



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 25B-1005: ELIMINATE STATE SALES TAX VENDOR FEE

Prime Sponsors:

Rep. Woodrow; McCormick

Sen. Kipp; Winter F.

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Summary Information

Overview. The bill eliminates the state sales tax vendor fee beginning January 1, 2026, and makes changes to the allocation of sales tax revenue to the Highway Development Grant Fund.

Types of impacts. The bill is projected to affect the following areas on a continuous basis:

- State Expenditures
- State Revenue
- TABOR Refunds
- Local Government

Appropriations. The bill requires General Fund appropriations of \$156,219 for the current FY 2025-26 and \$67,499 for FY 2026-27.

Table 1
State Fiscal Impacts

Type of Impact	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
State Revenue	\$27.6 million	\$56.8 million	\$56.9 million
State Expenditures	\$1.5 million	\$2.3 million	\$2.3 million
Transferred Funds	\$0	\$0	\$0
Change in TABOR Refunds	\$0	\$56.8 million	Not estimated
Change in State FTE	1.2 FTE	0.9 FTE	0.0 FTE

Table 1A
State Revenue

Fund Source	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund	\$26.3 million	\$54.6 million	\$54.6 million
Housing Development Grant Fund	\$1.3 million	\$2.2 million	\$2.3 million
Total Revenue	\$27.6 million	\$56.8 million	\$56.9 million

Table 1B
State Expenditures

Fund Source	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund	\$156,219	\$67,499	\$8,702
Cash Funds	\$1.3 million	\$2.2 million	\$2.3 million
Federal Funds	\$0	\$0	\$0
Centrally Appropriated	\$23,723	\$17,792	\$0
Total Expenditures	\$1.5 million	\$2.3 million	\$2.3 million
Total FTE	1.2 FTE	0.9 FTE	0.0 FTE

Summary of Legislation

Under current law, retailers are allowed to keep 4 percent of their sales tax collections, up to \$1,000 per retailer per filing period, to cover their expenses of collecting state sales tax on behalf of the state. This allowance is known as the sales tax vendor fee. The bill eliminates the vendor fee beginning January 1, 2026.

The bill makes changes to the calculations determining the portion of sales tax revenue that is allocated to the Housing Development Grant Fund (HDGF). Under current law, sales tax revenue allocations to the HDGF are determined by the total revenue increase from vendor fee changes in House Bill 19-1245. Instead, the bill requires that 1.655 percent of sales tax revenue collections be allocated to the HDGF. The bill requires that the monthly allocation of sales tax revenue to the HDGF be reduced by one-twelfth of the annual allocation under [House Bill 24-1434](#), which total \$35,985,000 per year through FY 2031-32 and \$985,000 in FY 2032-33 and future years.

Background

The vendor fee is a service fee the state allows retailers to retain for their costs in collecting and remitting sales tax to state and local governments. Only tax returns with less than \$1,000,000 and submitted on time to the Department of Revenue are allowed to retain the vendor fee. Table 2 below includes a history of state vendor fee rates.

Table 2
Colorado Sales Tax 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 December 31, 2019	3.33 percent
January 1, 2020 to present	4.00 percent

[House Bill 19-1245](#) capped the vendor fee at \$1,000 per filing period per retailer, where a retailer with multiple locations in the state is counted as one retailer for the purposes of the vendor fee allowance cap. In 2024, retailers retained a total of \$56.5 million in sales tax vendor fees.

An amount of sales tax revenue equal to any portion of vendor fees not retained by retailers because they exceed the HB 19-1245 filing period limit is typically allocated to the Housing Development Grant Fund (HDGF), except that in FY 2024-25 through FY 2031-32, \$35,985,000 of this amount is allocated to the General Fund instead under [House Bill 24-1434](#). For FY 2032-33 and future years, \$985,000 of this amount is allocated to the General Fund instead.

[Senate Bill 22-006](#) clarified that the calculation of sales tax revenue to be allocated to the HDGF should only account for vendor fee changes in HB 19-1245. Functionally, this means that any other future vendor fee changes do not impact how much sales tax revenue is allocated to the HDGF, regardless of how a vendor fee change impacts total sales tax revenue. In FY 2024-25, sales tax revenue attributable to the HB 19-1245 vendor fee changes totaled \$76.8 million, of which \$40.8 million was allocated to the HDGF. The HDGF is used to fund affordable housing projects through a competitive grant process administered by the Division of Housing in the Department of Local Affairs.

State Revenue

The bill is expected to increase state sales tax revenue by \$27.6 million in FY 2025-26, \$56.8 million in FY 2026-27, and \$56.9 million in FY 2027-28 with similar amounts in future years. Table 3 below summarizes the expected revenue increase by fund.

Table 3
State Revenue

Fund Source	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund	\$26,351,505	\$54,561,868	\$54,619,867
Housing Development Grant Fund	\$1,293,029	\$2,235,190	\$2,300,590
Total Revenue	\$27,644,534	\$56,797,058	\$56,920,457

Retailers retained a total of \$56.5 million from the sales tax vendor fee allowance in 2024. A historical average growth rate was applied to actual data to estimate the increase in sales tax revenue from repealing the vendor fee.

The revenue impact to the HDGF is calculated by taking 1.655 percent of sales tax revenue projections from the LCS June 2025 Forecast and subtracting the General Fund portion as required by HB 24-1434, and comparing this amount to HDGF receipts of sales tax revenue expected under current law.

Table 4
Housing Development Grant Fund Sales Tax Revenue Forecast Comparison

Fund Source	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
LCS June 2025 Forecast	\$38.9 million	\$42.8 million	\$46.7 million
HB 25B-1005 Estimate	\$40.2 million	\$45.0 million	\$49.0 million
HB 25B-1005 Impact to HDGF Revenue	\$1.3 million	\$2.2 million	\$2.3 million

State Expenditures

The bill increases state expenditures by about \$1.5 million in the current FY 2025-26 and \$2.3 million in FY 2026-27 and future years. These costs are in the DOR, paid from the General Fund, and DOLA, paid from the HDGF. These impacts are shown in Table 5 and described below.

Table 5
State Expenditures
All Departments

Department	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
Department of Revenue	\$0.18 million	\$0.08 million	\$0.009 million
Department of Local Affairs	\$1.3 million	\$2.2 million	\$2.3 million
Total Costs	\$1.5 million	\$2.3 million	\$2.3 million

Department of Revenue

The DOR will require temporary staff, programming, and tax form updates to implement the repeal of the vendor fee allowance beginning in FY 2025-26. These costs are summarized in Table 6 below.

Table 6
State Expenditures
Department of Revenue

Cost Component	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
Personal Services	\$67,968	\$50,975	\$0
Operating Expenses	\$1,536	\$1,152	\$0
Capital Outlay Costs	\$13,340	\$6,670	\$0
GenTax Programming and Testing	\$18,214	\$0	\$0
Office of Research and Analysis	\$8,778	\$8,702	\$8,702
Sales and Use Tax System Programming	\$10,000	\$0	\$0
Document Management (Paid to DPA)	\$36,383	\$0	\$0
Centrally Appropriated Costs	\$23,723	\$17,792	\$0
Total Costs	\$179,942	\$85,291	\$8,702
Total FTE	1.2 FTE	0.9 FTE	0.0 FTE

Staff

The DOR will require an additional 1.2 FTE tax examiners in FY 2025-26 and 0.9 FTE tax examiners in FY 2026-27 for the Business Tax Accounting Section and Customer Contact Group, and possibly the Tax Audit and Compliance Section. Based on previous changes to the tax code, it is assumed that elimination of the sales tax vendor will result in a temporary increase in calls to the Customer Care Group and sales and use tax returns immediately following implementation and tapering off after the first couple years of implementation. Additional staff will respond to questions and work with businesses to understand and correctly incorporate the change in law on their tax returns.

GenTax Programming and Testing

This bill requires expenditures of \$18,214 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at \$9,768, representing 40 hours of contract programming at a rate of \$244.19 per hour. Costs for system testing include \$5,576 for 136 hours of innovation, strategy, and delivery programming support and \$2,870 for 70 hours of user acceptance testing, both at a rate of \$41 per hour.

Office of Research and Analysis

Expenditures in the Office of Research and Analysis are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$8,778, representing 231 hours for data management and reporting at \$38 per hour in FY 2025-26, and \$8,702 (229 hours) for FY 2026-27 and future years.

Sales and Use Tax System Programming

The Sales and Use Tax System—a DOR-managed portal that provides online tax remittance for sales and use tax and Geographic Information System (GIS) to identify the total sales tax rate for a given Colorado location—will require programming to update with the vendor fee changes required by this bill. Programming changes are estimated at \$10,000 based on similar previous projects.

Document Management (Paid to DPA)

For FY 2025-26, DOR will incur \$36,383 in document management costs. This includes updates to four tax return forms and the processing of paper returns. There are approximately 82,000 retailers claiming the vendor fee with an estimated 10 percent paper returns. These expenditures will occur in the Department of Personnel and Administration (DPA) using reappropriated DOR funds.

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. These costs, which may include employee insurance, supplemental employee retirement payments, indirect cost assessments, and other costs, are shown in Table 6 above.

Department of Local Affairs

By increasing revenue to the continuously appropriated HDGF, the bill is expected to increase expenditures in DOLA on affordable housing projects by \$1.3 million in FY 2025-26, \$2.2 million in FY 2026-27, and similar amounts in future years. For every \$2 million in revenue, DOLA expects to fund around 35 additional units based on a current average per unit subsidy of \$55,000. This money will likely be distributed through an additional 1 to 3 grant or loan awards annually. The fiscal note assumes that the Division of Housing in DOLA can administer this increase in grant funding within existing resources. However, to the extent that sales tax revenue allocated to the HDGF is higher than estimated in this fiscal note, the Division of Housing may require additional staff to manage the increase in grant funding and contracts. DOLA may use up to 4 percent of HDGF funds for grant administrative purposes. Any adjustments to this administrative spending will be addressed through the annual budget process.

TABOR Refunds

The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by \$56.8 million in FY 2026-27. The bill does not change current expectations that the state will be below its revenue limit in the current FY 2025-26. This estimate assumes the [July update to the June 2025 LCS revenue forecast](#). A forecast of state revenue subject to TABOR is not available beyond FY 2026-27.

Because TABOR refunds are paid from the General Fund, increased Housing Development Grant Fund revenue will reduce the amount of General Fund available to spend or save in FY 2026-27 and any future years when the state is over its revenue limit. In contrast, increased General Fund revenue will increase the TABOR refund obligation, but result in no net change to the amount of General Fund available to spend or save in FY 2026-27 and any future years when the state is over its revenue limit.

Local Government

For state-collected local governments that conform with the state sales and use tax base and vendor fee, the bill will increase local government sales tax revenue.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

The bill requires the following General Fund appropriations to the Department of Revenue:

- \$156,219 and 1.2 FTE, of which \$36,383 is reappropriated to the Department of Personnel and Administration for the current FY 2025-26; and
- \$67,499 and 0.9 FTE for FY 2026-27.

State and Local Government Contacts

Local Affairs

Revenue

Personnel

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).