

Grassroots movement to simplify sales tax picks up early wins and key advocates

By Judy Vorndran, Esq., CPA

While the Trump Administration walks back expectations for how quickly tax reform may happen on the national level, here in Colorado, legislators are fast-tracking state sales tax reform. Last year, the legislature passed a bill protecting taxpayers' due process. And this year, Governor John Hickenlooper signed legislation authorizing the formation of a task force to study best ways to make sense of the state's mystifying and complex web of sales taxes.

Easy concept, puzzling application

Sales (and use) tax is one of the three primary areas which legislators use to fund state and local government (income and property taxes round out the trifecta). The concept is simple: if you buy something tangible, you pay a fixed percentage to local government as a tax.

Join the movement!

Complex, ambiguous and confusing, key lawmakers in Colorado think the state's decentralized sales tax system is due for an overhaul. Join me in the Simplify Colorado Sales Tax coalition, which is helping to make these critical changes happen for the benefit of all Colorado businesses and consumers.



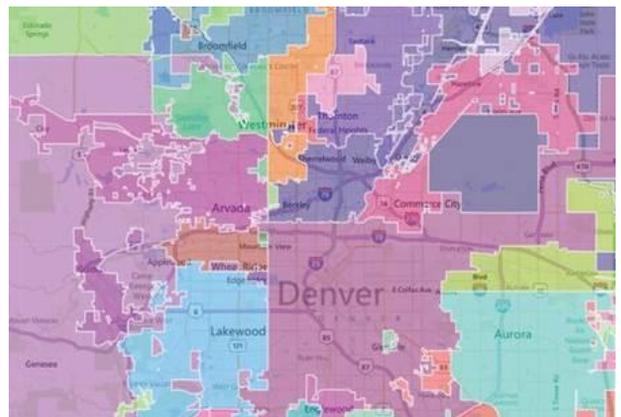
Putting the concept into practice is where it gets complicated. Colorado has a patchwork of 756 specific geographic areas with different sales tax rates and bases created by 294 taxing jurisdictions with overlapping boundaries. This produces what the state Department of Revenue called in a [December, 2013 report](#) a “heavy burden on businesses operating in our state.”

The situation in Colorado is particularly complex relative to other states, according to [Avalara](#). The state imposes a 2.9 percent sales tax on tangible personal property, including cigarettes. Recent legislative changes eliminated the state sales and use tax exemption for certain items in an effort to help balance Colorado’s budget. Items that are no longer tax exempt include:

- Candy and soft drinks, including those sold in vending machines
- Nonessential-packaging items related to sales of food and beverages
- Energy used for industrial and other related purposes
- Standardized computer software
- Agricultural compounds and pesticides
- Materials used in direct mail advertising
- Sales by out-of-state retailers

Alert to change

The complex sales tax system is a nightmare for retailers to manage. Sales taxes are subject to change at any time as state and local lawmakers decide which goods and services to tax or not to tax, and when. Sellers of goods and services are required to track each change as it occurs within the boundaries of each taxing jurisdiction in which they do business. When in doubt, retailers have to make the call whether to pay tax or risk noncompliance.



Sales tax jurisdictions around Denver are inconsistent and confusing. (Source: Avalara)

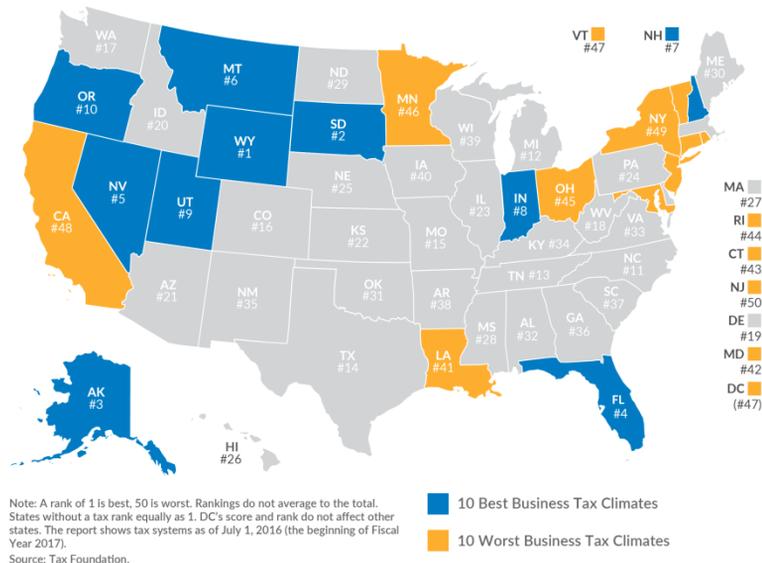
How the tax bill grows

Making the wrong call can be costly. With unclear guidance and jurisdictional differences, potential sales tax revenue is under-realized by taxing authorities. These jurisdictions try to recoup taxes in audits that add penalties and interest (often two to three times market rates) to back-taxes that the business often did not know were due. Consumers are often hit with unexpected taxes after a sale—frustrating them and driving up dissatisfaction with businesses that are trying to fulfill their legal mandate.

Business un-friendly

The heavy sales tax burden puts Colorado at a distinct competitive disadvantage. The heavier the sales tax burden is, the weaker the state's business climate. It is impossible to quantify the businesses that decided not to locate to Colorado and the jobs lost due to a convoluted sales tax environment. What we do know is that Colorado ranked 39th among all states on the sales tax component in the [Tax Foundation's 2017 State Business Tax Climate Index](#). The same report shows that only six other states allow localities to define the sales tax base.

2017 State Business Tax Climate Index



Marching toward reform

Thousands of Colorado businesses face the challenge of trying to comply with this complex and punitive sales tax structure. It is a significant drain on businesses, resulting in considerable costs to comply with all taxing jurisdictions. It is this overall complexity that needs reform.

In 2015, key businesses, trade associations, and other interested parties in the state established the [Simplify Colorado Sales Tax coalition](#) with a primary mission of pursuing reforms that will create a “simple, fair, and predictable sales tax system in Colorado.” I am a Board member of this coalition.

We’re making fast progress and seeing promising wins:

2016

During the 2016 General Assembly session, the coalition worked with bipartisan legislators and the governor's office to successfully pass [Senate Bill 36](#), a first and important step toward simplifying Colorado's sales-tax collection process. This bill reformed the states’ unfair system that required a taxpayer to pay the full tax audit assessment or post a bond before seeking a ruling from an independent court. Now taxpayers can appeal to district court before any tax payment is due. (Colorado and Florida are currently involved in legal disputes related to this issue that could find resolution with the Supreme Court and the overturning of *Quill Corp. v. North Dakota*.)

2017

In the 2017 legislative session, the coalition spearheaded and helped pass [HB17-1216](#) to set up a task force focusing on this issue. The bill passed with overwhelming support and was quickly signed by Governor Hickenlooper. It establishes a fifteen-member task force representing a cross-section of private and public constituents that include legislators, public officials, service providers, and businesses. The task force’s first duty is to study the challenges in sales tax reform and make its initial report to the legislature by November 1.

Join the movement!

We need your help to keep the momentum and pressure on Colorado's state legislators to simplify sales tax.

I invite you to [join us](#) as we expand our advocacy base in pursuit of change that will benefit all Colorado businesses and consumers. The Coalition to Simplify Colorado Sales Tax is a nonprofit organization governed by an independent board of directors who represent over 8,400 Colorado businesses and the CPA Society's 8,500 members.

Learn more at [Simplify Colorado Sales Tax coalition](#).



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About the author

Judy Vorndran leads the state and local tax (SALT) practice at TaxOps, helping clients navigate the morass of SALT issues with the goal of making it less "Taxing!" She is laser-focused on finding ways to simplify complex SALT issues and areas of state tax controversy. Judy monitors the legislative, judicial, and regulatory tax landscape to assess the tax impact on businesses, and has helped successfully change the laws in a number of states and jurisdictions.

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