



TO: FRUITA CITY COUNCIL AND MAYOR

FROM: MIKE BENNETT, CITY MANAGER & SHANNON VASSEN, ASSISTANT CITY MANAGER

DATE: MARCH 26, 2024

AGENDA TEXT: Discussion on Sales Tax Exemption on Sales of Preowned/Used Items.

PURPOSE

The purpose of this agenda item is for the City Council to have a discussion on a request to exempt City sales taxes on certain preowned and used items. The City Council received an overview of this proposal at the February 20, 2024, and requested that the topic be put on as a discussion item for this workshop.

BACKGROUND

The City of Fruita collects a 3% City Sales tax on goods and services sold throughout Fruita and on online items that are delivered to Fruita. Revenues from sales tax collections are split between two funds. Two-thirds (or 2%) of the City sales taxes collected help fund the General Fund, and the additional one-third (or 1%) is collected for the Fruita Community Center Fund. The General Fund is the City's primary operating fund for the provision of essential government services, and funds core services such as Public Safety, Public Works, Parks and Recreation, and more. The Fruita Community Center Fund was established in 2009 to account for monies received by the City from a one cent increase on sales and use taxes, what was approved by the voters in November of 2008. The 1% was and is used for the construction, operation, and payment of debt of the Fruita Community Center. Out of 1%, 6/10ths is set to expire in 2039 when the debt of the facility is paid off, and the remaining will be used for operations, capital, and maintenance. When purchasing a good or service in Fruita, in total, there is an 8.27% tax levied by three different entities, which are the City of Fruita (3%), Mesa County (2.37%), and the state of Colorado (2.9%). The City of Fruita has the authority to exempt sales tax from the Fruita portion of the total sales tax only.

Currently, throughout Mesa County, there is a proposal to exempt sales tax collection on some second hand and used goods, and this proposal is being led by Grand Junction City Councilor Cody Kennedy. At the request of the Fruita City Council, Councilor Kennedy made a presentation on the tax proposal during the regular February 20, 2024, meeting. During that presentation, Councilor Kennedy shared that this is a proposal that he has been working on, and it is his goal to get it implemented throughout the Grand Valley. A copy of the Secondhand Tax Plan is attached to this cover sheet. This plan was pulled from a Grand Junction City Council item. Highlights from the plan include:

- **Goal of the Plan:** Encourage reuse by Grand Junction residents and those who shop in Grand Junction by lowering the effective cost of second hand goods.

- **Qualifying Items:** Any items with a sales price under \$5,000 that has previously been sold in a retail setting where sales tax is collected. This includes consignment sales antique sales and items donated to and sold through charity shops. Does not include items that have been used and not yet sold.
- **Potential Local and Regional Benefits:**
 - Decrease in local landfill waste.
 - Increase in local sales due to incentive to buy local and not online
 - Decrease in cost for local residents.
 - Decrease in carbon emissions from fewer items in landfill and fewer new items produced

After the presentation, the City Council requested that staff investigate the impact of a potential action and further research the logistics of exempting sales taxes on secondhand goods in Fruita.

Regarding the logistics, it should be noted that, unlike Grand Junction, the City of Fruita does not receive payment of sales taxes directly. Rather, businesses remit sales tax collections to the state of Colorado (“the state”) and the state then remits payment to Fruita two months after the sales tax month. Therefore, the responsibility of both exempting the secondhand goods from Fruita sales taxes and remitting the correct sales tax payments to the state would fall on individual businesses. This could become complicated for local businesses if the City of Fruita was the only entity that moved forward with exempting taxes from secondhand items. It would be a significant fiscal impact did start collecting payments of its own sales taxes, as new staff would have to be added in Finance and Administration. Salary and benefits expenses only are estimated to be around \$110,000 - \$125,000 per position, and that does not include other expenses like software costs needed to make the transition.

Putting that aside, however, the City of Fruita might not need to make that transition if the City Council pursued moving forward with the sales tax exemptions for the second hand items. Again, it would be the responsibility of the businesses to ensure that the correct sales tax rates are being applied (if not all taxing entities move forward with an exemption), and that the correct taxes are remitted to the state. After speaking with local businesses about logistics, it does seem like most updated point-of-sale systems can include varying tax rates or tax categories. Further research can be completed on this if the City Council is interested in moving forward.

Finally, the fiscal impact is hard to determine as there is only a limited number of stores that sell secondhand goods in Fruita. Additionally, sales tax collections are confidential for specific businesses and that information cannot be made public. Excluding online sales (as the plan calls for only exempting local items, and because it is not possible to tell whether or not an online payment is for used or new items), staff estimates an approximate revenue decrease of \$25,000 between both funds annually.

The point of this discussion is to determine if the City Council is interested in staff receiving more information on this and potentially moving forward with the next steps. Staff does not have a recommendation on this item.