

VENDOR FEES: WHAT ARE THEY?

What Are Vendor Fees?

Vendors and/or retailers are entitled a percentage of sales tax they collect — vendor fees — to cover the cost of processing sales taxes and transferring them to state and local governments. Vendor fees were originally put into place when stores tracked all items and sales by hand, but now most of the tracking, especially for large and national retailers, is done via computer. In a [2006 study](#), PriceWaterhouseCoopers found the average cost of compliance for all retailers nationwide was 0.19 percent. For small retailers, it was higher at 0.82 percent, but it was only 0.13 for large retailers. Nevertheless, many states, including Colorado, still allow all vendors to keep significantly more of the sales tax.

Colorado's Situation

Colorado currently allows all businesses that collect sales taxes to keep 3.3 percent of those taxes. While many states cap the amount of money businesses can keep per year via vendor fees, Colorado hasn't imposed a cap, so businesses are free to keep as much as the percentage yields them. While Colorado's sales tax is the lowest in the nation — not counting the four states with zero sales tax — which would mean net vendor fees are lower than another state with the same setup. However, due to the high percentage and no cap, businesses in Colorado keep more money from vendor fees than all but a handful of other states.

This results in a lost opportunity for the state to capture tens of millions of dollars in revenue that could be put to important uses, like education, health care, or housing. Colorado spending on important public services as a percentage of our economy is near a 40-year low. The need for more state money to fund important programs is critical.

The possible revenue could make a major difference for our state. Consider the [following](#):

- \$31.5 million would ensure all eligible 3- and 4-year-olds could enroll in the Colorado Preschool Program
- \$50 million per year to provide adequate funding for Colorado's housing trust fund
- When adjusted for inflation, Colorado's funding for postsecondary education has been cut in half over the last 15 years, which has resulted in families' tuition payments doubling in that time

Suspension of Vendor Fees

During the Great Recession, many states were desperate to make up for revenue lost due to the economic downturn. Colorado chose to suspend the vendor fee in order to recoup some money for the state budget, as it was deemed a good place to find money to fund necessary programs. However, as the state's economy recovered, the fee was gradually put back into place. It went back to its 3.3 percent in July 2014.

National Situation

Twenty-eight states, including Colorado, have some kind of [vendor fee](#) as of January 1, 2018. Of those 28, 16 have placed a cap on how much a business can keep, either monthly or annually. The caps ensure a business gets reimbursed for its collection costs, but doesn't abuse the system to pad their profit margins with money that should rightfully go back to state and local governments. As of 2008, a study showed the public sector was losing more than \$1 billion in revenue due to vendor fees across the country. Furthermore, it was determined large retailers, like Wal-Mart, were the main beneficiaries. In fact, that same study determined Wal-Mart collected about \$60 million per year in vendor fees, and in Colorado alone they collected \$9 million.

Since that 2008 study, states have acted to rein in the amount of money businesses, especially larger national retailers, can collect through a vendor fee. For example, in 2016 as part of a large budget deal, Pennsylvania capped the amount of money a business could claim to [\\$300 per year](#). It was [estimated](#) the change would return \$56 million annually to the state.

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Can Colorado Change Its Vendor Fee?

Colorado could definitely act to reduce the amount of money retailers collect from the state's sales tax. There are a number of ways Colorado could move forward that would minimize lost revenue, as well as the gains many businesses get from the state budget.

Options to Change Vendor Fees in Colorado

1. Eliminate all vendor fees, and by fiscal year 2020, the state sees more than \$110 million in its coffers
2. Keep the vendor fee on small vendors that are more likely to actually need help collecting and remitting sales taxes, but eliminate it for large retailers, recouping more than \$83 million for the state
3. Cap the amount of money businesses collect, similar to Pennsylvania's approach, and get upward of \$50 million to use for important public services¹
4. A combination of the above, or change percentages to reflect the actual amount needed for businesses to collect sales taxes, still receiving some tens of millions for the state

At this point, the question clearly isn't *should* we change the idea of a vendor fee, but *what* change should be made in order to ensure a fair return of sales taxes to the state without dooming businesses. It clearly can be done, as other states have shown, and doing so helps fund important state programs that level the playing field for all Coloradans.

¹ Data from projected sales taxes is taken from the Colorado Legislative Council staff's September 2016 Economic and Revenue Forecast