representing 40 hours of programming. All GenTax programming changes are tested by DOR staff. Because the vendor fee is increased incrementally, testing will require the addition of 0.2 FTE in the DOR's Taxpayer Service Division for each fiscal year.

The bill requires that five state tax forms be updated each year between FY 2016-17 and FY 2020-21. Expenditures for updating each form are estimated at \$1,200 each year; these costs are paid to a Department of Personnel and Administration contractor via the DOR.

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 4.

Table 4. Centrally Appropriated Costs Under HB16-1087		
Cost Components	FY 2016-17	FY 2017-18
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$3,997	\$3,997
Supplemental Employee Retirement Payments	1,647	1,724
TOTAL	\$5,644	\$5,721

Local Government Impact

The bill reduces sales tax revenue to the Regional Transportation District (RTD) and the Scientific and Cultural Facilities District (SCFD). Under House Bill 13-1272, these districts are required to apply sales and use tax expenditures in parity with the state unless otherwise specified.

Revenue to the RTD will be reduced by \$485,000 in FY 2016-17 and by increasing amounts over the duration of the bill's implementation schedule. Assuming that RTD sales tax revenue grows at the same rate as state sales tax revenue, the bill will reduce RTD revenue by \$16.3 million in FY 2021-22. Similarly, revenue to the SCFD will be reduced by \$48,500 in FY 2016-17 and \$256,000 in FY 2017-18. Under current law, the SCFD sales tax is sunset at the end of FY 2017-18.

Technical Note

The bill allows vendor fees of both 3.33 percent and 3.50 percent for sales tax remitted on January 1, 2017. This fiscal note assumes that the vendor fee on this date is 3.50 percent.

Effective Date

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2016-17, the bill requires an allocation of 0.5 FTE and a General Fund appropriation of \$109,735 to the Department of Revenue. From this amount, \$6,000 should be reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Counties
Revenue

Information Technology
RTD

Municipalities