2018 Tax Expenditure Compilation Report

Colorado Office of the State Auditor

Presenter: Trey Standley
What is a Tax Expenditure?

• A tax deduction, exemption, credit, rate reduction, or definition.
• That provides (or appears to provide) preferential treatment to certain individuals, businesses, or types of activity.
• Like an “expenditure” in that it results in reduced funds available to the state.
“Provide the State with factual evidence of whether the State’s tax expenditures achieve the objectives they are intended to achieve.”
First Step: Identify Tax Expenditure Provisions

- 226 total
- 40 are 50+ years old
- 22 will eventually expire with no legislative action
- 194 are permanent
How Did We Evaluate Tax Expenditures?

• 15 reviewed in 2018 Compilation Report
• Key statutory requirements
  ➢ Assess whether each is meeting its purpose
  ➢ Analyze the economic costs and benefits (revenue impact)
  ➢ Evaluate the impact on intended beneficiaries if provision was eliminated
  ➢ Report data constraints
  ➢ Identify policy considerations to improve effectiveness and administration
What is the purpose of the tax expenditure?

- Only 1 of 15 had a direct statement of purpose in statute
- For most, we inferred a purpose and created performance measures
Is the Tax Expenditure Meeting its Purpose?

- Created performance measures
- 5 of 15 were not meeting their purpose
- 2 of 15 were meeting their purpose, but had a small impact
- “But for” problem
Economic Costs and Benefits

- Revenue impact to the State/local governments ($0 to $4 billion)
- Benefits to taxpayers/state
- Cost effectiveness
Impact To Beneficiaries If Provision Was Eliminated

- Cost to taxpayers
- Impact to businesses/consumers
- Competitiveness with other states
Data Constraints

• 11 of 15 evaluations impacted by data constraints
• Common data issues:
  ➢ Not captured on a Department of Revenue form
  ➢ Multiple expenditures aggregated on reporting lines
  ➢ Information on forms is not easily extracted from GenTax
  ➢ Tax Information is self-reported by taxpayers
  ➢ Tax information changes over time

• Use of data from non-state sources
Hunger Relief Income Tax Credit & Crop and Livestock Income Tax Credit
Hunger Relief Income Tax Credit & Crop and Livestock Income Tax Credit

HOW TO CLAIM THE CREDITS:

1. Farmer has extra food to donate
2. Farmer donates food to foodbank
3. Foodbank issues a donation certificate
4. Farmer submits certificate to Department of Revenue
## Hunger Relief Income Tax Credit & Crop and Livestock Income Tax Credit

<table>
<thead>
<tr>
<th></th>
<th>Hunger Relief Credit, CY 2016</th>
<th>Crop and Livestock Credit, CY 2012-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year Enacted</strong></td>
<td>2014</td>
<td>1982</td>
</tr>
<tr>
<td><strong>Repeal/Expiration Date</strong></td>
<td>January 1, 2020</td>
<td>None</td>
</tr>
<tr>
<td><strong>Revenue Impact</strong></td>
<td>$71,000</td>
<td>Minimal</td>
</tr>
<tr>
<td><strong>Number of Taxpayers Claiming</strong></td>
<td>353</td>
<td>Too few to report</td>
</tr>
<tr>
<td><strong>Average Taxpayer Benefit</strong></td>
<td>$201</td>
<td>Too few taxpayers to report</td>
</tr>
<tr>
<td><strong>Is it Meeting its Purpose?</strong></td>
<td>Yes, but the impact is relatively small</td>
<td>No, because it has been used infrequently</td>
</tr>
</tbody>
</table>
# Hunger Relief Income Tax Credit & Crop and Livestock Income Tax Credit

## DONATIONS TO COLORADO FOOD BANKS VS. PRODUCE SOURCED AND DISTRIBUTED TO FOOD BANKS ACROSS COUNTRY (POUNDS OF FOOD)

<table>
<thead>
<tr>
<th>FOOD BANK</th>
<th>2014</th>
<th>2016</th>
<th>PERCENT CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feeding America Network of Food Banks</td>
<td>970 million</td>
<td>1.25 billion</td>
<td>29%</td>
</tr>
<tr>
<td>5 Colorado Food Banks</td>
<td>24 million</td>
<td>35 million</td>
<td>47%</td>
</tr>
</tbody>
</table>

Max Amount of 2014-2016 Increase Due to Hunger Relief Credit ($ Credits Claimed/Average $/lb of food donated) 1.5 million

SOURCE: Office of the State Auditor analysis of data provided by Feeding Colorado and Feeding America.
# Hunger Relief Income Tax Credit & Crop and Livestock Income Tax Credit

## Cost Effectiveness Scenarios

<table>
<thead>
<tr>
<th>Percent of Donations Incentivized by Credit</th>
<th>Pounds Donated Attributable to Credit</th>
<th>Cost per Pound to the State</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Percent</td>
<td>146,000</td>
<td>$1.44</td>
</tr>
<tr>
<td>10 Percent</td>
<td>293,000</td>
<td>$0.72</td>
</tr>
<tr>
<td>20 Percent</td>
<td>585,000</td>
<td>$0.36</td>
</tr>
<tr>
<td>21 Percent (Break Even)</td>
<td>614,000</td>
<td>$0.34</td>
</tr>
<tr>
<td>30 Percent</td>
<td>878,000</td>
<td>$0.24</td>
</tr>
</tbody>
</table>

*Source: Office of the State Auditor analysis of Department of Revenue data for Tax Years 2015 and 2016 and food bank receipts for Calendar Year 2015-2017.*
Hunger Relief Income Tax Credit & Crop and Livestock Income Tax Credit

- Lack of awareness of the credits across agricultural community
- Many agricultural producers’ tax liabilities are too low to benefit from the Hunger Relief Credit
- Requirement for agricultural producers to file a Schedule F to claim Hunger Relief credit may be reducing number claiming credit
- Crop and Livestock Credit’s $1,000 cap may be too low to incentivize C corporations to claim credit
Long-Term Lodging Sales Tax Exemption
### Exemptions Schedule - Part B

(Exemptions vary, refer to Colorado Sales Tax Exemption Rules)

This schedule is required for exemptions claimed on line 3b, page 1.

<table>
<thead>
<tr>
<th>Exemption</th>
<th>State</th>
<th>RTD/CD</th>
<th>Special District</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Food, including food sold through vending machines</td>
<td>(B1-1)</td>
<td>(B1-2)</td>
<td>(B1-3)</td>
</tr>
<tr>
<td>2. Machinery</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### 10. Other Exemptions, explanation required

<table>
<thead>
<tr>
<th>(B0-1)</th>
<th>(B0-2)</th>
<th>(B0-3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explain</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Long-Term Lodging Sales Tax Exemption

<table>
<thead>
<tr>
<th></th>
<th>Sales Attributable to Long-Term Stays (30 Days or More)</th>
<th>State Revenue Impact</th>
<th>Local Government Revenue Impact</th>
<th>Total Revenue Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels and Home Shares¹</td>
<td>$356 million</td>
<td>$10.3 million</td>
<td>$6.6 million</td>
<td>$16.9 million</td>
</tr>
<tr>
<td>Corporate Housing²</td>
<td>$67.3 million</td>
<td>$2 million</td>
<td>$1.3 million</td>
<td>$3.3 million</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$423.3 million</strong></td>
<td><strong>$12.3 million</strong></td>
<td><strong>$7.9 million</strong></td>
<td><strong>$20.2 million</strong></td>
</tr>
</tbody>
</table>

**ESTIMATED REVENUE IMPACT**

**CALENDAR YEAR 2017**

**SOURCE:** Office of the State Auditor analysis of data from the 2015 Department of Revenue reports, State Demographer data, Bureau of Economic Analysis data, and information published by industry associations.

¹ Data provided in the Department of Revenue 2015 Retail Sales Tax Reports.
² Data provided by Corporate Housing Providers Association. Assumes that all corporate housing stays are 30 days or longer.
Long-Term Lodging Sales Tax Exemption

Traditional Hotels
- 10 of 20 hotels we called were not aware of the exemption.

Extended Stay Hotels
- 5 of 5 we called were aware and applied exemption

Corporate Housing Providers
- 2 of 2 we called were aware and applied exemption

Home Share Websites
- Airbnb website applied exemption
- VRBO and HomeAway placed responsibility for sales tax collection on property owners
Long-Term Lodging Sales Tax Exemption

• “There shall be exempt from taxation under the provisions of part 1 of this article all sales and purchases of commodities and services under the provisions of section 39-26-102(11) to any occupant who is a permanent resident of any hotel, apartment hotel, lodging house, motor hotel, guesthouse, guest ranch, trailer coach, mobile home, auto camp, or trailer court or park and who enters into or has entered into a written agreement for occupancy of a room or accommodations for a period of at least thirty consecutive days during the calendar year or preceding year.”

[Section 39-26-704(3), C.R.S.]
Questions?

Full report available at: https://leg.colorado.gov/node/1610401

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