



SMALL BUSINESS

Why policymakers should avoid retail delivery fees

By Sam Cardwell
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MOUNTAIN STATES
POLICY CENTER





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Introduction

As the world becomes more digitized, almost every consumer now participates in online shopping. *Forbes* estimates 20.1% of all retail purchases in 2024 in the United States will be online, and around 34% of consumers shop online at least once a week.¹

All around the country, lawmakers have been attempting to take advantage by imposing some form of new tax, including a tax on retail delivery fees. Colorado was the first to implement a retail delivery fee in 2022, and Minnesota quickly followed, implementing its policy in July of 2024. Washington State is now considering a similar retail delivery fee.²

Put simply, a retail delivery fee – or RDF – is a fee imposed on the delivery of retail items delivered by motor vehicles in a state.³ Some Washington state politicians specifically want these fees to help fund transportation projects including potholes and traffic mitigation. Washington Senate Transportation Chair Marko Liias recently proclaimed, “clearly our cities, our counties and our state have transportation challenges with too many potholes and too much traffic.”⁴ He went on to say, “this is one of a number of things we’re looking at to come up with the resources to make the needed investments.”

While Colorado’s model charges roughly 28 cents on every delivery, and Minnesota charges 50 cents on deliveries \$100 or more, Washington has been considering rates from 25 to 75 cents.

1 38 ECommerce Statistics of 2023, by Kristy Snyder, *Forbes*, March 28, 2024, available at <https://www.forbes.com/advisor/business/ecommerce-statistics/>

2 “Retail Delivery Fees Are Not the Panacea for States’ Transport Budget Woes,” by Kyle Hulehan, *Tax Foundation*, July 8, 2024, available at <https://taxfoundation.org/blog/retail-delivery-fees-states-transport-budget/>

3 Joint Tax Commission, Retail Delivery Fee Analysis, by Andrew Mclean and CDM Smith

4 “To Help Fund Roads, WA Lawmakers Eye Fee on Delivery of Online Purchases,” *Washington State Standard*, by Jerry Cornfield, June 19, 2024

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The new retail delivery fee almost immediately impacted small business in Colorado. In 2023, the state responded by creating a small business exemption.

Case Study: Colorado

Colorado’s Revised Statute (C.R.S) S43-4-218 was adopted in 2022 and “imposes a retail delivery fee on deliveries by motor vehicle to a location in Colorado with at least one item of tangible personal property subject to state sales or use tax. The retailer or marketplace facilitator that collects the sales or use tax on the tangible personal property sold and delivered, including delivery by a third party, is liable to remit the retail delivery fee. Deliveries include when any taxable goods are mailed, shipped, or otherwise delivered by motor vehicle to a purchaser in Colorado.”⁵

The legislation specifically initiated six different fees, each for different reasons. They are split into community access, clean fleet, clean transit, general, bridge and tunnel, and air pollution mitigation. According to the law, the state must publish the data every year the rates are charged.

Fee Type	FY 2022-2023	FY 2023-2024	FY 2024-2025
Community Access Retail Delivery Fee	\$0.0690	\$0.0716	\$0.0741
Clean Fleet Retail Delivery Fee	\$0.0530	\$0.0550	\$0.0569
Clean Transit Retail Delivery Fee	\$0.0300	\$0.0311	\$0.0322
General Retail Delivery Fee	\$0.0840	\$0.0870	\$0.0903
Bridge and Tunnel Retail Delivery Fee	\$0.0270	\$0.0280	\$0.029
Air Pollution Mitigation Retail Delivery Fee	\$0.0070	\$0.0073	\$0.0075
TOTAL RETAIL DELIVERY FEE	\$0.27	\$0.28	\$0.29

The new law almost immediately impacted small business in Colorado. In 2023, the state responded by creating a small business exemption. This exempts businesses with retail sales of \$500,000 or less in Colorado sales tax from the fee. The reactionary legislation also gave businesses the choice to either charge the 27-cent fee to the customer or cover the cost itself.⁶

Case Study: Minnesota

As Minnesota followed Colorado’s example, it was met with pushback. A notable response was the Council on State Taxation:

⁵ Retail Delivery Fee, Colorado Department of Revenue, available at <https://tax.colorado.gov/retail-delivery-fee>

⁶ Sales Tax Institute, Colorado’s Retail Delivery Fee, available at <https://www.salestaxinstitute.com/resources/the-colorado-retail-delivery-fee-an-update-two-months-after-launch>

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Minnesota’s law applies to tangible personal property subject to sales tax and clothing. It is expected to rake in approximately \$60 million per year and was proposed to make up for the decrease in gas tax revenue due to electric vehicle use.

While the implementation and charge may vary, research clearly shows a negative impact, particularly among those who are mobility-challenged, elderly, and low-income.

“A delivery fee mandated on nearly every Minnesota consumer is regressive and will negatively impact all families, as well as place an undue burden on businesses . . . As the state looks for thoughtful solutions to solve transportation challenges, the consumer delivery fee has undeniable impacts and insurmountable challenges.”

Minnesota’s law applies to tangible personal property subject to sales tax and clothing. It is expected to rake in approximately \$60 million per year and was proposed to make up for the decrease in gas tax revenue due to electric vehicle use.⁷ This fee only applies once per transaction, regardless of the number of shipments, and it is itemized as a “road improvement and food delivery fee.” Minnesota lawmakers did grant some exemptions, including food, prescription drugs, medical devices, baby products, and certain motor vehicles.⁸ In addition, businesses with less than one million in retail sales during the previous calendar and marketplace providers facilitating for a retailer with less than \$100,000 in Minnesota sales the previous calendar year are exempt.⁹

The precedent, and the lessons

It is clear a retail delivery fee or tax is becoming a popular option for lawmakers searching for new sources of revenue. In 2023, legislation was introduced in New York State to impose a staggering \$3 surcharge for every delivery transaction defined as “a transaction resulting in the delivery of any items purchased online to the purchaser.”¹⁰ The proposal followed Minnesota’s example of exclusions including medicine, diapers, baby formula, as well as any food products. Other essentials like cosmetics and toiletries, however, were not excluded from the fee. The legislation did not make it out of committee, but additional proposals in New York and elsewhere are expected.

While the implementation and charge may vary, research clearly shows a negative impact, particularly among those who are mobility-challenged, elderly, and low-income. In fact, those categories make up the largest consumer base of those who order retail items online – particularly in the food service delivery sector.¹¹

As recently as 2019, it was estimated that 52% of the population making less than \$10,000 used a restaurant delivery website or app at least once in the last 90 days.

⁷ KNSI Radio, Minnesota Implements New Retail Delivery Fee on Transactions over \$100, February 23, 2024, available at <https://knsiradio.com/2024/02/23/minnesota-implements-new-retail-delivery-fee-on-transactions-over-100-effective-july-1st/>

⁸ Minnesota Department of Revenue, available at <https://www.revenue.state.mn.us/retail-delivery-fee>

⁹ Ibid

¹⁰ Libertas Unlimited, New York Bill Proposes Staggering \$3 Delivery Fee for NYC Destined Purchases, April 13, 2023, available at <https://www.libertasunlimited.com/tax-insights-from-the-experts/new-york-city-delivery-fee-online-retailer-transaction>

¹¹ Zion and Zion, Food Delivery Apps: Usage and Demographics — Winners, Losers and Laggards, 2019, available at www.zionandzion.com/research/food-delivery-apps-usage-and-demographics-winners-losers-and-laggards/

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Analyzing Minnesota and Colorado’s retail delivery fee

Minnesota and Colorado Departments of Revenue

Policy Factor	Minnesota	Colorado
Rate	\$.50 per delivery	\$.28 per delivery
Delivery eligibility	Applies to deliveries over \$100	Applies to all deliveries regardless of price
Revenue generation	\$59 million in first year estimate	\$75.9 million in first year estimate
Collection	Provides businesses a choice in how to collect fee	Provides businesses a choice in how to collect fee
Exemption	Exempts businesses that have \$1 million or less in annual sales	Exempts businesses that have \$500,000 or less in annual sales
Revenue distribution	Revenue distributed to towns and cities	Revenue distributed to transportation priorities, and state and local funding

A retail delivery fee has consequences for both the retailer and the consumer. On the one hand, legislation that assigns the fee to the business may hurt the ability of the company to hire more employees, expand or even make a profit. On the other, allowing the fee to be passed on to the consumer raises prices, thereby hurting both the customer and the business.

In Colorado, exemptions were adopted for some small businesses below \$500,000 in annual sales, providing a perverse incentive for businesses to stay below the threshold.

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In most cases, the fee is pushed onto the consumer, regardless of the fact the vehicle delivery method was likely already subject to the state’s gas tax. In essence, policymakers would be charging a double tax – one on the product delivery, the other on the gas to deliver it.

This fee also indirectly adds to the bureaucratic burden for small business, and the bureaucratic implementation for government. In Colorado, the vendor must somehow indicate the retail delivery fee on each invoice, which can add hours to the accounting for a business. Colorado did attempt to fix this problem by giving the business an option to incorporate the fee into the price of the product. Creating new processes and procedures, however, can be a costly addition to any operation. Similarly, the state government would have to create a separate account for impacted retailers and would have to ensure compliance with the passed measures. This would involve additional taxpayer-supplied staff needed to oversee the already costly program.

Under consideration in Washington state

Lawmakers in Washington state appear eager to follow Colorado and Minnesota’s lead on adopting a retail delivery tax. An analysis of the proposed tax shows various options for policymakers, with a tax ranging from 25 to 75

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cents per delivery.¹² In June 2024, lawmakers were given detail on four options, based on a 30 cent fee, which could generate upwards of \$160 million, depending on the exemptions.

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Amount of revenue generated

Assuming \$.30 deliver fee

Scenario 1: No exemptions for retailers and no exemptions for deliveries under \$75



Amount of revenue generated

Assuming \$.30 deliver fee

Scenario 2: No exemptions for retailers, but exemption for deliveries under \$75



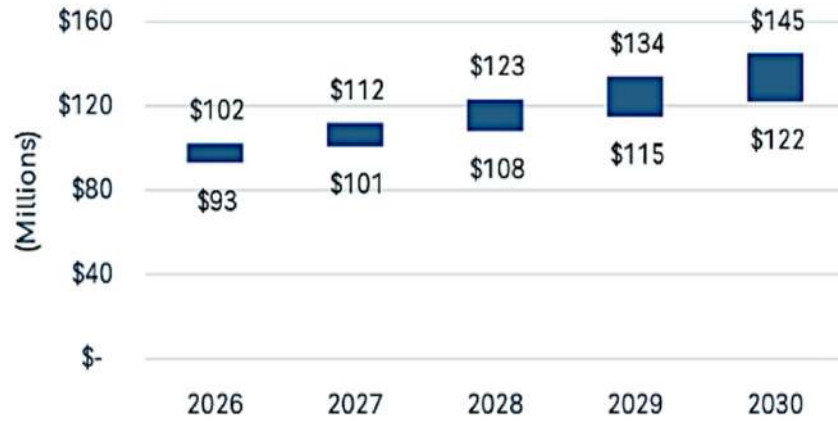
¹² Washington State Joint Transportation Committee presentation, June 2024, available at <https://app.leg.wa.gov/committeeschedules/Home/Document/273806#toolbar=0&navpanes=0>

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Amount of revenue generated

Assuming \$.30 deliver fee

Scenario 3: Exemptions for businesses with gross revenues of \$1 million, and no exemptions for deliveries under \$75



Amount of revenue generated

Assuming \$.30 deliver fee

Scenario 4: Exemptions for businesses with gross revenues of \$1 million, and exemption for deliveries under \$75



The Washington State Department of Revenue (DOR) estimates it will likely need four staff members in 2026 if a retail delivery fee is implemented.

The Washington State Department of Revenue (DOR) estimates it will likely need four staff members in 2026 if a retail delivery fee is implemented, costing taxpayers around \$540,000 with benefits and other expenses included. State reports indicate that yearly total may slightly drop by 2028. But in total, Washington taxpayers would have to pay more than \$1.26 million over the next five years for implementation.

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Washington’s gas tax, combined with the federal gas tax and the state’s cap and trade policies, total nearly one dollar per gallon.

Retail delivery fee implementation costs for Washington state

Washington state Department of Revenue

Expense	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Salaries & Wages	\$128,800	\$295,000	\$122,000	\$101,600	\$101,600
Benefits	\$42,600	\$97,300	\$40,300	\$33,500	\$33,500
Personal Service Contracts	\$0	\$72,300	\$0	\$0	\$0
Supplies & Materials	\$23,000	\$54,700	\$25,300	\$16,600	\$16,600
Travel	\$0	\$0	\$2,800	\$2,800	\$2,800
Office Equipment	\$10,500	\$20,700	\$10,500	\$4,900	\$4,900
Fiscal Year Total	\$204,900	\$540,000	\$200,900	\$159,400	\$159,400
FTE Count	1.5	3.8	2.0	1.6	1.6

Conclusion

Retail delivery fees are becoming more popular for policymakers attempting to make up for the loss of gas tax-related revenue due to electric vehicles. But the benefit for any government will come at the expense of businesses and consumers.

In Washington state, delivery drivers already pay almost 50 cents per gallon in state fuel tax. This does not include the cost of the federal gas tax – \$.184 per gallon – or the impact of the state’s cap and trade policies, estimated at roughly \$.50 per gallon. In total, consumers pay about one dollar per gallon in taxes and fees in Washington.

In Idaho and Montana, the state gas tax alone exceeds 30 cents per gallon.

While some lawmakers may want to use a retail delivery tax as a clever and inconspicuous way to raise revenues for transportation projects, they would be wise to respond to these proposals by marking “return to sender.”

Nothing in this publication shall be construed as an attempt to aid or hinder the passage of any legislation.

ABOUT THE AUTHOR

Mountain States Policy Center contributor Sam Cardwell lives in Boise and is an alumnus of the University of Washington and Liberty University, obtaining a bachelor's degree in political science.

Sam has worked on multiple legislative and congressional campaigns. He has experience in the governmental sphere as a legislative intern and a session aide at the Washington State Legislature.

Sam is the author of numerous MSPC studies, including *Adopting a new income tax liability threshold*.

