

**BUSINESS**

## Colorado has one of the most complicated sales tax systems in the country. Here's why that's so hard to change.

This summer marks the start of a 3-year effort to reform the system that churns out \$2 billion in seemingly random tax breaks and can drive business owners to extremes

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Experts, Democrats and Republicans are all in agreement: Colorado's sales tax system is a tangled mess.

Business owners find it needlessly complicated, a mind-boggling array of conflicting rules and regulations that shift from city to city.

Consumers, by and large, are blissfully ignorant of its quirks. But the \$2 billion a year in sales tax breaks the state offers to a seemingly random collection of special interests translates to less money for things such as roads and schools — and higher taxes on everything else.

Meanwhile, state lawmakers — spurred on by frustrated business groups — have been trying to overhaul the system since at least 1984. Instead, Colorado sales tax laws have only grown more complicated, so much so that there are now more than 700 possible combinations of sales taxes that businesses have to collect.

In most states? There's just one.

“Colorado really does have one of the worst sales and use tax systems in the United States,” said Tony Gagliardi, the Colorado state director for the National Federation of Independent Business and president of a [coalition that advocates for sales tax simplification](#).

This summer, public officials, tax experts and business representatives will embark on the latest attempt at reform — this time in the shape of a legislative task force charged with studying the issue over the next three years and vetting possible solutions.

They will look at ways to make the existing patchwork easier to navigate, such as centralizing tax collections for home rule governments. That way, even if companies have to pay varying rates, they can at least file all of it in one place.

Reform advocates are hopeful that progress will be made. But it's likely to fall well short of the sweeping overhaul that many believe is needed. At this point, such a comprehensive fix would require a complicated mix of tax hikes and cuts at virtually every level of government — not to mention voter approval — a task so politically fraught that few are even suggesting it.

### “They'd rather risk getting caught”

How messy is the current system? For the typical consumer — and even for most businesses — it's hardly noticeable. But the larger the business, the more headaches it creates.

Colorado's one of just six states that doesn't have a uniform tax base across the state, meaning something that's taxed in one place might be tax-exempt elsewhere.

The state's 51 counties and 152 statutory cities can opt in or out of a number of different state tax exemptions. Meanwhile, Colorado's 69 home rule cities can collect and administer their own sales taxes — with whatever rules they choose. Add in special taxing districts for things such as public safety, housing and transit, and the resulting policy mishmash has created 756 different combinations of sales taxes that a business has to charge for goods depending on where they're located.

Paul Archer, owner of Automated Business Products, told a House committee this year that he employs just 29 workers — and maintains a whopping 40 sales tax licenses.

"I encounter small businesses frequently who don't comply with our sales tax system because it's too complex," Archer told the committee. "And they tell me they'd rather run the risk of getting caught than have to comply."

There's overwhelming support for reform at the statehouse — House Bill 1216, the bipartisan bill establishing the task force, passed unanimously in the House, and 29-6 in the Senate. Even local government officials — who have historically pushed back against what they see as a threat to local authority — are at the table saying that some simplification is warranted.

So why hasn't anything significant been done?

At this point, there are so many different tax systems that moving to one, uniform sales tax code could mean anything from a dramatic tax cut to a massive tax hike, depending on where you live. The former's a political hornet's nest — no lawmaker wants to tell their hometown government to cut services. The latter might be an even harder sell — Colorado voters have never approved a statewide sales tax hike for anything other than marijuana.

Even setting aside the political challenges, both would face significant legal hurdles under the state's constitution.

"It is very difficult" to retroactively create a uniform tax code, says Jared Walczak, a policy analyst with the Tax Foundation. "And most states never got themselves into the situation in the first place."

**"Easier said than done"**

In 2013, state lawmakers directed the Department of Revenue to come up with a fix — without changing how much revenue the state or local governments bring in.

Here's how it would work: The state would start taxing 40 types of goods that are now exempt, many of which are already taxed at the local level. That would generate so much new revenue that the state could then cut its tax rate from 2.9 percent to 2.4 percent without losing money. Local governments would then adopt the new statewide sales tax policy, with corresponding — and typically smaller — cuts to their own taxes.

But far from [adopting the recommendations](#), state lawmakers have actually pushed for new exemptions since the report was issued. This year, lawmakers passed a [bill ending sales taxes on certain historic planes](#), while Democratic-led efforts to exempt diapers and tampons were defeated.

Walczak also notes that services — things such as home repairs, legal advice and landscaping — make up as much as 80 percent of sales in the state. Yet Colorado taxes just 14 of 168 categories of services identified by the Federation of Tax Administrators. That's the fewest of any state in the country.

Add in the 81 sales tax exemptions — worth \$2 billion in 2012 — and "significantly under 20 percent of all sales in Colorado are subject to tax," Walczak said.

Many of them are relatively small in the context of a \$26.8 billion budget — \$1.2 million here for precious metal bullion and coins, \$75,000 there for dairy equipment — but they add up. Eliminating even half the tax breaks would generate more than enough money to pay for the [state's transportation needs](#) over the next decade.

And yet — this year's task force won't be looking to change what's taxed and what isn't. That's partly because of how hard it is to change tax policy under the state's constitutional restraints. And it's partly because tax breaks — even "temporary" ones — don't go away without a fight.

"Getting rid of tax exemptions is a lot easier said than done," said House Majority Leader KC Becker, a Boulder Democrat who was one of just four House members to vote against the tax break for historic planes. "There's always a vested interest that's going to be fighting to keep it in place."

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