



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado’s Legislature

SB 25-046: LOCAL GOVERNMENT TAX AUDIT CONFIDENTIALITY

Prime Sponsors:

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Fiscal note status: This fiscal note reflects the introduced bill, which was recommended by the Sales and Use Tax Simplification Task Force.

Summary Information

Overview. The bill establishes confidentiality standards for third-party auditors and creates a new misdemeanor for those who violate those confidentiality requirements.

Types of impacts. The bill is projected to affect the following areas:

- Local Government

Appropriations. No appropriation is required.

**Table 1
State Fiscal Impacts**

Type of Impact	Budget Year FY 2024-25	Out Year FY 2025-26
State Revenue	\$0	\$0
State Expenditures	\$0	\$0
Transferred Funds	\$0	\$0
Change in TABOR Refunds	\$0	\$0
Change in State FTE	0.0 FTE	0.0 FTE

Summary of Legislation

The bill clarifies confidentiality standards for the protection of taxpayer information used or obtained for a sales and use tax investigation performed by a third-party auditor on behalf of a local taxing jurisdiction. A violation of these standards is a misdemeanor punishable by a fine of no more than \$1,000 per violation. The bill prohibits auditors from divulging any taxpayer information related to a sales and use tax audit except for in certain circumstances. Finally, the bill clarifies the Department of Revenue's (DOR) authority to share taxpayer information with local taxing jurisdictions.

Background

Sales and use tax for statutory municipalities and some home-rule municipalities are state-administered, meaning the DOR administers, collects, and performs audits for these municipalities' sales and use tax revenue. All audits conducted by the Department of Revenue occur in-house.

Some self-collecting local taxing jurisdictions may choose to contract with a third-party auditor rather than conducting audits in-house. If a third-party auditor identifies a business to audit that conducts sales in multiple local taxing jurisdictions, under current law, the third-party auditor may ask those jurisdictions if they would like to participate in an audit of that business. That business may then be audited by multiple local taxing jurisdictions who contract with the third-party auditor. This process is referred to as coordinated auditing, which was approved by the state legislature in the 1980s. Under this bill, the new confidentiality requirements applicable to third-party auditors clarify that confidential taxpayer information will not be disclosed during coordinated audits conducted on behalf of local taxing jurisdictions.

Comparable Crime Analysis

Legislative Council Staff is required to include certain information in the fiscal note for any bill that creates a new crime, changes the classification of an existing crime, or creates a new factual basis for an existing crime. The following section outlines crimes that are comparable to the offense in this bill and discusses assumptions on future rates of criminal convictions resulting from the bill.

Prior Conviction Data and Assumptions

This bill creates the new offense of breaching confidentiality in a sales and use tax investigation, an unclassified misdemeanor. To form an estimate on the prevalence of this new crime, the fiscal note analyzed the existing offense of violating confidentiality of state documents as a comparable crime. From FY 2021-22 to FY 2023-24, zero offenders have been sentenced and convicted for this existing offense; therefore, the fiscal note assumes that there will be minimal

or no additional case filings or convictions for the new offense under the bill. Because the bill is not expected to have a tangible impact on criminal justice-related expenditures or revenue at the state or local levels, these potential impacts are not discussed further in this fiscal note.

Local Government

To the extent that local taxing jurisdictions generate sales tax revenue from underpayments identified by third-party auditors who share taxpayer information in ways that are no longer permitted by this bill, sales tax revenue may be reduced for those local taxing jurisdictions. To the extent other allowable audit strategies are used in place of those prohibited by the bill, any reduction may be offset.

Effective Date

The bill takes effect July 1, 2025.

State and Local Government Contacts

Counties	Local Affairs	Special District Association
District Attorneys	Municipalities	
Judicial	Revenue	

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).