



October 2022 | Legislative Council Staff

# Sales and Use Tax of Services

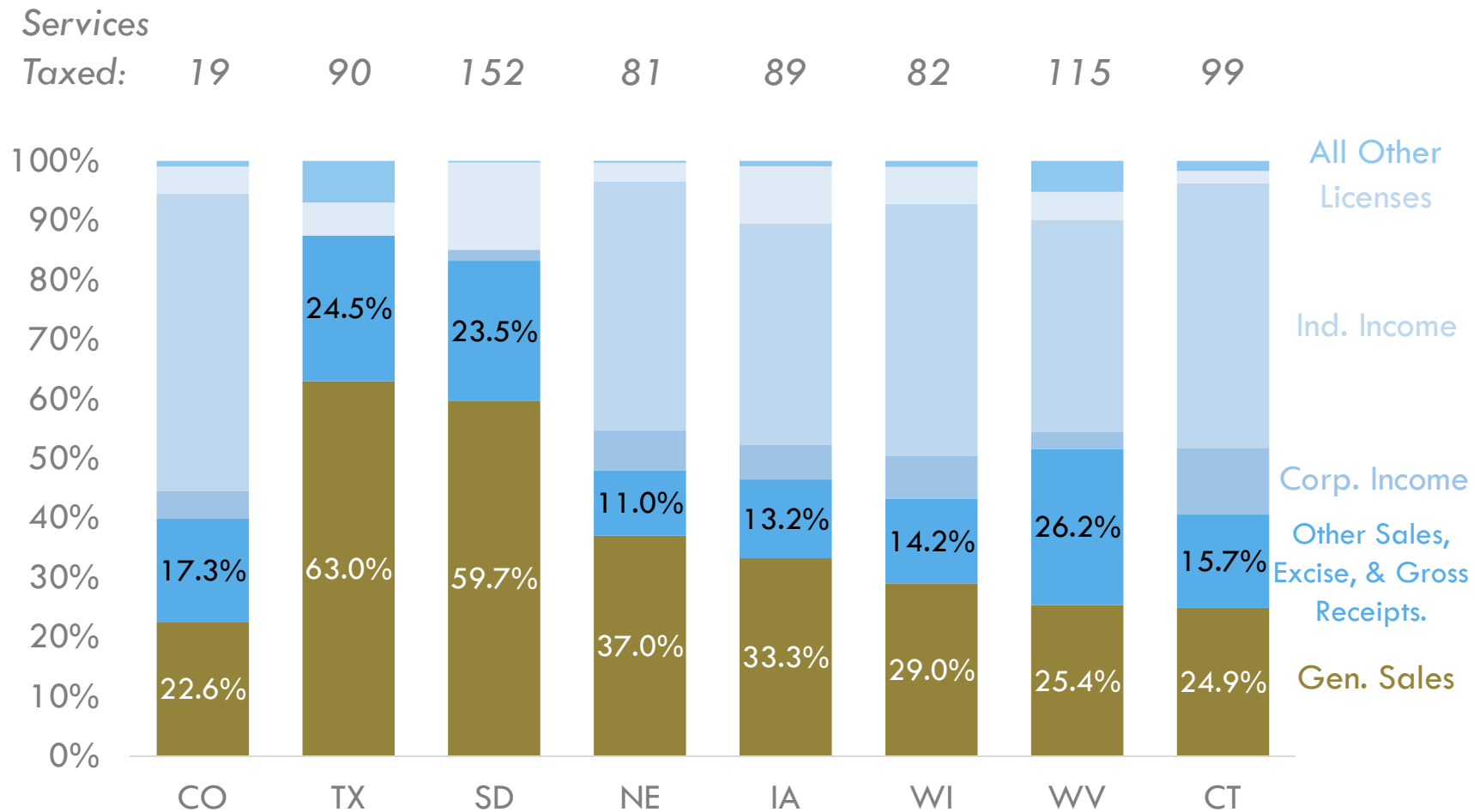
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Presentation to the Tax Policy Task Force

October 13, 2022

# States that broadly impose sales tax on services vary in reliance on sales and use tax revenue

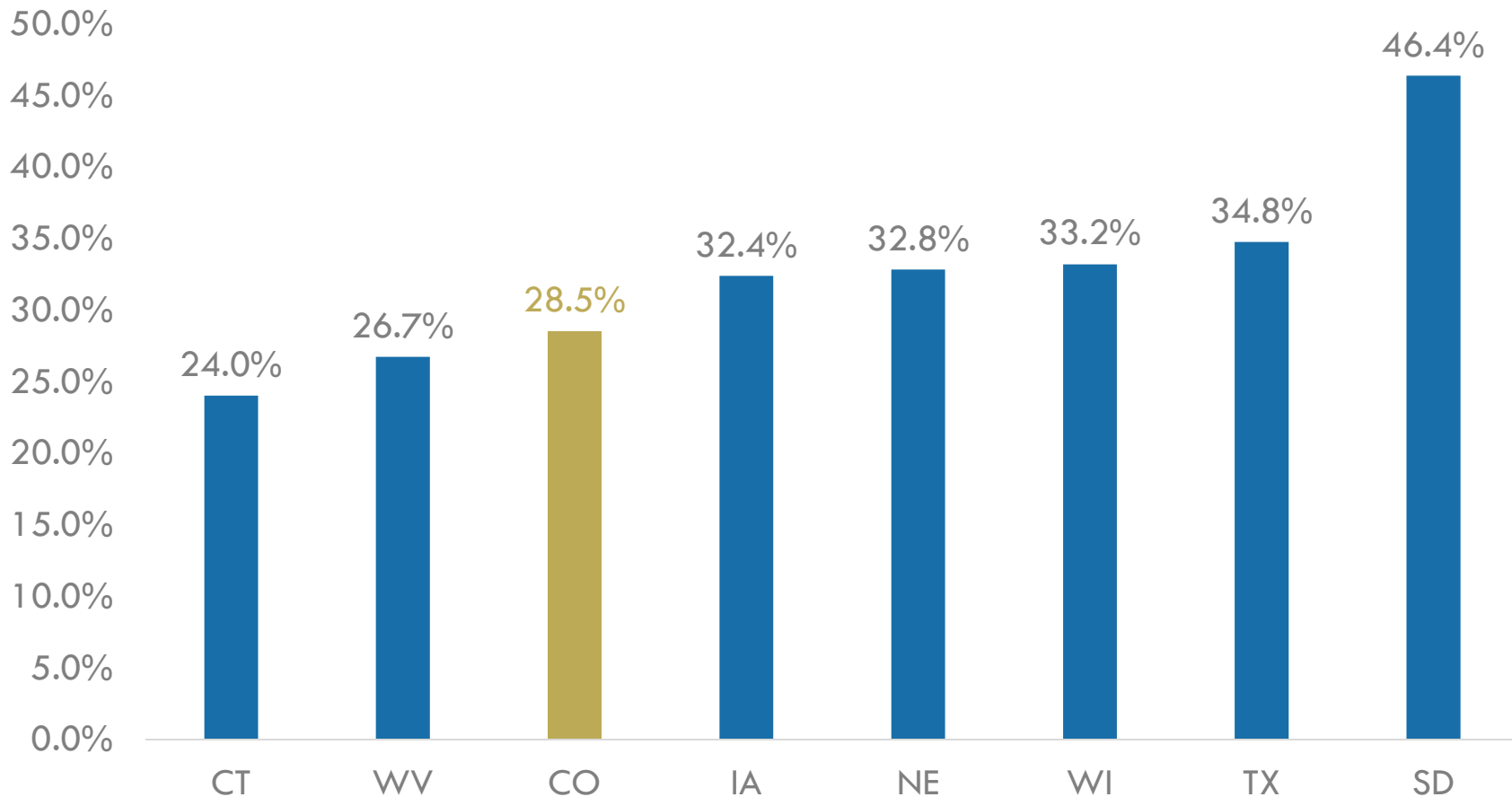
Composition of State Tax Revenues and Number of Services Taxed



Source: U.S. Census Bureau, Annual Survey of State Government Finance. Data on number of services taxed from the Federation of Tax Administrators, Taxation of Services Survey, 2017.

# Taxing services generally broadens the sales tax base, but is influenced by deductions, exemptions, and other factors

Taxable Sales per Capita as a Percent of Personal Income

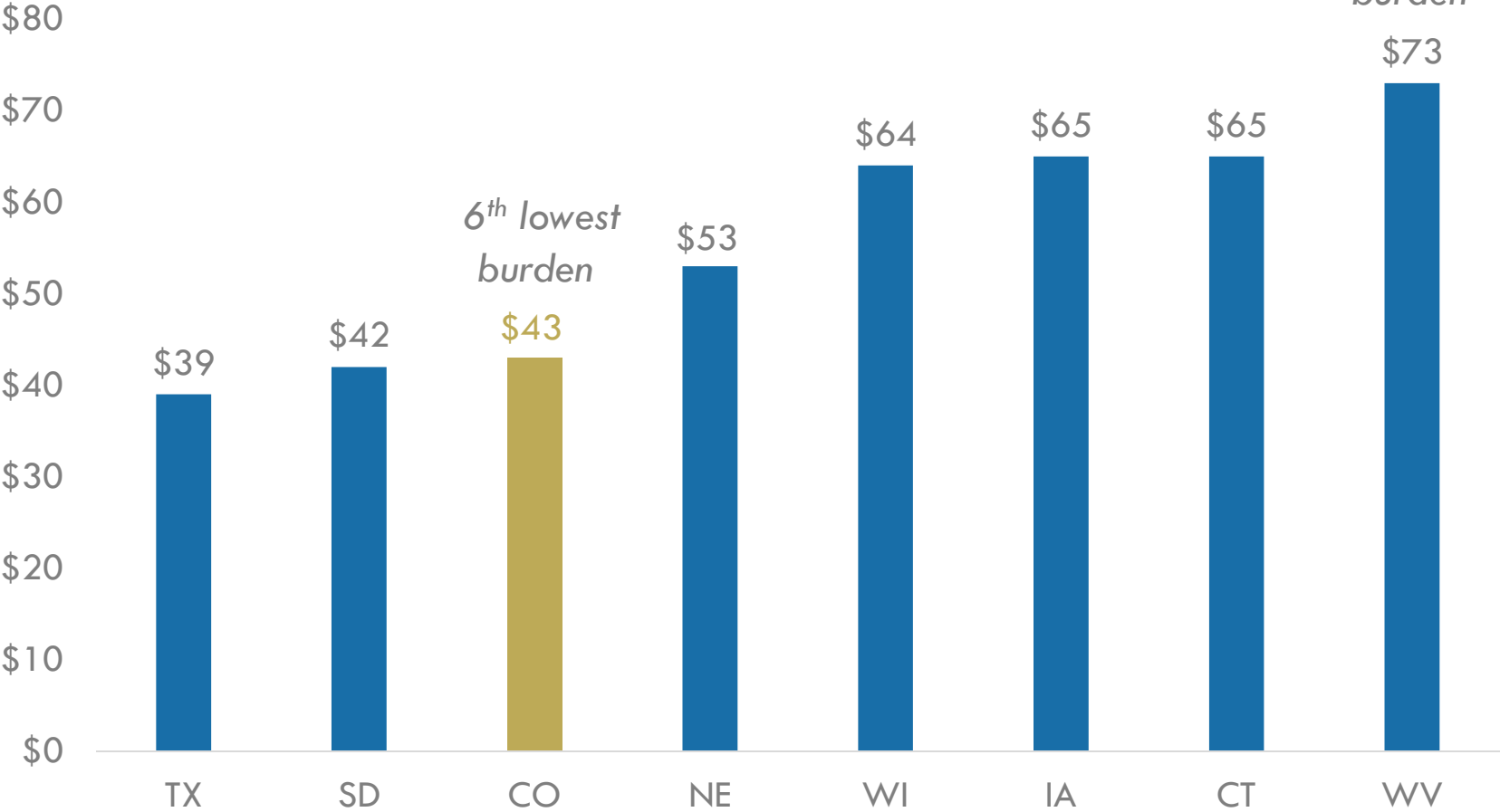


Source: U.S. Census Bureau, Annual Survey of State Government Finances. U.S. Bureau of Economic Analysis. Taxable sales estimated by Legislative Council Staff based on general sales tax revenues and state sales tax rates.

# State tax burdens vary among those with sales tax bases that broadly include services

## State Tax Burden

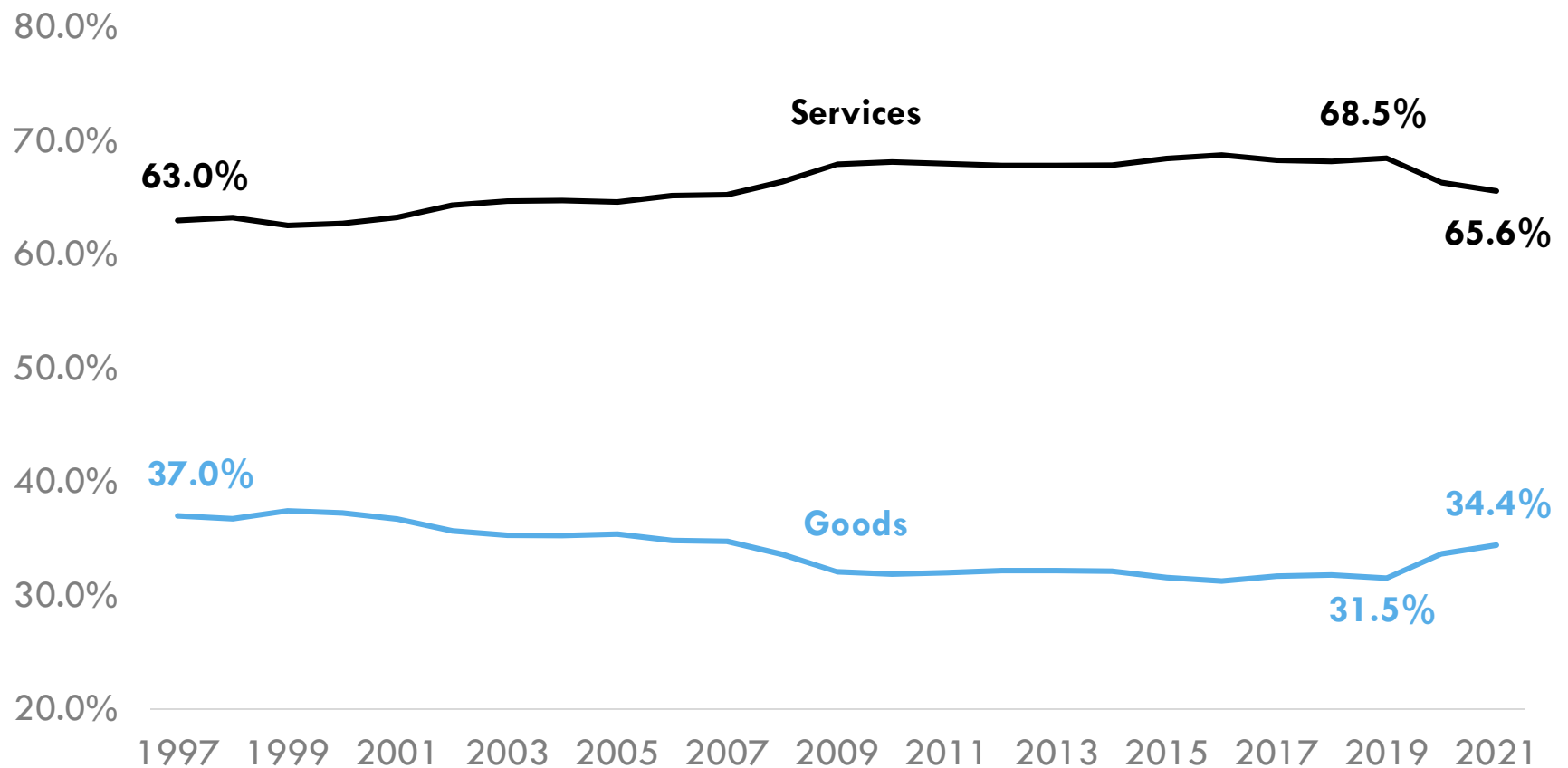
Tax Revenue per \$1,000 of Personal Income



Source: Colorado Department of Revenue, 2020 Tax Profile and Expenditure Report.

# Services Comprise a Growing Share of Consumption in Colorado

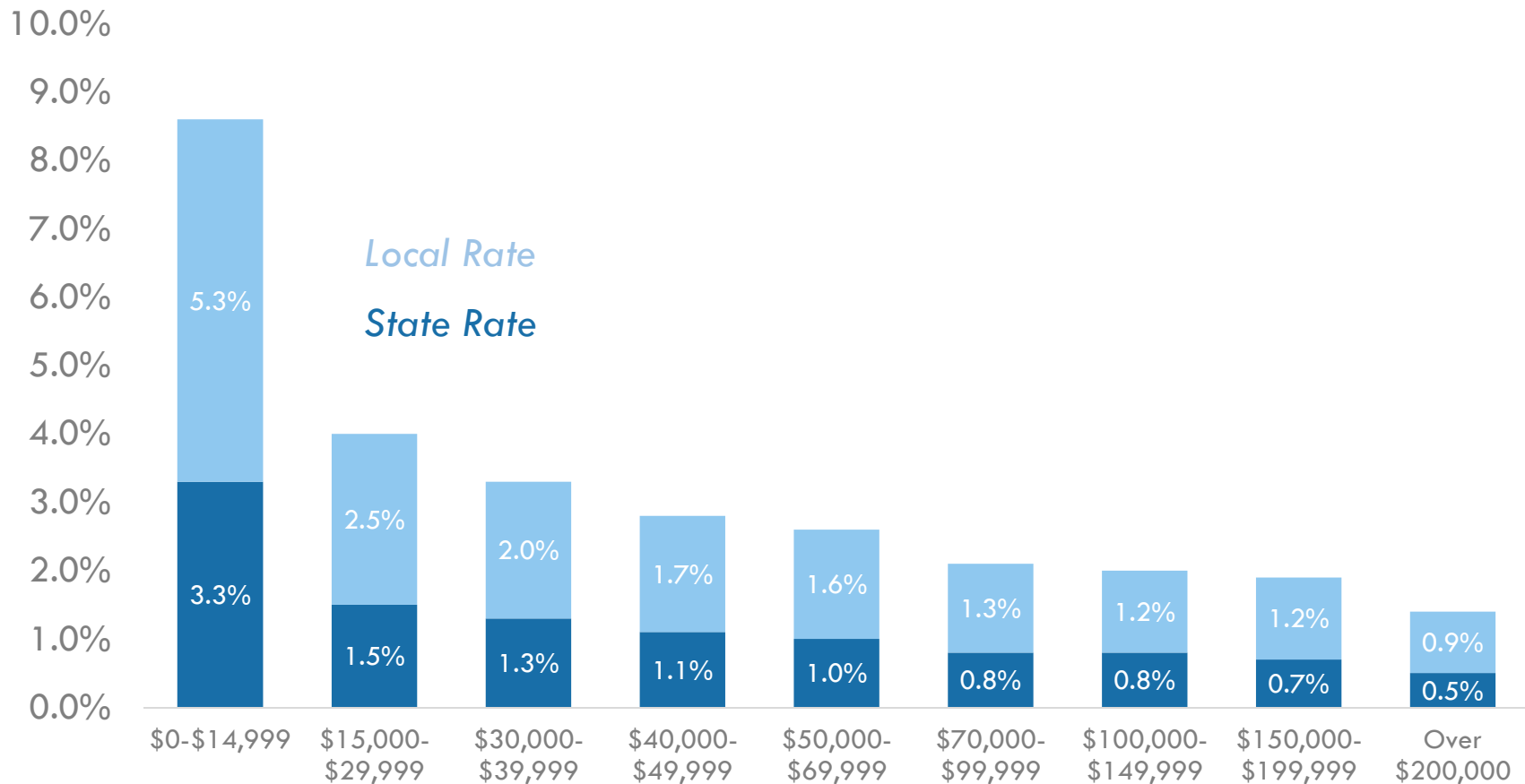
Personal consumption expenditures



Source: U.S. Bureau of Economic Analysis.

# Colorado's lower income households have a higher sales and use tax burden

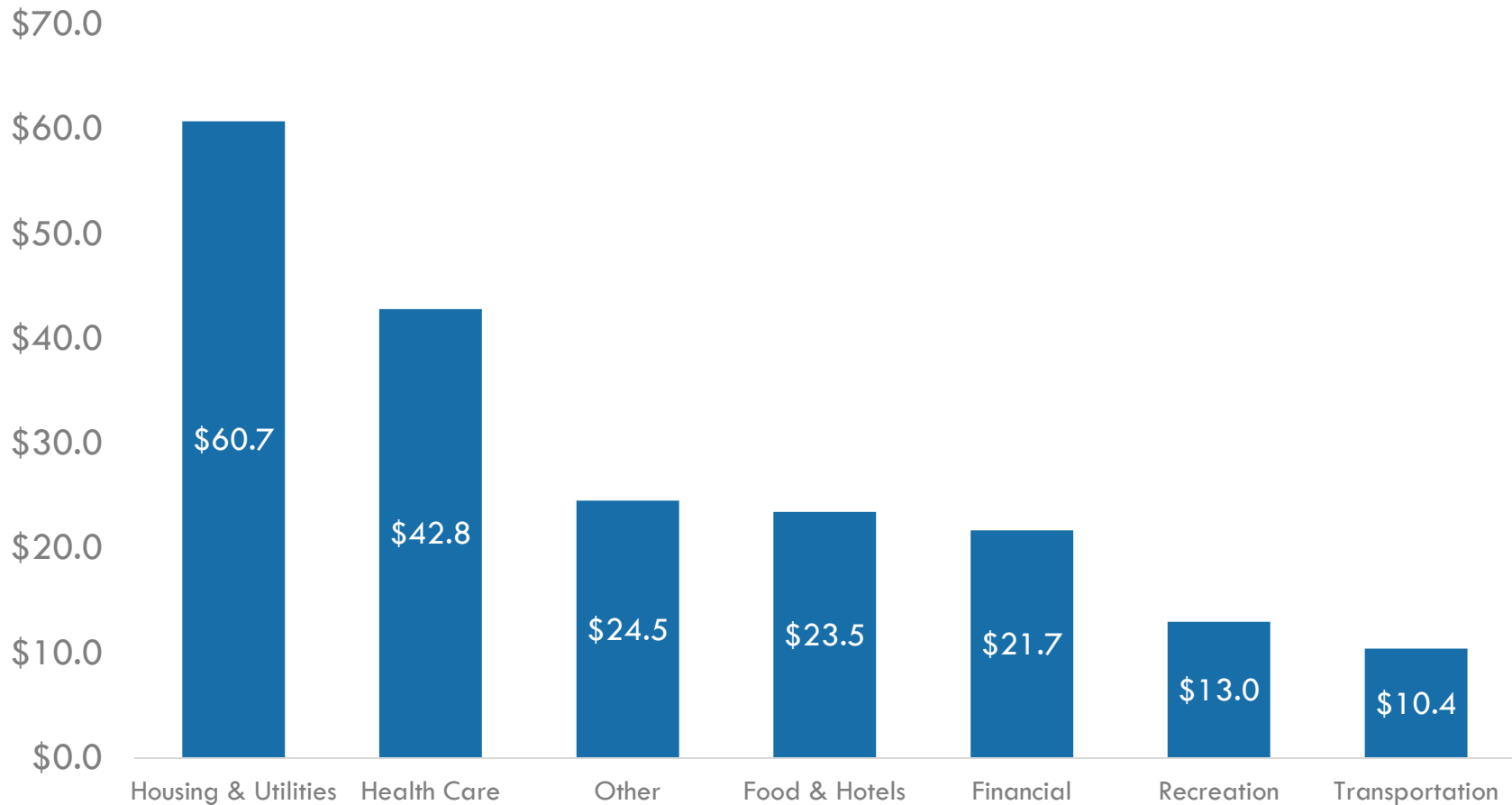
Effective State and Local Sales Tax Rates by Income Group  
*State and local sales taxes as a percent of family income*



Source: Colorado Department of Revenue, 2020 Tax Profile and Expenditure Report.

# Colorado's household consumption expenditures on services totaled \$196.6 billion in 2021

Household personal consumption expenditures on services  
*Nominal Dollars in Billions*

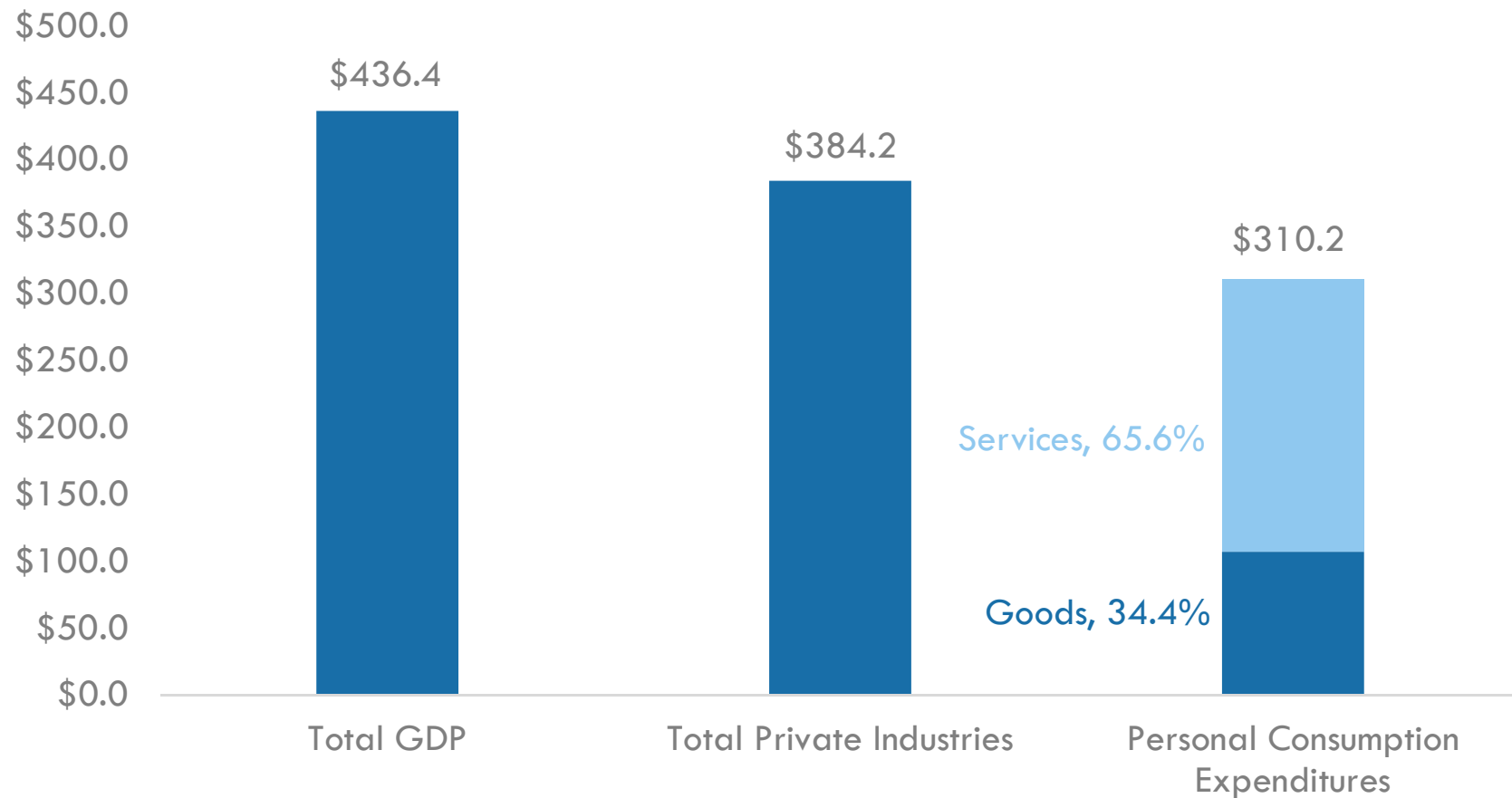


Source: U.S. Bureau of Economic Analysis.

# Colorado's consumer spending totaled about 71 percent of the state's Gross Domestic Product

## Components of Colorado State GDP, 2021

*Nominal Dollars in Billions*

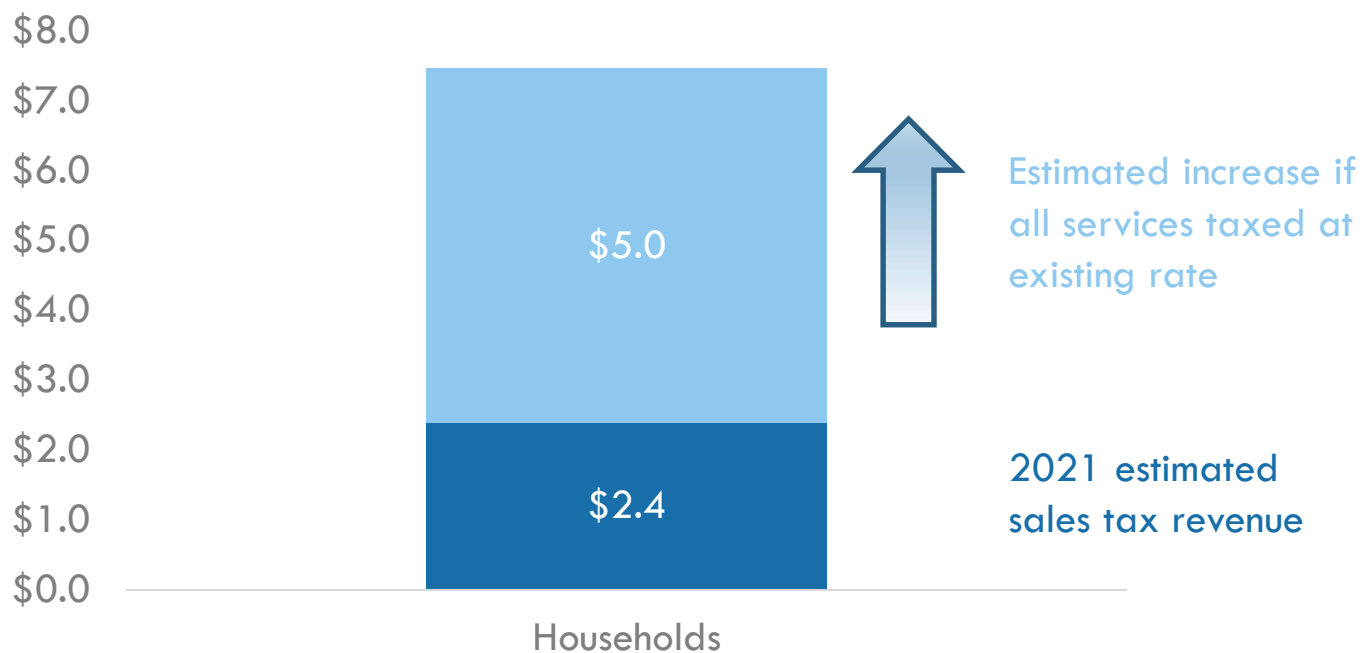


Source: U.S. Bureau of Economic Analysis.



# Extending Colorado's sales tax base to all household services could increase revenue by an estimated \$5.0 billion

Estimated share of state sales tax revenue and potential increase, 2021  
*Nominal Dollars in Billions*



Source: Preliminary analysis from Legislative Council Staff. Share of 2021 state sales tax revenues estimated from household personal consumption expenditures.