



Colorado Legislative Council Staff Fiscal Note
FINAL
FISCAL NOTE

Drafting Number: LLS 10-0735
Prime Sponsor(s): Rep. Pommer
 Sen. Heath

Date: March 7, 2010
Bill Status: Signed into Law
Fiscal Analyst: Fiona Sigalla (303 866-3556)

TITLE: CONCERNING THE ELIMINATION OF THE STATE SALES AND USE TAX EXEMPTION FOR DIRECT MAIL ADVERTISING MATERIALS, AND MAKING AN APPROPRIATION THEREFOR.

Fiscal Impact Summary	FY 2009-2010	FY 2010-2011	FY 2011-2012
State Revenue General Fund	\$160,300	\$801,500	\$774,800
State Expenditures General Fund	\$95,892*		
FTE Position Change	0.9 FTE		
Effective Date: The bill was signed by the Governor and became law on February 24, 2010.			
Appropriation Summary for FY 2010-2011: See the State Appropriation section.			
Local Government Impact: See the Local Government Impact Section.			

* No separate appropriation for \$1,570 of these funds is required because of ongoing appropriations to the Department of Revenue for computer programming provided in the Long Bill for new legislation.

Summary of Legislation

This bill applies sales and use tax to advertising materials cooperatively delivered by mail in Colorado. Advertising materials include advertising leaflets, discount coupons, envelopes, and labels. Advertising in newspapers or preprinted newspaper supplements would remain exempt.

The Department of Revenue is required to account for the revenue attributable to this bill, and to the extent information is available, make quarterly reports to the legislature about the revenue gain. The bill directs that none of the new revenue be used to fund additional state FTE.

State Revenue

General Fund revenue will increase \$160,300 in FY 2009-10, \$801,500 in FY 2010-11, and \$774,800 in FY 2011-12. The revenue estimate for FY 2009-10 represents a partial-year impact. The revenue impact decreases in FY 2011-12 because, under current law, vendors will begin retaining 3.33 percent of the taxes they collect on July 1, 2011.

Revenue estimates assume that the direct mail industry in Colorado will generate revenue of \$374 million annually, equal to that reported for the industry in the 2007 Economic Census from the U.S. Census Bureau. The size of the cooperative direct mail industry is estimated to be 7.4 percent of the total direct mail industry, based on figures from the 2008 Household Diary Study from the U.S. Postal Service. The cooperative direct mail industry is not expected to grow significantly over time because of increased competition from electronic advertising.

State Expenditures

Department of Revenue: \$95,892 and 0.9 FTE in FY 2009-10. The Department of Revenue will incur one-time expenses in FY 2009-10 to notify vendors of the elimination of the state sales tax exemption on direct mail advertising. The department anticipates personnel costs to answer questions from vendors regarding the elimination of the exemption. The department will also incur additional General Fund information technology costs to adjust the state's computer systems. No appropriation for these information technology costs is necessary because of ongoing appropriations to the department for computer programming provided in the Long Bill for new legislation. Table 1 summarizes costs incurred by the Department of Revenue.

Economies of Scale. It should be noted that there are several pieces of legislation currently proposed that, if enacted, would affect sales and use tax account holders. If multiple bills are enacted, no separate appropriation may be required by this bill. The department will send one letter, two pages in length, to each sales and use tax account holder advising them of all enacted changes, rather than sending one notification for each legislative change.

It is assumed that the Department of Revenue can absorb the costs of providing information on the amount of money foregone by taxpayers to the extent that data are available using their current information systems.

Cost Components	FY 2009-2010
Information Technology Services	\$1,570
Personal Services	36,239
<i>FTE</i>	<i>0.9</i>
Operating Expenses	
Printing	5,999
Postage	52,084
TOTAL	\$95,892

Local Government Impact

Special districts that couple their sales tax base to the state sales tax base, such as the Regional Transportation District (RTD), may experience an increase in revenue. RTD has indicated that it expects an annual increase in revenue of \$250,000. Municipalities and counties should not be affected.

State Appropriations

For FY 2009-10, the bill requires a General Fund appropriation of \$94,322 and 0.9 FTE for the Department of Revenue. If multiple sales and use tax bills are enacted, no separate appropriation may be necessary for this bill.

Departments Contacted

Revenue