

# Wholesales Sales Tax Exemption

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**The Wholesales Sales Tax Exemption is available to any purchaser with a sales tax license who is making a purchase of goods in Colorado for resale.** The exemption was likely intended to ensure that the sales tax is only applied to purchases made by consumers and to promote a transparent tax system. Exempting wholesale sales from sales tax avoids levying the tax on each transaction made between different businesses that handle a product during its distribution chain, which would result in “tax pyramiding”—when a single product is taxed multiple times before it is sold to the consumer. This would compound the tax, making the actual taxes paid higher than the set rate and driving up the price before the item reaches the consumer. In this way, tax pyramiding also reduces the transparency of the tax system by hiding the true amount of sales tax paid by the consumer.

**We found that the Wholesales Exemption is effective because it is frequently used by qualifying businesses.**

- Taken together, the revenue impact for all types of wholesales exemptions in 2021 was \$3 billion. We could not determine what portion of this amount was specifically attributable to exempted wholesales purchased for resale.
- This exemption was established in 1935 as part of the legislation that created the Colorado retail sales tax, so it is well-established within Colorado’s sales tax system.
- This type of wholesale exemption is common in other states as well, so retailers who operate in other states in addition to Colorado are probably familiar with similar exemptions in those states.

## Policy Consideration

We did not identify any policy considerations for the exemption.

Tax Type:	<b>Sales and use tax</b>	Year Enacted:	<b>1935</b>
Expenditure Type:	<b>Exemption</b>	Repeal/Expiration Date:	<b>None</b>
Statutory Citation:	<b>Sections 39-26-102(9), (19)(a), and 39-26-104(1)(a), C.R.S.</b>	Revenue Impact:	<b>Could not determine</b>

Purpose given in statute or enacting legislation? **No**