

CHERRY HILLS VILLAGE

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Cherry Hills Village

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A TAX INCREASE THAT IS NOT A TAX INCREASE

A recent report from the committee established to study undergrounding overhead utility lines recommended that the City adopt a new tax that wouldn't be a tax increase for residents, and in some cases would be a tax reduction. Their report suggested that the Council consider a building use tax to fund the cost of undergrounding overhead utility lines and to pay for other capital improvements. While the City has a sales tax like most Colorado municipalities, it has never imposed a tax on building materials used for home construction and renovation. The irony is that even though Cherry Hills doesn't impose this tax, Village residents already pay it, just to another municipality in the form of a sales tax and possibly at a tax rate higher than the Village would adopt.

Building use taxes are somewhat different than a sales tax in that the building use tax is paid to the municipality where the building materials are used in construction and not to the city where the material was sold. This is similar to taxes paid on vehicle purchases which go to the community where the car is registered and not purchased. The tax is structured this way due to the fact that building materials for home construction are sold at a limited number of locations.

The fact that Cherry Hills does not have a building use tax does not mean Village residents don't currently pay a tax on building materials. That's because municipalities charge a sales tax on building materials, unless the purchaser presents a building permit or a form that proves a use tax is being paid to the municipality where the construction will occur. For example, Greenwood Village's tax code includes the following exemption from its sales tax on building materials:

All sales of construction and building materials, if such materials are picked up by the purchaser and if the purchaser of such materials presents to the retailer a building permit or other documentation acceptable to the City evidencing that a local sales or use tax has been paid or is required to be paid.

As a result of this, Village residents already pay the tax, but to another municipality. In Denver, the tax rate is 3.5%. If Cherry Hills were to adopt a building use tax, it would be at a rate of 3% and not constitute a tax increase as much as a tax redirection or repatriation of revenue from other municipalities to Cherry Hills Village.

The City Council will need to decide in August if it will refer a ballot measure to Village voters for the November 3, 2015 election.