



Memorandum

To: Joint Budget Committee Members
From: Jon Catlett, JBC Staff (303-866-4386)
Date: April 22, 2026
Subject: Department of Revenue, Sales and Use Tax System Funding

Summary of Issue

The Department of Revenue (DOR) is experiencing a funding shortfall for the Sales and Use Tax System (SUTS) bulk address lookup tool, due to significantly higher-than-anticipated demand. While H.B. 23-1017 originally funded 75 million annual lookups at a cost of \$1.3 million, usage is now projected to reach 150 million lookups by the conclusion of FY 2025–26. Under the contract, the additional 75 million lookups will require approximately \$1.3 million in additional funding. Although the fiscal note for H.B. 23-1017 acknowledged that costs could vary with utilization, the legislation prohibits DOR from charging user fees to offset these increased expenses.

Request

The Department of Revenue (DOR) requests \$925,000 General Fund in FY 2025–26 to sustain operations of the Sales and Use Tax System (SUTS), specifically to maintain the bulk address lookup tool for the remainder of the fiscal year. The Taxation Services Division will contribute \$350,000 toward SUTS bulk lookup costs. This includes a one-time reallocation of \$250,000 General Fund from the Personal Services line item to the Division's Operating line, along with \$100,000 from available General Fund Operating appropriations. Together, these actions fully address the \$1.3 million required to maintain SUTS operations through the end of FY 2025–26.

The Department has identified offsets to partially mitigate the funding shortfall and will work with the Governor's Office and key stakeholders to develop a long-term funding solution for FY 2026–27 and beyond that reduces reliance on the General Fund.

Background

The bulk address lookup tool, implemented pursuant to H.B. 23-1017, enables businesses to efficiently process large volumes of customer or location addresses to determine the appropriate tax jurisdiction(s). Prior to the

implementation of this functionality, businesses were required to validate addresses individually, resulting in increased administrative burden, inefficiencies, and a higher likelihood of jurisdictional assignment errors.

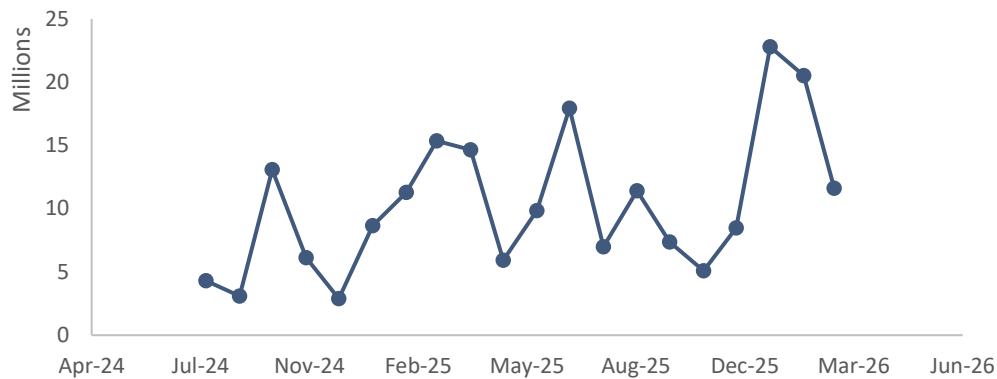
While the Department retains the technical capability to suspend this feature, doing so would likely have significant adverse impacts on taxpayer compliance, system functionality, and revenue collection for both businesses and local taxing jurisdictions. The tool has become an integral component of modernized tax administration workflows, supporting both accuracy and scalability in compliance processes.

In addition, the Department has received consistent stakeholder and legislative feedback indicating strong support for the continued availability and use of the bulk address lookup tool. Maintaining this functionality aligns with the objectives of H.B. 23-1017 to improve administrative efficiency, enhance compliance accuracy, and support effective tax administration across jurisdictions.

Utilization has exceeded initial expectations and continues to grow. In FY 2024–25, total searches reached 95.2 million. Through March of FY 2025–26, searches have already reached 113.8 million and are projected to total approximately 150 million by fiscal year-end. The Department anticipates continued growth in usage in future fiscal years, driven in part by the creation of additional special districts. Although monthly utilization trends may fluctuate, overall demand for the bulk lookup feature is increasing steadily.

The graph below illustrates the growth in utilization of the SUTS system.

SUTS Lookup Volume Trends Upward Over Time, Peaking at Record High in January 2026



Recommendation

Staff recommend approval of the request to maintain SUTS operations through the end of FY 2025–26, while noting concerns regarding the late submission and limited time for review.

The recommendation includes:

1. An appropriation of \$925,000 General Fund to the Taxation Services Operating Expenses line item for FY 2025–26.
2. A reallocation of \$250,000 within the Taxation Services Division from the Personal Services line item to the Operating Expenses line item for FY 2025-26.

3. A transfer of \$925,000 from the Electrifying School Buses Grant Program to the General Fund as part of the cash fund to General Fund transfer bill for FY 2025-26.

In addition, staff recommend that the Department of Revenue pursue a sustainable, long-term funding solution for FY 2026–27 and beyond that reduces reliance on the General Fund. Given that demand for SUTS is growing significantly faster than available resources, and in light of ongoing General Fund constraints, the Department should evaluate all options, including potential legislative changes to the SUTS funding structure.