



OFFICE OF THE STATE AUDITOR
KERRI L. HUNTER, CPA • STATE AUDITOR

MEMORANDUM

Date: November 5, 2021
To: Joint Budget Committee
From: Office of the State Auditor
Re: Summary of tax expenditure reports completed in Calendar Year 2021

This memo is to provide a summary of the tax expenditure evaluations completed by the Office of the State Auditor in Calendar Year 2021. On September 15, 2021, we released our [*2021 Tax Expenditures Compilation Report*](#), which includes 26 reports covering 31 tax expenditure provisions. The following table provides a brief summary of each report, including a description of the tax expenditures reviewed, their state revenue impact, and policy considerations. The table provides a link to each report and is organized by tax expenditure type.

We look forward to presenting an overview of our work to the Committee on November 10, 2021, and plan to provide brief presentations on several evaluations including the Enterprise Zone Contribution Credit, the Childcare Contributions Credit, and our reports covering several severance tax-related tax expenditures related to metallic minerals. We will also be prepared to discuss and answer questions on any additional tax expenditures that are of interest to committee members.



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OFFICE OF THE STATE AUDITOR 2021 TAX EXPENDITURES REPORT SUMMARY
(SORTED BY TAX EXPENDITURE TYPE)

REPORT	REPORT DATE	DESCRIPTION OF TAX EXPENDITURE(S)	TYPE OF TAX EXPENDITURE	STATE REVENUE IMPACT	POLICY CONSIDERATIONS	EXPIRATION DATE
<u>Advanced Industry Investment Tax Credit</u>	Jul-21	Allows taxpayers who invest in a qualified small advanced industry business to claim an income tax credit equal to 25 percent of their investment, or 30 percent if the business is located in a rural or economically distressed area of the state, limited to a \$50,000 credit per investor for each small business and \$750,000 annually for all investors.	Income Tax	\$524,000	Consider assessing the impact of the \$750,000 cap on the credit's effectiveness and increasing reporting requirements for participating businesses.	12/31/2022
<u>Aircraft Manufacturer New Employee Credit</u>	Jul-21	Provides eligible businesses in a designated Aviation Development Zone a non-refundable income tax credit equivalent to \$1,200 for each net new employee they hire during the year.	Income Tax	\$28,080	Consider whether the credit is meeting its intent and establish quantifiable performance measures and targets.	12/31/2022
<u>Capital Gain Deductions</u>	Jul-21	Allow taxpayers to deduct from their Colorado taxable income the amount of net capital gains earned during the taxable year on certain property that was owned by the taxpayer for a holding period of at least 5 years, uninterrupted, prior to the transaction that resulted in the capital gains.	Income Tax	\$19.4 million	None	12/31/2021 (House Bill 21-1311 created a narrower version of the credit)

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<u>Child Care Contribution Credit</u>	Sept-21	Provides a tax credit for taxpayers making monetary contributions to support child care (not including payments made to purchase childcare). The credit is equivalent to 50 percent of the contribution amount, with a maximum credit of \$100,000 per taxpayer, per tax year.	Income Tax	\$30.8 million	Consider establishing a statutory purpose and performance measures for the credit and clarifying its eligibility requirements.	12/31/2024
<u>Colorado Alternative Minimum Tax Credit</u>	Jul-21	Allows individuals, estates, and trusts that claim the federal AMT credit to claim a similar state income tax credit, equivalent to 12 percent of the federal credit. The credits are generally available to taxpayers who paid the federal AMT in the previous year because they used certain federal tax provisions that allow for a temporary delay in taxable income.	Income Tax	7.3 million	Consider establishing a statutory purpose and performance measures for the credit.	None
<u>Enterprise Zone Contribution Tax Credit</u>	Jul-21	Provides an income tax credit for monetary and in-kind contributions to qualified enterprise zone contribution projects that support the economic development plan for the enterprise zone. The credit is equivalent to 25 percent of the contribution amount, with a maximum annual credit of \$100,000.	Income Tax	\$10.5 million	Consider: <ul style="list-style-type: none"> ▪ Establishing a statutory purpose and performance measures for the credit. ▪ Clarifying the eligibility requirements for the credit ▪ Creating a separate statewide tax credit for contributions to organizations serving the homeless population. ▪ Clarifying the limitation on in-kind contributions. 	None

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<u>Mass Transit and Ridesharing Expenses Deduction</u>	Jan-21	Allows corporate employers to deduct expenses for mass transit or ridesharing arrangements that they provide for employees from their Colorado taxable income.	Income Tax	Could not determine	Consider establishing a statutory purpose and performance measures for the deduction and review whether the deduction is meeting its intent.	None
<u>New Plastic Recycling Technology Investment Tax Credit</u>	Apr-21	Allows individuals, including sole proprietorships and single-member limited liability companies, to claim an income tax credit for their investment in new plastic recycling technology.	Income Tax	Less than \$5,000	Consider reviewing the effectiveness of the credit and repealing it if it is not having the intended impact; or alternatively, amending the credit to increase its usage and potential impact.	None
<u>Pension or Annuity Deduction</u>	Jul-21	Allows individuals who are at least 55 years of age to deduct amounts received as pensions or annuities from their taxable income. For individuals who are at least 55 years of age, but less than 65 years of age, the deduction is capped at \$20,000 per year. For individuals who are at least 65 years of age, the deduction is capped at \$24,000 per year.	Income Tax	\$506.3 million	Consider establishing a statutory purpose and performance measures for the deduction and review whether the deduction cap should be adjusted for inflation.	None
<u>Previously Taxed Income Deduction for Individuals, Estates, and Trusts</u>	Apr-21	Allows individual, estate, and trust taxpayers to deduct any income or gain that was previously taxed by Colorado when calculating Colorado taxable income.	Income Tax	\$865,000	Consider establishing a statutory purpose and performance measures for the deduction and review whether taxpayers who claimed a tax credit pursuant to section 1341 of the Internal Revenue Code should be allowed to claim the deduction.	None

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<u>Aircraft Used in Interstate Commerce Exemption</u>	Jul-21	Provides a sales and use tax exemption to commercial airlines for the purchase, storage, or use of aircraft used in interstate commerce.	Sales and Use Tax	Could not determine	Consider establishing a statutory purpose and performance measures for the exemption.	None
<u>Construction and Building Materials Exemption</u>	Jan-21	Exempts contractors and subcontractors from sales and use tax on building and construction materials that are purchased and incorporated into a project that is owned and used by certain tax-exempt entities, such as federal, state, and local governments; not-for-profit schools; and charitable organizations.	Sales and Use Tax	Could not determine	Consider establishing a statutory purpose and performance measures for the exemption and clarifying eligibility requirements.	None
<u>Exemption for Donations by Manufacturers to Government and Charitable Organizations</u>	Sept-21	Exempts from sales and use tax donations of manufactured goods exceeding \$1,000 from manufacturers to the U.S. federal government, the State of Colorado, local governments, or charitable organizations.	Sales and Use Tax	Could not determine	Consider establishing a statutory purpose and performance measures for the exemption.	None

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<u>Food for Home Consumption & Retirement Communities Exemptions</u>	Apr-21	Exempt from sales and use tax most food that is purchased for home consumption and consumed off the premises where the purchase was made or by residents of a retirement community.	Sales and Use Tax	\$333.6 million	Consider establishing a statutory purpose and performance measures for the exemption.	None
<u>Food Ingredients Exemption</u>	Apr-21	Exempts purchases of food ingredients from sales and use tax when the ingredients will be used to prepare or manufacture food products that will ultimately be sold for human consumption.	Sales and Use Tax	\$238 million (overlaps significantly with the wholesales exemption)	Consider establishing a statutory purpose and performance measures for the exemption.	None
<u>Food Service Employer-provided Meals Exemption</u>	Apr-21	Exempts meals provided by food service establishments to their employees at no charge or at a discount from sales and use tax.	Sales and Use Tax	\$6.4 million	Consider establishing a statutory purpose and performance measures for the exemption and clarifying which meals qualify for the exemption.	None
<u>Machinery Used in Manufacturing Exemption</u>	Jan-21	Exempts purchases of machinery used in manufacturing and greater than \$500 from sales and use tax.	Sales and Use Tax	\$45 million maximum	Consider establishing a statutory purpose and performance measures for the exemption.	None

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<u>Materials Used in Iron, Steel, and Vanadium-Uranium Ore Manufacturing and Processing Exemption</u>	Jul-21	Exempts from sales and use tax the purchases, sales, storage, use, or consumption of refractory materials and carbon electrodes used in manufacturing iron and steel for profit and inorganic chemicals used in the processing of vanadium-uranium ores.	Sales and Use Tax	Could not determine	Consider establishing a statutory purpose and performance measures for the exemption and repealing the exemption for inorganic materials used in vanadium-uranium ore processing, since there are no longer any facilities in the state that process vanadium-uranium ore.	None
<u>Precious Metal Bullion and Coin Exemption</u>	Jul-21	Exempts all sales, storage, use, or consumption of precious metal bullion and coins from state sales and use tax.	Sales and Use Tax	Could not determine	Consider establishing a statutory purpose and performance measures for the exemption.	None
<u>Prefabricated Homes Exemptions</u>	Apr-21	Exempt purchases of most manufactured homes, defined as homes built on a permanent chassis, from sales and use tax, and exempt 48 percent of the purchase price of modular homes, which are prefabricated homes constructed to the same building codes as traditional site built homes.	Sales and Use Tax	\$7.3 million	Consider establishing a statutory purpose and performance measures for the exemptions and providing a corresponding use tax exemption for the Prefabricated Homes Partial Exemption.	None
<u>Pre-press Printing Exemption</u>	Jul-21	Exempts from sales and use tax printers' purchases of eligible prepress materials, such as film proofs and plates, used to print products sold at retail.	Sales and Use Tax	Could not determine	Consider establishing a statutory purpose and performance measures for the exemption.	None

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<u>Sales by Charitable Organizations Exemption</u>	Sept-21	Exempts from sales and use tax sales made by charitable organizations that make \$45,000 or less in annual net proceeds from sales.	Sales and Use Tax	Could not determine	Consider establishing a statutory purpose and performance measures for the exemption. Additionally, we found that some Department of Revenue regulations related to the exemption are not up to date.	None
<u>School Sales Exemptions</u>	Jan-21	SALES TO PRIVATE SCHOOLS EXEMPTION— Exempts sales of tangible personal property to private, nonprofit schools from sales tax. PTA & PTO EXEMPTION— Exempts sales by parent teacher associations and organizations that benefit a public K-12 school from sales tax. SCHOOL RELATED SALES EXEMPTION— Exempts sales by schools, school booster organizations, or any other school organization that benefit a public or private K-12 school from sales tax.	Sales and Use Tax	\$4.9 million	Consider: <ul style="list-style-type: none"> ▪ Amending statute to establish a statutory purpose and performance measures for the three School Sales Exemptions. ▪ Clarifying or consolidating eligibility requirements for the PTA & PTO Exemption and the School Related Sales Exemption. ▪ Repealing the Private Schools Exemption because it is likely obsolete. 	None
<u>Metallic Minerals Ad Valorem Credit</u>	Jan-21	Allows metal mines to claim a credit against their severance tax liability equal to 100 percent of real property taxes assessed or paid to a local government on metals produced during the taxable year. The credit is capped at 50 percent of the taxpayer's severance tax liability.	Severance Tax	\$1 million to \$3.4 million	Consider establishing a statutory purpose and performance measures for the credit and reviewing whether the credit is meeting its intent.	None

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<u>Metallic Minerals Threshold Exemption</u>	Jan-21	Allows taxpayers to deduct up to \$19 million from gross income that they earned at each metal mining operation in Colorado prior to applying the metallic minerals severance tax rate.	Severance Tax	\$477,000	Consider establishing a statutory purpose and performance measures for the exemption. Consider making changes to the exemption to improve its cost effectiveness.	None
<u>Molybdenum Ore Tonnage Exemption</u>	Jan-21	Exempts the first 625,000 tons of molybdenum ore produced in each quarter, which is up to 2.5 million tons per year, from the molybdenum ore severance tax. Since the tax is set at \$0.05 per ton of ore, the exemption provides an annual tax savings of up to \$125,000.	Severance Tax	\$125,000	Examine the effective severance tax rate as a percentage of gross income on molybdenum ore, including the impact of the exemption on this effective rate, to ensure that it continues to align with the General Assembly's intent.	None