



COLORADO
Department of Revenue

Sales and Use Tax Simplification Task Force
August 9, 2017
Response to Questions

This document serves to follow up on questions asked of the Colorado Department of Revenue (CDOR) at the July 11, 2017, meeting of the Sales and Use Tax Simplification Task Force (Task Force).

Question 1: The Task Force requested information on Colorado's ranking of sales tax complexity as compared to other states.

CDOR Response: In response to the Task Force's request, CDOR directs the Task Force to an annual report provided by the Tax Foundation entitled the *2017 State Business Tax Climate Index* (Index). The 2017 Index is attached (Attachment A) and can be found at <https://taxfoundation.org/publications/state-business-tax-climate-index/>.

The following is a summary of the discussions of Colorado sales tax contained in the Index. It is important to note that the Index evaluates all tax types (corporate income, individual income, sales, unemployment insurance and property). The following summary focuses solely on the sales tax rankings and discussion.

The stated purpose of the Index is to "show how well states structure their tax systems, and provides a roadmap for improvement" to "business leaders, government policymakers, and taxpayers" (p.1).

Colorado received a ranking of 39th for its sales tax, with 1 being the best and 50 being the worst (p.3). The Index determined that historically Colorado has been ranked 39th since 2014, the earliest year of the Index (p.36). The Index concluded that those states "with low general rates and broad bases, and which avoid tax pyramiding, do best," while those with "high rates and taxing a range of business inputs, such as utilities, services, manufacturing, and leases" fare the worst. Of the 45 states with statewide sales tax, Colorado's statewide sales tax rate of 2.9 percent is the lowest in the Nation. However, in Colorado, the addition of local sales taxes at the county, municipal, and special districts levels add an average of 4.6 percent, resulting in a total average Colorado sales tax rate of 7.5 percent (p.37). Colorado has the third highest average local option sales taxes behind Louisiana and Alabama (p.38).