



MEMORANDUM

Date: January 25, 2021

To: Joint Finance Committee

From: Office of the State Auditor

Re: Summary of tax expenditure reports completed in Calendar Year 2020

This memo is to provide a summary of the tax expenditure evaluations completed by the Office of the State Auditor in Calendar Year 2020. On September 15, 2020, we released our [2020 Tax Expenditures Compilation Report](#), which includes 30 reports covering 72 tax expenditure provisions. The following table provides a brief summary of each report, including a description of the tax expenditures reviewed, their state revenue impact, and policy considerations. The table provides a link to each report and is organized by tax expenditure type and state revenue impact.

We look forward to presenting an overview of our work to the Committee on February 3, 2021 and will be prepared to answer questions related to our tax expenditure reviews.



We Set the Standard for Good Government

OFFICE OF THE STATE AUDITOR 2020 TAX EXPENDITURES REPORT SUMMARY
(SORTED BY TAX EXPENDITURE TYPE AND STATE REVENUE IMPACT)

REPORT	REPORT DATE	DESCRIPTION OF TAX EXPENDITURE(S)	TYPE OF TAX EXPENDITURE	STATE REVENUE IMPACT	POLICY CONSIDERATIONS	EXPIRATION DATE
Enterprise Zones Tax Expenditures	Jan-20	Provide tax credits and a sales tax exemption for businesses within economically distressed areas of the state, known as “enterprise zones.”	Business Incentive	\$23,475,000	Consider (1) whether the expenditures are meeting their intended purpose, (2) establishing performance measures, (3) making changes to better target the expenditures and improve effectiveness, and (4) clarifying carryforward periods for the New Employee Credit.	None
Enterprise Zone Refundable Renewable Energy Investment Tax Credit	Jan-20	Allows taxpayers making investments in renewable energy producing property that qualifies for the Enterprise Zone Investment Tax Credit, which is otherwise not refundable, to elect to receive a refund of 80 percent of the credit amount instead of the full credit.	Business Incentive	\$1,900,000	Consider the effectiveness of the credit at reducing the revenue impact of the Enterprise Zone Investment Tax Credit, increasing renewable energy investments, and increasing the rural tax base.	12/31/2020
Old and New Investment Tax Credits	Sep-20	Provide income tax credits for C-corporations that make investments in qualifying property.	Business Incentive	\$392,700	Review the effectiveness of the credits to ensure that they are meeting their intended purposes.	None
Rural Jump-Start Tax Expenditures	Jan-20	Provide an income tax credit and sales tax exemption to qualifying new businesses located in rural, economically distressed counties. Also provide an income tax credit to employees of qualifying businesses.	Business Incentive	\$61,957	Review the effectiveness of these tax expenditures' structure and requirements, which may limit participation and economic impact.	1/1/2026

OFFICE OF THE STATE AUDITOR 2020 TAX EXPENDITURES REPORT SUMMARY
(SORTED BY TAX EXPENDITURE TYPE AND STATE REVENUE IMPACT)

REPORT	REPORT DATE	DESCRIPTION OF TAX EXPENDITURE(S)	TYPE OF TAX EXPENDITURE	STATE REVENUE IMPACT	POLICY CONSIDERATIONS	EXPIRATION DATE
Structural Cigarette and Tobacco Products Excise Tax Expenditures	Jan-20	Provide several structural credits and exemptions that define the tax base for the State's excise taxes on cigarettes and tobacco products.	Excise Tax	\$6,172,574	Consider repealing the Bad Debt Credits for Cigarette and Tobacco Products Sales because they are rarely used and have limited applicability.	None
Cigarette Excise Tax Stamp Discount & Tobacco Products Excise Tax Vendor Allowance	Jan-20	Reduce the excise tax liability of cigarette wholesalers and tobacco products distributors to cover their expenses in collecting and remitting excise taxes.	Excise Tax	\$2,190,000	None	None
Exemption for Alcohol Produced by Individuals for Personal Use	Apr-20	Exempts limited quantities of beer, wine, and cider produced at home for personal use from the state alcohol excise tax.	Excise Tax	\$500,000 or less	None	None
Excise Tax Exemption for Alcoholic Beverages Originating Outside the U.S.	Apr-20	Exempts small amounts of alcoholic beverages brought into the state by individuals arriving at Colorado airports on flights originating outside the United States.	Excise Tax	Could not determine	Consider clarifying the exemption to align with Department of Revenue practices for administering it.	None
Income Tax Credit for Employer 529 Contributions	Apr-20	Provides an income tax credit for employers who make contributions to a qualified tuition plan owned by an employee.	Income Tax	\$81,000	None	1/1/2032

OFFICE OF THE STATE AUDITOR 2020 TAX EXPENDITURES REPORT SUMMARY
(SORTED BY TAX EXPENDITURE TYPE AND STATE REVENUE IMPACT)

REPORT	REPORT DATE	DESCRIPTION OF TAX EXPENDITURE(S)	TYPE OF TAX EXPENDITURE	STATE REVENUE IMPACT	POLICY CONSIDERATIONS	EXPIRATION DATE
Alternative Income Tax	Jul-20	Allows individual and corporate taxpayers with limited business activities in the state to elect to pay income tax equivalent to 0.5 percent of their annual Colorado gross sales receipts, instead of paying income tax based on their taxable income.	Income Tax	\$70,268 or less	Review the expenditure's eligibility requirements, which limit businesses that can qualify and have not been updated since 1969. In addition, the Department of Revenue has not established a process for businesses filing as individuals to use the expenditure.	None
State-employed Chaplains Housing Allowance	Jul-20	Enables state-employed chaplains to deduct \$4,200, designated as a housing allowance, from their taxable income for both federal and state tax purposes.	Income Tax	\$194 or less	Consider repealing this exemption since it is likely not being used and its purpose could be accomplished through administrative actions by departments that employ chaplains. Alternatively, review the allowance amount, which has not changed since 1979.	None
Corporate Condemnation Capital Gains Income Tax Deduction	Jul-20	Allows C-corporations to deduct the gain from a sale of real or personal property when the buyer of the property initiates the transaction, and the buyer had or could have obtained the power to condemn the property.	Income Tax	Could not determine, likely minimal	Review the scope of the deduction, since it provides more generous treatment to certain taxpayers than appears to be intended and excludes taxpayers filing as individuals.	None
Annuities Exemption	Jul-20	Exempts annuities from the insurance premium tax.	Insurance	\$141,500,000	Consider whether deposit-type funds should continue to be covered under the exemption.	None

OFFICE OF THE STATE AUDITOR 2020 TAX EXPENDITURES REPORT SUMMARY
(SORTED BY TAX EXPENDITURE TYPE AND STATE REVENUE IMPACT)

REPORT	REPORT DATE	DESCRIPTION OF TAX EXPENDITURE(S)	TYPE OF TAX EXPENDITURE	STATE REVENUE IMPACT	POLICY CONSIDERATIONS	EXPIRATION DATE
Regional Home Office Insurance Premium Tax Rate Reduction	Jan-20	Allows insurers who maintain a qualifying regional or home office in Colorado to reduce their insurance premium tax rate from 2 percent of premiums to 1 percent.	Insurance	\$89,700,000	Consider whether the rate reduction is meeting its intent and establish performance expectations. Review whether the tax benefit should continue to be tied to in-state premiums rather than other metrics more closely tied to employment.	None
Unauthorized Insurance Premium Tax Expenditures	Jan-20	Provide limited exemptions and a deduction for premiums collected on unauthorized insurance, which is sold by insurers not authorized to sell insurance in the state, but for which a small number of policies are lawfully sold.	Insurance	Could not determine, likely minimal	Consider repealing or modifying these infrequently used tax expenditures and review the unauthorized insurance premium tax rate.	None
Gasoline and Special Fuel & Dyed Diesel Sales Tax Exemptions	Jan-20	Provides a sales tax exemption for fuel products that are already subject to the state motor fuel excise tax, and dyed diesel, which is a fuel used for off-road vehicles and equipment.	Sales and Use Tax	\$241,000,000	None	None
Medical Supplies Sales Tax Exemptions	Apr-20	Exempt purchases of certain medical supplies and prescription drugs from sales tax.	Sales and Use Tax	\$216,000,000	None	None
Residential Power Sales and Use Tax Exemption	Sep-20	Exempts fuel and electricity purchased for residential use from sales and use tax.	Sales and Use Tax	\$107,000,000	None	None

OFFICE OF THE STATE AUDITOR 2020 TAX EXPENDITURES REPORT SUMMARY
(SORTED BY TAX EXPENDITURE TYPE AND STATE REVENUE IMPACT)

REPORT	REPORT DATE	DESCRIPTION OF TAX EXPENDITURE(S)	TYPE OF TAX EXPENDITURE	STATE REVENUE IMPACT	POLICY CONSIDERATIONS	EXPIRATION DATE
Wood from Trees Killed or Infested by Certain Beetles Sales Tax Exemption	Jan-20	Exempts products made from Colorado-harvested wood killed or infested by mountain pine or spruce beetles from state sales and use tax.	Sales and Use Tax	\$483,000	Consider whether the exemption is meeting its purpose to the extent intended and consider including timber killed by additional insect species.	6/30/2020 (Expired)
Complimentary Marketing Property to Out-of-State Vendees Exemptions	Jul-20	Provide a sales and a use tax exemption for items businesses transfer free of charge to an out-of-state vendee to use in selling the businesses' products.	Sales and Use Tax	Minimal	Consider repeal since they appear to be rarely used.	None
Short-term Testing of Property for Use in Out-of-State Manufacturing Exemption	Jul-20	Exempts from sales and use tax tangible property that will be used in manufacturing outside of the state, which first undergoes testing, modification or inspection in Colorado for a period of 90 days or less.	Sales and Use Tax	Could not determine, likely small	None	None
Leases of Tangible Personal Property for 3 Years or Less Exemption	Apr-20	Allows lessors the option of paying sales and use tax up-front when they acquire property they intend to lease to customers for 3 years or less, or exempting the initial acquisition and collecting sales tax from customers for their lease payments.	Sales and Use Tax	Could not determine	None	None

OFFICE OF THE STATE AUDITOR 2020 TAX EXPENDITURES REPORT SUMMARY
(SORTED BY TAX EXPENDITURE TYPE AND STATE REVENUE IMPACT)

REPORT	REPORT DATE	DESCRIPTION OF TAX EXPENDITURE(S)	TYPE OF TAX EXPENDITURE	STATE REVENUE IMPACT	POLICY CONSIDERATIONS	EXPIRATION DATE
Commercial Trucks and Trailers Licensed Out-of-State and Nonresident Motor Vehicle Exemptions	Jul-20	Exempt motor vehicles and commercial trucks and trailers that are registered outside of the state from sales and use tax.	Sales and Use Tax	Could not determine	None	None
Railroad: Equipment Sales and Use Tax and Construction Materials Sales Tax Exemptions	Sep-20	Provide a sales and use tax exemption for locomotives, railcars, and other rolling stock used in interstate commerce, and a sales tax exemption for construction materials used to build or maintain railroads.	Sales and Use Tax	Could not determine	None	None
Oil and Gas Severance Tax Ad Valorem Credit	Jul-20	Provides a severance tax credit equivalent to 87.5 percent of the ad valorem (real property) taxes assessed or paid to local governments on oil and gas produced.	Severance Tax	\$308,700,000	Review whether the credit is meeting its intended purpose.	None
Oil and Gas Severance Tax Deduction for Transportation Costs & Oil and Gas Severance Tax Deduction for Manufacturing and Processing Costs	Jul-20	Allow taxpayers to deduct transportation, manufacturing, and processing costs when computing gross income for oil and gas severance tax purposes.	Severance Tax	\$240,800,000	Consider changing reporting requirements to assist taxpayers who may not claim them due to a lack of information, and clarifying the type of costs that are eligible for the deduction.	None

OFFICE OF THE STATE AUDITOR 2020 TAX EXPENDITURES REPORT SUMMARY
(SORTED BY TAX EXPENDITURE TYPE AND STATE REVENUE IMPACT)

REPORT	REPORT DATE	DESCRIPTION OF TAX EXPENDITURE(S)	TYPE OF TAX EXPENDITURE	STATE REVENUE IMPACT	POLICY CONSIDERATIONS	EXPIRATION DATE
Oil and Gas Severance Tax Stripper Well Exemption	Jul-20	Exempts from severance tax gross income from oil produced from wells that produce 15 barrels per day or less and gas produced from wells that produce 90,000 cubic feet or less per day.	Severance Tax	\$61,200,000	Review whether the exemption continues to meet its intent and consider restructuring the exemption to only be available when oil or gas prices fall below certain thresholds.	None
Coal Severance Tax Expenditures	Sep-20	Provide a severance tax exemption for the first 300,000 tons of coal produced each quarter and provide separate credits equivalent to 50 percent of severance tax liability for coal mined underground and lignitic coal, a lower rank coal.	Severance Tax	\$7,900,000	Review the effectiveness of the Coal Tonnage Exemption and Underground Coal Credit and clarify their purpose. Consider repealing the Lignitic Coal Credit, which is not used.	None
Oil Shale Tax Expenditures	Jul-20	Provide several expenditures related to oil shale production, including an exemption for non-commercial production and a depletion deduction.	Severance Tax	\$11	Consider making changes to these expenditures because the oil shale industry is not currently commercially viable, and repealing the Excess Depletion Deduction, since it could create unequal state income tax treatment for some taxpayers.	None

OFFICE OF THE STATE AUDITOR 2020 TAX EXPENDITURES REPORT SUMMARY
(SORTED BY TAX EXPENDITURE TYPE AND STATE REVENUE IMPACT)

REPORT	REPORT DATE	DESCRIPTION OF TAX EXPENDITURE(S)	TYPE OF TAX EXPENDITURE	STATE REVENUE IMPACT	POLICY CONSIDERATIONS	EXPIRATION DATE
Impact Assistance Credits	Sep-20	Provide credits for taxpayers that make contributions to local governments to address the impact of new or expanding severance operations.	Severance Tax	\$0	Consider repealing both credits since they are not being used. Alternatively, consider revising the structure of the Impact Assistance Credit to make it more functional for the oil and gas industry.	None

