



Chairwoman Kraft-Tharp and members of the committee,

The Colorado Fiscal Institute supports HB 18-1185, which proposes that Colorado's state income tax apportionment formula be adapted to incorporate market-based sourcing.

This bill, which reflects the latest recommendation of the Multistate Tax Commission, is a common-sense change based in carefully formulated tax policy. Passing HB 18-1185 will help Colorado's tax law adapt to the realities of the 21st century economy. It will also encourage other states to adopt tax legislation that eases the compliance burden on businesses throughout the U.S.

Colorado, like all states, uses an apportionment formula to determine what portion of a corporation's income is attributable to business in Colorado, and therefore subject to state taxation. There are multiple approaches to apportionment and Colorado uses the single sales apportionment approach. HB 18-1185 would update the single sales apportionment formula for service-based companies by specifying that income from the sale of services is sourced to the state where the service is delivered or received, not where the service is performed.

If a Colorado resident purchases a service from a company based in Washington, for example, under HB 18-1185 that income would be taxable in Colorado, because the service was received in this state. This is already the method Colorado uses to tax sales of tangible goods. Applying the same standard to the sale of services is a logical step, and one that reflects the realities of the technology economy.

As technology and the economy have evolved, it has become easier for consumers to receive services from firms based in other states. Cloud computing, interstate banking, and video streaming services are pertinent examples. If a Colorado resident buys a copy of *Legally Blonde* on DVD from Amazon, the income generated from that sale is apportioned to Colorado, because the product was delivered to an address in the state. If the same resident streams *Legally Blonde* on Amazon Prime, however, that sale is considered a service and the income generated may be apportioned to Washington state, where Amazon is based, and not to Colorado. The changes proposed in HB 18-1185 remedy this disparity and reflect the realities of the new economy—namely that services can now easily be purchased across state lines.

The Multistate Tax Commission is a nonpartisan, intergovernmental state tax agency. The MTC uses a rigorous process to formulate policy recommendations. The tax policies in HB 18-1185 were developed through a series of public hearings and based on deep research into tax law and interstate business operations. Colorado is a member of the Multistate Tax Compact and

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has worked with the MTC to enact beneficial tax policy in the past. By adopting the changes in this bill, Colorado will be doing its part to encourage other states to change their apportionment formulas to reflect the common-sense recommendations of the MTC. As more states adopt uniform tax policy, the compliance burden on corporations is reduced. The tax rationale behind this policy is well-researched, and it benefits Colorado as well as businesses with customers in the state.

The Colorado Fiscal Institute supports this bill because it modernizes Colorado's apportionment formula and encourages other states to do the same. The Multistate Tax Commission is a reliable source of good tax policy, and Colorado stands to benefit from adopting this new tax legislation.

Thank you for your consideration.

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