Colorado Legislative Council Staff

HB16-1087

FINAL FISCAL NOTE

FISCAL IMPACT: ☒ State ☒ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 16-0183	**Date:**	May 17, 2016
Prime Sponsor(s):	Rep. Becker J.	**Bill Status:**	Postponed Indefinitely
		Fiscal Analyst:	Greg Sobetski (303-866-4105)

BILL TOPIC: INCREASE VENDOR FEE FOR COLLECTING STATE SALES TAX

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019
State Revenue		**($4.1 million)**	**($8.6 million)**
General Fund		(4.1 million)	(8.6 million)
State Expenditures		**$155,728**	
General Fund		152,371	
Centrally Appropriated Costs		3,357	
TABOR Impact		($4.1 million)	not estimated
FTE Position Change		0.3 FTE	
Future Year Impacts: Ongoing state revenue decrease.			

Summary of Legislation

This bill increases the share of state sales tax revenue allowed to be retained by some vendors to cover their expenses for collecting and remitting the tax. For businesses remitting$75,000 or less in state sales tax during the prior calendar year, this share, known as the vendor fee, is increased from 3.33 percent under current law to 4.5 percent beginning January 1, 2018. For all other businesses, the vendor fee is not changed.

Background

The state sales tax is collected by retailers selling taxable goods or services. Most retailers are responsible for filing returns and remitting sales tax collections to the Department of Revenue (DOR) on a monthly basis. All businesses filing on-time returns are allowed to retain a vendor fee, a fixed percentage of sales taxes, to cover the expenses of collecting and remitting the tax. A history of the vendor fee is shown in Table 1.

Table 1. Colorado Vendor Fee History	
Dates	**Vendor Fee**
July 1, 1935 to June 30,1965	5.00 percent
July 1, 1965 to June 30, 2003	3.33 percent
July 1, 2003 to June 30, 2005	2.33 percent
July 1, 2005 to February 28, 2009	3.33 percent
March 1, 2009 to June 30, 2009	1.35 percent
July 1, 2009 to June 30, 2011	0 percent
July 1, 2011 to June 30, 2014	2.22 percent
July 1, 2014 to current	3.33 percent

In calendar year 2015, the state allowed retailers to retain an aggregate vendor fee of $87.9 million. Of this amount, $21.2 million was retained by vendors remitting $75,000 or less in state sales tax, or by unclassified vendors assumed to remit less than $75,000 in state sales tax.

State Revenue

The bill reduces state General Fund revenue by **$4.1 million in FY 2017-18 and $8.6 million in FY 2018-19** and subsequent years. The revenue reduction for FY 2017-18 represents a half-year impact.

Assumptions. Through FY 2017-18, state sales tax collections are assumed to grow by the rates published in the December 2015 Legislative Council Staff forecast. For FY 2018-19, state sales tax collections are assumed to grow by 5.2 percent annually, the average annual rate of growth since FY 1991-92.

Approximately 24.1 percent of the aggregate state vendor fee was allowed to businesses remitting less than $75,000 in state sales tax or to unclassified businesses assumed to fall into this category. During FY 2014-15, 97.7 percent of state sales taxes collected by these businesses were remitted on time and eligible for the vendor fee. It is assumed that these shares will remain constant in future years.

TABOR Impact

This bill reduces state revenue from sales taxes, which will reduce the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. Since the bill reduces both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money available for the General Fund budget in the future during years the state does not collect money above the TABOR limit.

State Expenditures

One-time state General Fund expenditures will increase by **$155,728 and 0.3 FTE in FY 2017-18**. Expenditures are summarized in Table 2 and detailed below.

Table 2. Expenditures Under HB16-1087		
Cost Components	**FY 2016-17**	**FY 2017-18**
Personal Services	$0	$10,727
FTE		0.3 FTE
Operating Expenses		81,290
Computer Programming and Testing		60,354
Centrally Appropriated Costs*		3,357
TOTAL	**$0**	**$155,728**

** Centrally appropriated costs are not included in the bill's appropriation.*

Department of Revenue. The bill's most significant costs are for notifying each of the state's approximately 145,000 retailers of changes to the vendor fee. Paper and postage costs, respectively, are expected to total $5,773 and $70,717 in FY 2017-18. Additional DOR workload for processing and mailing notifications is estimated at 0.3 FTE annually.

The bill requires that four state tax forms be updated each year in FY 2017-18. Expenditures for updating each form are estimated at $1,200; these costs are paid to a Department of Personnel and Administration contractor via the DOR.

This bill requires changes to the DOR's GenTax software system. Changes are programmed by a contractor at a rate of $200 per hour. The changes in this bill are expected to increase General Fund expenditures by $45,000 in FY 2017-18, representing 225 hours of programming. All GenTax programming changes are tested by DOR staff. Testing for this bill will require expenditures for contract personnel totaling $15,354, representing 640 hours of testing at a rate of $24 per hour.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3.

Table 3. Centrally Appropriated Costs Under HB16-1087		
Cost Components	**FY 2016-17**	**FY 2017-18**
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$0	$2,396
Supplemental Employee Retirement Payments		961
TOTAL	**$0**	**$3,357**

Local Government Impact

The bill reduces sales tax revenue to the Regional Transportation District (RTD) and the Scientific and Cultural Facilities District (SCFD). Under House Bill 13-1272, these districts are required to apply sales and use tax expenditures in parity with the state unless otherwise specified.

In May 2015, 61.9 percent of sales taxes were remitted from the seven counties that generally compose the RTD and the SCFD. Assuming that this share remains the same, revenue to the RTD will be reduced by $0.9 million in FY 2017-18, $1.8 million in FY 2018-19, and similar amounts in subsequent years. Similarly, revenue to the SCFD will be reduced by $86,000 in FY 2017-18. Under current law, the SCFD sales tax is sunset at the end of FY 2017-18.

Effective Date

The bill was postponed indefinitely by the House Finance Committee on March 16, 2016.

State and Local Government Contacts

Information Technology	Regional Transportation District
Revenue	Special Districts