Federal Tax Code Changes and Colorado’s Schools

Esther Turcios
Policy Analyst

Chris Stiffler
Economist

Outline

• What does the FY2018-19 budget look like in the context of the changes at the federal level?
• What were all those complicated changes to the federal tax code?
Three basic pots of money in the State budget

$28.8 billion total budget in FY2017-18

- **General Fund** $10.6 billion (39%)
- **Federal Funds** $8.6 billion (32%)
- **Cash Funds** $7.8 billion (29%)

Total budget includes $1.7 billion "reappropriated funds".

What does the money buy?

- **Schools** 38.6%
- **Public Safety** 26.6%
- **Healthcare** 8.4%
- **Colleges** 8.4%
- **Human Services** 8.2%
- **Public Health** 4.8%
- **Courts** 0.5%
- **Other** 4.5%

FY2017-18
Colorado General Fund $10.6 billion
How do Local Property Taxes Impact State Budget?
Both state and local dollars pay for schools

State Sources:
$4.2 billion
General Fund, State Education Fund, State Public School Fund

Local Sources:
$2.4 billion
Property Taxes $2.11 billion (92%)
Spec. ownership taxes $173 million (8%)

Some Revenue to Work With...

• In FY 2018-19, the General Assembly will have $962.7 million, or 8.7 percent, more to spend or save in the General Fund than what is budgeted for FY 2017-18. (Leg. Council)
Federal Tax Change Means More Revenue for Colorado

• By eliminating many deductions, the TCJA broadens the federal tax base for individuals and corporations. The bill then lowers federal tax rates, resulting in cuts in federal taxes. In Colorado, however, the tax base (Federal Taxable Income) broadens but the state tax rate remains the same—so more state revenue.

$196.5 million for the FY2018-19 budget because of the federal tax changes

Federal Tax Changes

$$$$$

- Personal Exemptions
- Standard or Itemized Deductions

Taxable Income
New **Lowered** Tax Rates

<table>
<thead>
<tr>
<th>Tax Bracket</th>
<th>Tax Rate</th>
<th>Current Law</th>
<th>TCJA Law</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Filer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$0-$9,550</td>
<td>10%</td>
<td>$0-$9,525</td>
<td>10%</td>
</tr>
<tr>
<td>$9,551-$38,800</td>
<td>15%</td>
<td>$9,526-$38,700</td>
<td>12%</td>
</tr>
<tr>
<td>$38,801-$94,000</td>
<td>25%</td>
<td>$38,701-$82,500</td>
<td>22%</td>
</tr>
<tr>
<td>$94,001-$196,050</td>
<td>28%</td>
<td>$82,501-$157,500</td>
<td>24%</td>
</tr>
<tr>
<td>$196,051-$426,250</td>
<td>33%</td>
<td>$157,501-$200,000</td>
<td>32%</td>
</tr>
<tr>
<td>$426,251-$428,000</td>
<td>35%</td>
<td>$200,001-$500,000</td>
<td>35%</td>
</tr>
<tr>
<td>Over $428,000</td>
<td>39.6%</td>
<td>Over $500,000</td>
<td>37%</td>
</tr>
</tbody>
</table>

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**Standard vs. Itemized Deductions**

- **Standard Deduction**
- **Itemized Deductions**
  - Mortgage Interest
  - Charitable Contributions
  - State and Local Taxes

![Balance Scale Illustration]

[Image of balance scale with Standard $ amount and a seesaw indicating Itemized Deductions]

[Image of Colorado Fiscal Institute logo]
Standard Deduction

Previous Law
- $6,500 for a single filer
- $13,000 for couples

TCJA Law
- $12,000 for a single filer
- $24,000 for couples

Itemized Deductions

State and Local Tax Deduction (SALT)
- Limited to combined $10,000

Mortgage interest deduction
- Can deduct interest payments on up to $750,000 of debt (was previously $1M)

Medical expenses deduction
- Expanded: Can deduct out-of-pocket expenses over 7.5% of AGI (down from 10%)

Repeals overall limit on itemized deductions
- Previously phased out starting at $266,700/$320,000 (singles/couples)
Personal Exemptions & Family Tax Credits

TCJA Law
- Eliminates all exemptions
- Doubles child tax credit: $1,000 → $2,000
  - Refundable up to $1,400
  - Refundable & non-refundable portions denied to immigrant children w/out SSN
- $500 credit for non-child dependents

Business Taxes

Pass Through Entities
- Taxed at individual income tax rates
- Creates a 20% deduction for business income

Previous Law
TCJA Law

Corporate Business
- 35% tax rate
- 21% tax rate

Previous Law
TCJA Law

Business tax cuts are permanent—individual income tax cuts expire after 2025
What’s In and What’s Out for Education?

What the TCJA does not do

- Does not treat graduate tuition waivers/stipends as taxable income
- Does not eliminate educator expense deduction
- Does not repeal student loan interest deduction

What the TCJA does do

- Does expand use of 529 college savings accounts
  - Now includes K-12 private school tuition expenses

Change to 529 Program

- Household paying $17,405 for private high school in CO will reduce their taxes by $800.
How will this affect the federal deficit?

Source: Joint Committee on Taxation

Net Impact to State Tax Payers by Income Category

Top 5% receive 52% of the tax cuts

Top 20% receive 73% of the tax cuts

Bottom 40% receive 5% of the tax cuts

Source: Colorado Fiscal Institute
Bottom Line on Your Income

<table>
<thead>
<tr>
<th>Income</th>
<th>Tax Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15,000</td>
<td>$60 less taxes</td>
</tr>
<tr>
<td>$34,000</td>
<td>$70 less taxes</td>
</tr>
<tr>
<td>$56,000</td>
<td>$95 less taxes</td>
</tr>
<tr>
<td>$90,000</td>
<td>$123 less taxes</td>
</tr>
<tr>
<td>$167,000</td>
<td>$285 less taxes</td>
</tr>
</tbody>
</table>

The Bottom Line:

While the change in the amount of taxes owed will vary by taxpayer, all Coloradans will be affected by the federal changes and our ability to support public investments.
Marijuana Revenue is about 2.2% of Gross General Fund

- $241 million
- $11,072 million

FY2017-18 December 2017 Legislative Council Forecast