



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 26-1048: BACK-TO-SCHOOL SALES TAX HOLIDAY

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Fiscal note status: The fiscal note reflects the introduced bill, as amended by the House Finance Committee.

Summary Information

Overview. The bill conditionally exempts back-to-school items from the state sales tax for one weekend per year from 2027 to 2031.

Types of impacts. The bill is projected to affect the following areas through FY 2033-34:

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

Appropriations. For FY 2026-27, the bill requires an appropriation of \$38,522.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year	Out Year	Out Year	Out Year
	FY 2026-27	FY 2027-28	FY 2028-29	FY 2030-31 FY 2031-32
State Revenue	\$0	\$0	\$0	-\$1.5 million
State Expenditures	\$38,522	\$111,095	\$83,821	\$83,821
Transferred Funds	\$0	\$0	\$0	\$0
Change in TABOR Refunds	\$0	\$0	not estimated	not estimated
Change in State FTE	0.0 FTE	1.1 FTE	0.9 FTE	0.9 FTE

**Table 1A
 State Revenue**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30 FY 2030-31 FY 2031-32
General Fund	\$0	\$0	\$0	-\$1,480,000
Housing Development Grant Fund	\$0	\$0	\$0	-\$25,000
Total Revenue	\$0	\$0	\$0	-\$1,505,000

**Table 1B
 State Expenditures**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30 FY 2030-31 FY 2031-32
General Fund	\$38,522	\$88,792	\$65,489	\$65,489
Cash Funds	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0
Centrally Appropriated	\$0	\$22,303	\$18,332	\$18,332
Total Expenditures	\$38,522	\$111,095	\$83,821	\$83,821
Total FTE	0.0 FTE	1.1 FTE	0.9 FTE	0.9 FTE

Summary of Legislation

The bill creates a back-to-school sales tax holiday, which applies for the last weekend of July in 2027, 2028, 2029, 2030, and 2031, subject to availability of the family affordability tax credit (FATC). During the tax holiday, back-to-school items sold for use by minors are exempted from the state sales tax. Exempted items are limited by cost as follows:

- clothing and shoes up to \$100 per item;
- school supplies up to \$50 per item; and
- learning aids up to \$30 per item.

The sales tax exemption in the bill is not required to apply to most county, municipal, and most special district governments by default; however, these governments may choose to include the exemptions in local ordinances.

The sales tax holiday will only occur in years when total expected growth in state revenue subject to TABOR is sufficient to make the family affordability tax credit (FATC) fully available.

Background

Enacted by House Bill 24-1311, the FATC is an income tax credit available to Coloradans with children and a federal adjusted gross income (AGI) below \$85,000 for single filers and below \$96,000 for joint filers, adjusted annually for inflation. The availability and amount of the credit is contingent on an adjustment factor, calculated as the forecasted compound annual growth of state revenue subject to TABOR in any fiscal year, in relation to FY 2024-25. The adjustment factor is calculated using the December update of the quarterly forecast selected by the Joint Budget Committee for preparation of the state budget in the preceding March. The credit availability and amount for the tax year immediately following the December forecast is determined by the adjustment factor for the fiscal year that begins during the tax year. The FATC is fully available when the adjustment factor is 3.75 percent and up.

Assumptions

Revenue Impact of the Sales Tax Holiday

The fiscal note assumes minors impacted by the bill include individuals under the age of 21 years old.¹ Enrollment estimates for those under 21 years of age are estimated using a combination of Legislative Council Staff's December 2025 K-12 enrollment estimates, the Department of Early Childhood's pre-school enrollment forecast, Department of Higher Education enrollment data, and market research on private school and college enrollment.

The following assumptions were used to estimate the revenue impact of the bill. To the extent that more or fewer students utilize the sales tax holiday, and to the extent that students spend more or less on back-to-school items than assumed, actual state revenue reductions will respectively be more or less than the fiscal note estimate.

Clothing and Shoes

Clothing and shoes purchased for minors during the sales tax holiday are estimated to reduce sales tax revenue by \$1.1 million per year. Accounting for the length of the sales tax holiday and assuming that the holiday will increase sales for that time period by 193 percent based on research from the Federal Reserve, the revenue estimate implies that 74,974—or 7.2 percent—of students under the age of 21 will shop during the sales tax holiday, spending \$395 per student based on available market data.

¹Section 2-4-401 (6), C.R.S.

School Supplies

School supplies purchased for minors during the sales tax holiday are estimated to reduce sales tax revenue by approximately \$0.3 million per year. Based on market data and research, it is assumed that on average, students will spend \$135 on school supplies. It is assumed that 7.2 percent of student purchases for school supplies will occur during the sales tax holiday, as derived for clothing and shoe purchases.

Learning Aids

Learning aids purchased for minors during the sales tax holiday are estimated to reduce sales tax revenue by approximately \$0.1 million per year. Retail sales on learning aids are assumed to be 10 percent of retail sales in hobby, toy, and game stores. The sales tax holiday is assumed to increase spending on learning aids for that time period by 40 percent, based on research from the Federal Reserve.

Availability of the Sales Tax Holiday

Based on LCS's December 2025 forecast, the FATC will not be fully available for 2027 or for 2028. The availability of the FATC is not estimated beyond 2028. Therefore, this fiscal note assumes the back-to-school sales tax holiday will be available for 2029, 2030, and 2031. However, the Office of State Planning and Budgeting's or Legislative Council Staff's December 2026 forecast will determine the actual availability of the FATC for 2027, and will therefore determine the availability of the back-to-school sales tax holiday for 2027.

State Revenue

The bill is estimated to decrease sales and use tax revenue by \$1.5 million per year from FY 2029-30 through FY 2031-32. Sales and use tax revenue is subject to TABOR.

- Of the amounts described above, the bill will decrease General Fund revenue by \$1,480,000 per year.
- Current law requires 1.655 percent of sales and use tax revenue to be distributed to the Housing Development Grant Fund (HDGF). Accordingly, of the amount described above, the bill will decrease HDGF revenue by \$25,000 per year.

The fiscal note assumes the sales tax holiday will not be available for 2027 or 2028 based on LCS's December 2025 forecast for the amount of FATC available for those years. If revenue growth is sufficient to make the FATC fully available, the sales tax holiday will also be available, and the bill will cause similar revenue reductions for one or both of FY 2027-28 and FY 2028-29.

State Expenditures

The bill increases state expenditures in the Department of Revenue (DOR) by \$38,522 in FY 2026-27 and \$111,095 in FY 2027-28, with declining expenditure amounts through FY 2033-34. These costs, paid from the General Fund, are for staff, programming, reporting, and document management related to the new sales tax holiday, as summarized in Table 2 and discussed below.

**Table 2
 State Expenditures
 Department of Revenue**

Cost Component	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29 FY 2029-30 FY 2030-31 FY 2031-32	Out Year FY 2032-33	Out Year FY 2033-34
Personal Services	\$0	\$68,304	\$56,787	\$34,941	\$17,946
Capital Outlay Costs	\$0	\$7,000	\$0	\$0	\$0
GenTax Programming	\$29,744	\$0	\$0	\$0	\$0
Data Analysis and Reporting	\$8,778	\$8,702	\$8,702	\$0	\$0
Document Management	\$0	\$4,786	\$0	\$0	\$0
Centrally Appropriated	\$0	\$22,303	\$18,332	\$11,950	\$6,019
Total Costs	\$38,522	\$111,095	\$83,821	\$46,891	\$23,966
Total FTE	0.0 FTE	1.1 FTE	0.9 FTE	0.6 FTE	0.3 FTE

Staff

The DOR requires 1.1 FTE in FY 2027-28, 0.9 FTE in each of FY 2028-29 through FY 2031-32, 0.6 FTE in FY 2032-33, and 0.3 FTE in FY 2033-34 to administer the back-to-school tax holiday.

The back-to-school tax holiday is expected to affect over 280,000 monthly sales tax returns, driving outreach and implementation workload for DOR to review impacted sales tax returns, respond to increased call center volume associated with the exemption, and manually review sales tax refund requests from taxpayers who end up paying sales tax at retailers that still collected sales tax at the point of sale during the sales tax holiday. With a three-year statute of limitations, the DOR expects ongoing but decreasing audits, returns, collections, and corrections to previous filings where there is a protest or claim for refund through FY 2033-34, resulting in continuous but declining staff needs for three years following the July 2031 sales tax holiday.

The fiscal note estimates the back-to-school sales tax holiday may result in around 1,300 refund claims, assuming that refund claims from the sales tax holiday will occur in lower frequency and dollar amount than the average sales tax refund claim. To the extent that refund claims are filed above the fiscal note estimate, DOR may need additional resources to review the refund claims. These would be requested through the annual budget process.

GenTax Programming Costs

The DOR will have expenditures of \$29,744 to program, test, and update database fields in the its GenTax software system in FY 2026-27. Programming costs are estimated at \$19,535, representing 80 hours of contract programming at a rate of \$244.19 per hour. Costs for system testing include \$6,806 for 166 hours of innovation, strategy, and delivery programming support and \$3,403 for 83 hours of user acceptance testing, both at a rate of \$41 per hour.

Data Analysis and Reporting

Expenditures in the Office of Research and Analysis (ORA) within the DOR 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. For FY 2026-27, these costs are estimated at \$8,778, representing 231 hours for data management and reporting at \$38 per hour. For FY 2028-29 through FY 2031-32, these costs are estimated at \$8,702 per year, representing 229 hours of data management and reporting at \$38 per hour.

Document Management

For FY 2027-28, the DOR will incur \$4,786 in document management costs. This includes updates to the sales tax return form for an estimated 10 percent of the 280,000 impacted monthly sales tax returns that may file with the paper form. These expenditures will occur in the Department of Personnel and Administration (DPA) using reappropriated funds from the DOR.

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 include employee insurance and supplemental employee retirement payments, are shown in Table 2 above.

TABOR Refunds

A forecast of state revenue subject to TABOR is not available beyond FY 2027-28. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save in years with a TABOR surplus.

Local Government

The bill will decrease sales and use tax revenue for the state-collected local governments that incorporate the exemption and conform to the state tax base. The bill allows special districts and state-collected city and county governments to include the exemption in their sales tax base, but does not require them to do so.

The Regional Transportation District (RTD) and Scientific and Cultural Facilities District (SCFD) are the two special districts that use the state's sales tax base in all instances, and the exemptions in the bill would apply to those districts. Therefore, the bill will decrease revenue for RTD and SCFD. Based on the amount of sales and use tax revenue collected in these special districts compared to that for the state, decreased revenue is estimated as follows:

- RTD – The bill will reduce revenue to RTD by an estimated \$306,000 per year from FY 2029-30 through FY 2031-32.
- SCFD – The bill will reduce revenue to SCFD by an estimated \$31,000 per year from FY 2029-30 through FY 2031-32.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2026-27, the bill requires a General Fund appropriation of \$38,522 to the Department of Revenue.

State and Local Government Contacts

Revenue	RTD
State Auditor	Personnel
Special Districts	