

Overview of Potential Tax Reform 2021

Presentation partially developed by
Joshua Mantell

Rapid Response Policy Analyst
The Bell Policy Center

DELIVERED BY CAROL HEDGES
COLORADO FISCAL INSTITUTE

BUILDING OFF 2020 EFFORTS

HB 20-1420 first foray into reclaiming and reforming Colorado's tax code

TABOR CONSIDERATIONS

Adding revenue usually requires voter approval, why doesn't this?

Supreme Court has interpreted Art X Sec 20 (4) to give GA some flexibility

TABOR CONSIDERATIONS

The legislature can make tax policy if the state is not in a TABOR rebate situation, the additional revenue raised is “incidental” to another purpose and is “de minimus”

Important Context

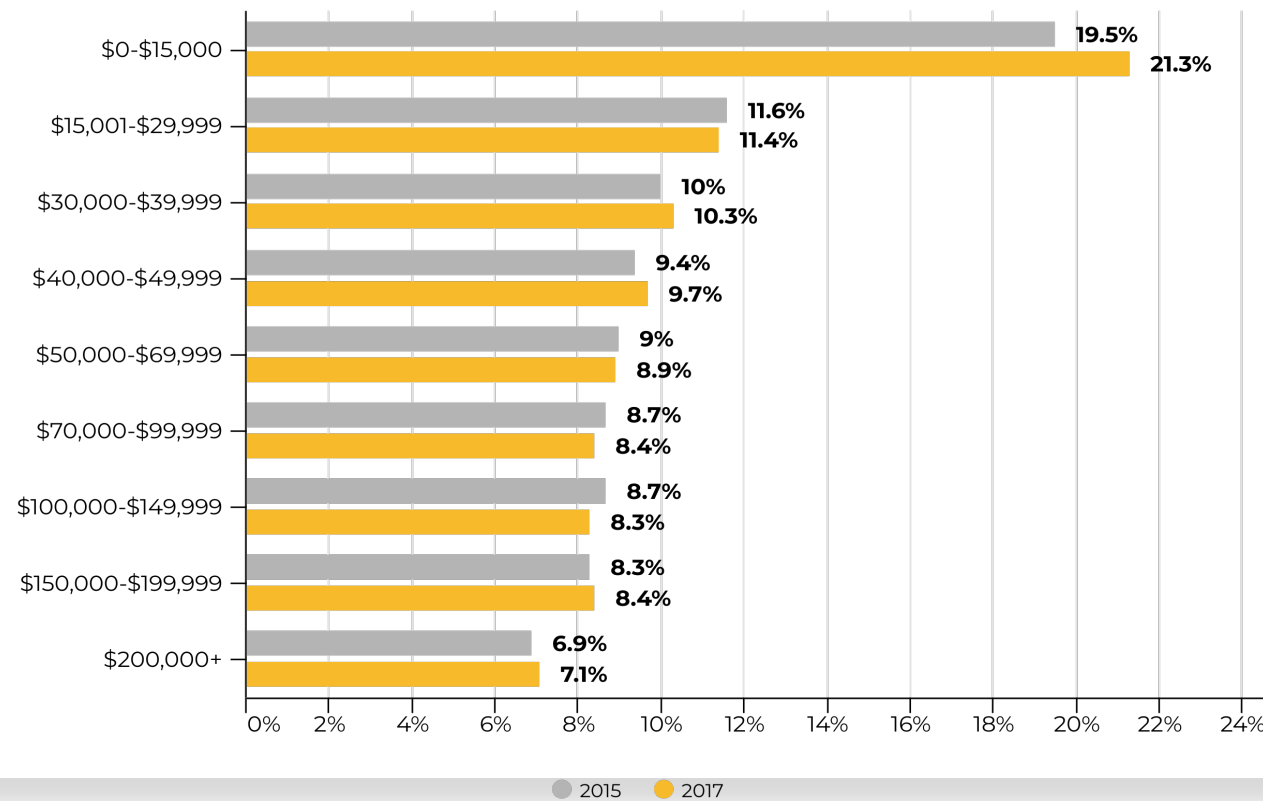
- Continuation of efforts to improve the tax code by utilizing the work of the Auditor's Office, HB-1420, and sales tax modernization efforts
- Incentive after passage of income tax cut on ballot
- Governor Polis engagement to close special interest tax provisions and carriage house convenings
- Real struggles for people due to COVID, budget cuts, and budget forecasts

2021 UNIQUE OPPORTUNITY

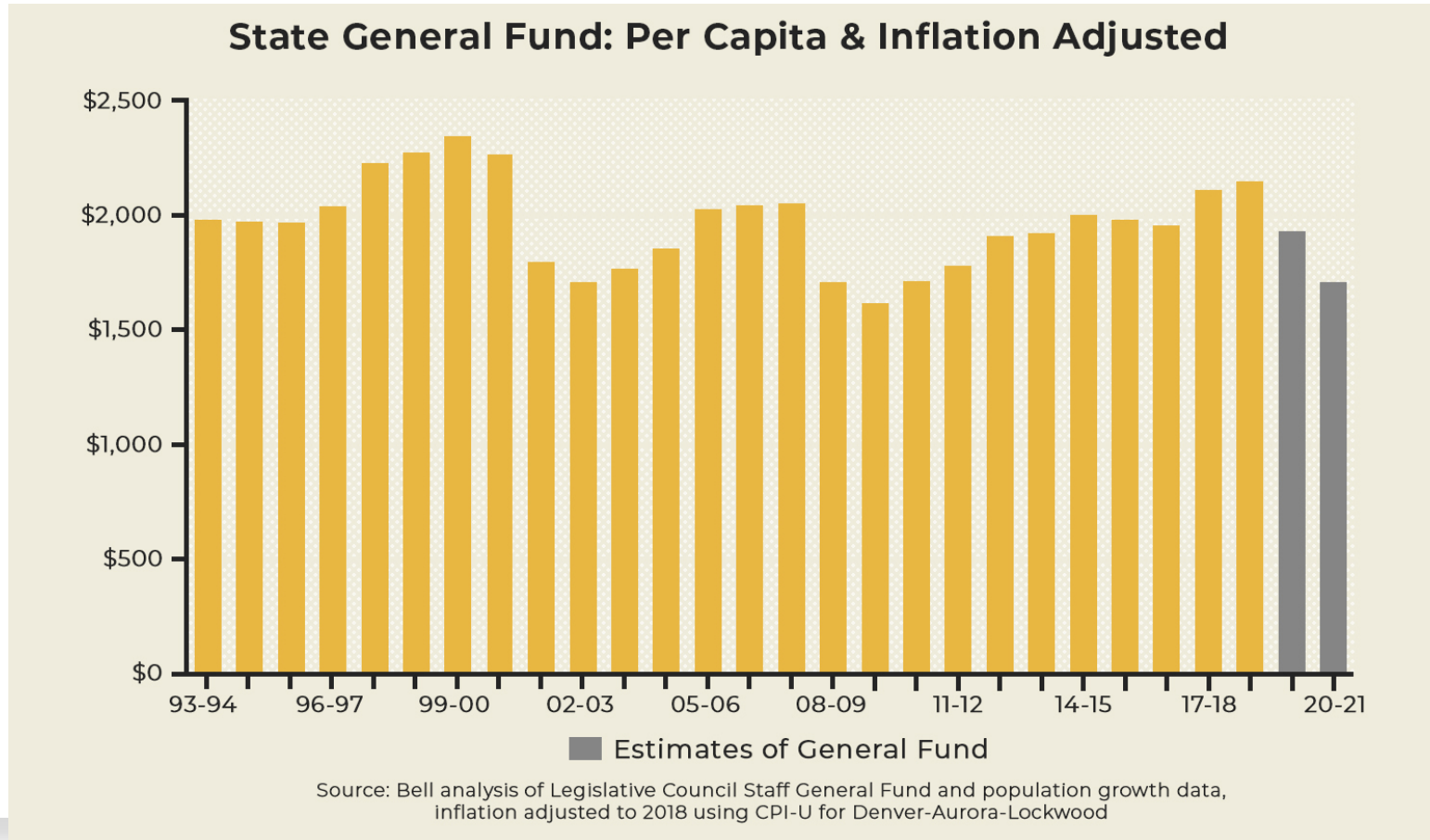
To help Coloradans make ends meet using efficient, effective and powerful tools (ie EITC and CTC) and to pay for those improvements by making different improvements that, according to independent analysis, make our tax code work better.

Fundamental Issue: Regressive Tax Code Makes it Hard to Make Ends Meet

EFFECTIVE STATE & LOCAL TAX RATES BY INCOME



Fundamental Issue: Limited Public Funding Means Less Opportunity



Levers of Change

Increase Revenue Raised
(i.e. taxes)

Reform Existing Tax Code

Ballot

State and Federal Expenditures
(Credits and Deductions)

**Modernization of
Tax Code**

Personal Income

Corporate Income

Sales Tax

High Level Goals

- Multiple bills (likely 2 or 3), at least \$150m for tax credits
- Elimination or reform of deductions and credits
- Includes reforms to corporate income, individual income, and sales tax
- Modernization of sales tax

Reform Existing Tax Code by Limiting or Modernizing Deductions/Credits

Fund Targeted Tax Credits for Families and Small Businesses

Additional Funding for General Fund and Backfilling Budget Losses

Tax Credits for Those Who Need Them

- EITC will go from 15% of federal credit to 20%
- State Child Tax Credit will be funded for first time (children under 6)

Single		Joint	
Income	Percent of federal credit	Income	Percent of federal credit
\$0 - \$25,000	30%	\$0 - \$35,000	30%
\$25,000 - \$50,000	15%	\$35,000 - \$60,000	15%
\$50,000 - \$75,000	5%	\$60,000 - \$85,000	5%

Tax Code Reforms (Categories)

State and Federal Expenditures
(Credits and Deductions)

Modernization of
Tax Code

Personal Income

Corporate Income

Sales Tax

Auditor Findings

- Tax expenditure is not meeting its intended purpose.
- A business expenditure that is not creating jobs or growing the economy.
- Colorado's expenditure is larger than other states.
- It is not broadly beneficial – meaning it does not benefit most taxpayers or is not equitable

Further Discussion Points

- Expand age eligibility for EITC?
- Include ITIN filers in CTC?
- More focus on wealthy individuals?
- Size of package

Questions?