



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

INITIAL FISCAL IMPACT STATEMENT

Date: April 13, 2020

Fiscal Analyst: Greg Sobetski (303-866-4105)

LCS TITLE: STATE INCOME TAX RATE REDUCTION

Fiscal Impact Summary		FY 2019-20 <i>current year</i>	FY 2020-21	FY 2021-22
Revenue	General Fund	(\$78.1 million)	(\$158.4 million)	(\$169.8 million)
Expenditures	General Fund	-	\$12,684	-

Disclaimer. This initial fiscal impact statement has been prepared for the Title Board. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the ballot information booklet (Blue Book) if new information becomes available.

Summary of Measure

For tax year 2020 and all subsequent years, the measure reduces the state income tax rate from 4.63 percent to 4.55 percent.

State Revenue

The measure reduces General Fund revenue by an estimated \$78.1 million in the current FY 2019-20, \$158.4 million in FY 2020-21, and \$169.8 million in FY 2021-22. In future years, the amount by which the measure reduces revenue will depend on Colorado taxable income. Estimates assume the March 2020 Legislative Council Staff forecast. The measure reduces income tax revenue, which is subject to TABOR.

Timing assumptions. Because the measure reduces the tax rate for the 2020 tax year, it is expected to reduce revenue for the current FY 2019-20 on an accrual accounting basis. Accounting for this reduction would require the State Controller to make accounting adjustments for FY 2019-20 after the fiscal year has ended but before publication of the comprehensive annual financial report. If such an accrual adjustment is not made, then the measure will reduce FY 2020-21 revenue by \$236.5 million, representing a full year impact for tax year 2020 and a half-year impact for tax year 2021 on an accrual accounting basis.

State Expenditures

The measure is expected to increase General Fund expenditures for the Department of Revenue by \$12,684 in FY 2020-21 only. It also reduces the amount available to be spent or saved in FY 2020-21 and future fiscal years.

Department of Revenue. For FY 2020-21, the measure requires one-time General Fund expenditures to program, test, and update database fields in the Department of Revenue (DOR) GenTax software system. Programming costs are estimated at \$450, representing two hours of contract programming. Costs for testing at the department are estimated at \$7,680, representing 320 hours of testing at a rate of \$24 per hour. Additional quality assurance expenditures may be required in the Systems Support Office; these will be addressed through the annual budget process.

Expenditures in the Office of Research and Analysis are required for changes in related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$4,554. Ongoing reporting costs are minimal and can be accomplished within existing appropriations.

Conforming changes to DOR rules will be required during FY 2020-21 and can be accomplished within existing appropriations to the DOR and the Department of Law.

Budget considerations. The measure reduces the amount available to be spent or saved during FY 2020-21 by \$236.5 million through its combined impacts on the General Fund beginning balance and General Fund revenue. Because the measure will take effect after a budget is enacted for FY 2020-21, it is assumed that the measure will require reductions to appropriations in order to balance the budget. Any required reductions will be addressed during the supplemental budget process during the 2021 legislative session.

The measure reduces the amount available to be spent or saved during FY 2021-22 by \$169.8 million.

TABOR refunds. Under the March 2020 Legislative Council Staff forecast, state revenue is expected not to exceed the TABOR limit in any of FY 2019-20, FY 2020-21, or FY 2021-22. As a result, TABOR refunds to taxpayers are not expected to be required through tax year 2022. The measure does not change expectations concerning TABOR refunds through the current forecast period. A forecast of state revenue subject to TABOR is not available beyond FY 2021-22.

The measure reduces the state income tax rate from 4.63 percent to 4.55 percent, but makes no corresponding change to the current law TABOR refund mechanism reducing the state income tax rate to 4.50 percent as a means of refunding a portion of the TABOR surplus. For this reason, the measure reduces the amount of excess revenue that can be refunded via the temporary income tax rate reduction TABOR refund mechanism. In future years when the state issues TABOR refunds, the measure increases the likelihood that the rate reduction will be used as a refund mechanism, but reduces the amount refunded via the rate reduction, and increases the amount refunded via the six-tier sales tax refund mechanism, in years when the rate reduction would have been triggered under current law.

Technical Note

The measure takes effect upon proclamation of the Governor in either November or December 2020 and reduces the income tax rate for tax year 2020. Because of the measure's effective date, it may require the following to occur before December 31, 2020, a date that may be unfeasible given the scope of changes required:

- retrospective accrual adjustments for FY 2019-20;
- immediate changes to 2020 wage withholding schedules and notification of employers;
- revisions to and reprinting of income tax forms and instructions for the 2020 tax year; and/or
- emergency rulemaking.

Expenditures for the above will not be accommodated in FY 2020-21 appropriations for the DOR, the Department of Law, and the Department of Personnel & Administration. These contingencies may require emergency supplemental appropriations in order to fund their completion prior to the normal supplemental budget process, which occurs during tax year 2021.

Economic Impact

The measure decreases the amount paid in state income taxes for all taxpayers. Taxpayers will have more after-tax income available to spend or save, increasing their consumption of goods and services. The measure will decrease state government spending. Reduced government spending may decrease employment or wages among public sector employees and government contractors.

Any overall change in economic activity will depend on the net economic impact of higher after-tax household and business income and reduced investment in public services.

Taxpayer Impacts

Total state income taxes paid are expected to decrease by \$155.8 million for tax year 2020 and larger amounts in subsequent years. All taxpayers will pay 1.7 percent less in state income tax, though the impact in dollar terms will vary by income. On average, individual income taxpayers will pay \$42 less in individual income taxes for tax year 2020. Table 1 shows the impacts for taxpayers of different levels of Colorado taxable income.

Table 1
Changes in Colorado Income Tax Due under Initiative 2019-2020 #306

Colorado Taxable Income	Tax Due under Current Law	Tax Due under Initiative #306	Change in Tax Due
\$50,000	\$2,315	\$2,275	(\$40)
\$100,000	\$4,630	\$4,550	(\$80)
\$250,000	\$11,575	\$11,375	(\$200)

Effective Date

If approved by voters at the 2020 general election, this measure takes effect upon proclamation of the Governor, no later than 30 days after the official canvass of the vote is completed.

State and Local Government Contacts

Law

Personnel

Revenue

Abstract of Initiative 306: STATE INCOME TAX RATE REDUCTION

The abstract includes estimates of the fiscal impact of the proposed initiative. If this initiative is to be placed on the ballot, Legislative Council Staff will prepare new estimates as part of a fiscal impact statement, which includes an abstract of that information. All fiscal impact statements are available at www.ColoradoBlueBook.com and the abstract will be included in the ballot information booklet that is prepared for the initiative.

This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of April 2020, identifies the following impacts:

State revenue. The measure reduces General Fund revenue by an estimated \$78.1 million in the current FY 2019-20, \$158.4 million in FY 2020-21, and \$169.8 million in FY 2021-22.

State expenditures. The measure reduces the amount available to be spent or saved in FY 2020-21 and future fiscal years. To administer the tax rate change, the measure is expected to increase General Fund expenditures for the Department of Revenue by \$12,684 in FY 2020-21 only.

Economic impacts. Taxpayers will have more after-tax income available to spend or save, increasing their consumption of goods and services. The measure will decrease state government spending. Any overall change in economic activity will depend on the net economic impact of higher after-tax household and business income and reduced investment in public services.

Taxpayer impacts. All taxpayers will pay 1.7 percent less in state income tax, though the impact in dollar terms will vary by income. On average, individual income taxpayers will pay \$42 less in individual income taxes for tax year 2020. Table 1 shows the impacts for taxpayers of different levels of Colorado taxable income.

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