

Office of the State Auditor: Tax Expenditure Evaluations Overview

Sales and Use Tax Simplification Task Force
September 11, 2019



SB 16-203: Our Mandate

“Provide the State with factual evidence of whether the State’s tax expenditures achieve the objectives they are intended to achieve.”

Definition of “Tax Expenditure”

Statute - Section 39-21-302(2), C.R.S. Definition:

“a tax provision that provides a gross or taxable income definition, deduction, exemption, credit, or rate for certain persons, types of income, transactions, or property that results in reduced tax revenue.”

OSA Criteria - The provision must:

- 1) Be a *state* provision
- 2) Be a *tax* provision
- 3) Appear to confer *preferential treatment* to specific individuals, organizations, or businesses
- 4) Potentially result in reduced *tax revenue* to the State

Identify Tax Expenditure Provisions

- 232 total
- 56 are 50+ years old
- 209 are permanent
- 23 will eventually expire with no legislative action



Scheduling Evaluations

- Statutory criteria:
 - Review all provisions by September 2022
 - Oldest first
 - If expiring, prior to the legislative session in which they would need to be renewed

- Group similar expenditures for efficiency



Number of Expenditures Reviewed

TOTAL REVIEWED – 64 expenditures

- 15 expenditures reviewed in 2018
- 49 expenditures reviewed in 2019

Tax Expenditure Evaluation Process

- Key statutory requirements
 - Assess whether expenditure is meeting its purpose
 - Analyze the economic cost and benefits
 - Evaluate the impact on intended beneficiaries
 - Identify similar expenditures/programs in Colorado and other states
 - Report data constraints
 - Identify policy considerations to improve effectiveness and administration

Purpose and Performance Measures

- Most do not have a direct statement of purpose in statute
- None have had performance measures in statute
- For most, we inferred a purpose and created performance measures



Economic Costs and Benefits

- Revenue impact to the State/local governments (\$0 to \$4 billion)
- Benefits to State/taxpayers
- Cost effectiveness



Impact To Beneficiaries

- Additional cost to taxpayers
- Impact to businesses/consumers
- Competitiveness with other states

Similar Expenditures/Programs in Colorado and Other States

- Consider other Colorado tax expenditures, federal tax expenditures, and state-run programs that have a similar purpose
- Identify other states with similar tax expenditures, national trends



Data Constraints

- Most evaluations have been impacted by data constraints
- Common DOR data issues:
 - Target data not captured on a DOR form
 - Multiple expenditures aggregated on reporting lines
 - Information on forms is not easily extracted from GenTax
 - Tax information is self-reported by taxpayers
 - Tax information changes over time
- Use of third-party data

Policy Considerations

What drives a policy consideration?

- Not being used, or used minimally
- Changes to the context or other laws that may change the applicability of the original purpose
- Use of the expenditure that may be outside of the original intent or not originally considered
- Administrative issues that might make the provision less effective

Policy Considerations

29 reports have had policy considerations

- Consider repeal
- Clarify statute
- Effectiveness issues
- Administrative issues



Sales and Use Tax Expenditures Reviewed

- Energy Used for Industrial & Manufacturing Purposes Exemption
- Sales to Charitable Organizations Exemption
- Sales to Residents of Bordering States Exemption
- Farm Close-Out Sales Tax Exemption
- Long-Term Lodging Exemption
- Agricultural Inputs Sales Tax Exemptions
- Newspapers Exemption
- Sales Tax Vendor Allowance
- Wholesales Exemption

- On-Demand Aircraft Used Outside the State Exemption (Now Expired)
- Biogas Production Components Sales Tax Exemption (Now Expired)



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