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# Fiscal Note

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**Drafting Number:** LLS 24-0382  
**Prime Sponsors:**

**Date:** October 23, 2023  
**Bill Status:** Bill Request  
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**Bill Topic:** **UPDATE LOCAL GOVERNMENT SALES & USE TAX COLLECTION**

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**Summary of Fiscal Impact:**

<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input checked="" type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

The bill modernizes and revises the state laws that govern state administration of local sales or use taxes. It increases state and local workload and state revenue on an ongoing basis.

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**Appropriation Summary:** No appropriation is required.

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**Fiscal Note Status:** The fiscal note reflects the bill draft requested by the Sales and Use Tax Simplification Task Force.

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## Summary of Legislation

The Department of Revenue administers local sales or use taxes that are imposed by statutory local governments, and if requested, by home rule jurisdictions (local jurisdictions). The bill modernizes and revises the state laws that govern state administration of local sales or use taxes, including:

- making DOR administration of local sales and use taxes consistent with the administration of state sales tax;
- specifying procedures for local jurisdictions to notify DOR of any changes to sales or use taxes;

- requiring DOR to retain an equal percentage from each collection so that the amount retained does not exceed the costs of enforcement and administration, and crediting that amount to the newly created and continuously appropriated Cost Recovery Cash Fund;
- permitting local jurisdictions to allow retailers to retain a percentage of the amount remitted to cover the retailer's expenses in collecting the fee;
- aligns the dispute resolution process for local sales and use tax administration with state sales tax administration, and establishes procedures for if a local tax collected by the department is erroneously remitted to the wrong taxing entity;
- clarifying that vendors who use the state GIS database to determine the jurisdictions to which taxes are owed is held harmless for any tax or fee liability that would be due as a result of an error in the database;
- requiring local jurisdictions to identify liaisons to coordinate with DOR related to the collection of its sales and use tax; and
- clarifying which sales and use taxes can be administered by DOR.

## State Revenue

Beginning in FY 2025-26, the bill increases state revenue on net, with an increase in cash fund revenue more than offsetting a decrease in General Fund revenue. The bill allows DOR to retain a specific percentage from each collection in order to cover the administrative costs. Money retained under the bill is deposited in the continuously appropriated Cost Recovery Cash Fund, whereas revenue to recover the costs of local sales and use tax administration is currently collected in the General Fund. The additional amount that would be collected under the bill has not been estimated. The fiscal note will be updated if more information becomes available.

Under current law, most DOR tax administration costs are paid from the General Fund; however, DOR may retain a portion of collections from special districts to cover costs related to the administration of sales and use taxes for those districts. State law limits the amount that can be recovered for some specific types of districts. For example, cost recovery from the Regional Transportation District is limited to the FY 1993-94 cost increased by inflation and public safety districts are limited to 3.3 percent of collections, while metropolitan districts are not limited in how much can be recovered. For informational purposes, DOR retained about \$1.3 million from special districts in FY 2018-19, the most recent data available.

## State Expenditures

The bill increases workload and costs for the DOR to adjust reporting procedures and modify the SUTS system and GIS databases. The work can be accomplished through current appropriations, as currently planned work on both systems will be able to include the changes

required by the bill. Workload will also include communicating with and reporting return information to local taxing jurisdictions. The bill may also minimally increase legal services required for rulemaking, provided by the Department of Law. This workload does not require a change in appropriations.

Beginning in FY 2025-26, the bill may also shift some DOR administrative expenditures from the General Fund to the newly created Cost Recovery Cash Fund, depending on the amount of the cost recoveries. Any change in appropriations has not been estimated. The fiscal note will be updated if more information becomes available.

## Other Budget Impacts

**TABOR refunds.** While sales tax revenue that the state collects on behalf of a local government is not subject to the state TABOR limit, revenue retained by the state is subject to TABOR. The amount by which revenue increases, on net, will increase the state obligation for TABOR refunds, paid from the General Fund.

## Local Government

The bill may increase workload for local taxing entities to modify their procedures to align with the bill's requirements. Any additional workload is expected to be minimal. The bill may also reduce revenue for local taxing entities if DOR retains a percentage of collections for administrative costs, and for any local taxing entity that chooses to institute a vendor fee that allows retailers to retain a percent of collections for administrative costs.

## Effective Date

The bill takes effect July 1, 2025, assuming no referendum petition is filed. It applies to any taxable event occurring on or after that date.

## State and Local Government Contacts

Counties	Law	Municipalities
Personnel	Revenue	Special District Association