



Legislative
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FINAL FISCAL NOTE

Drafting Number: LLS 20-0796	Date: July 30, 2020
Prime Sponsors: Sen. Sonnenberg	Bill Status: Postponed Indefinitely
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Bill Topic: **REDUCE THE STATE INCOME TAX RATE**

Summary of Fiscal Impact:	<input checked="" type="checkbox"/> State Revenue	<input type="checkbox"/> TABOR Refund
	<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
	<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

This bill would have reduced the state income tax rate from 4.63 percent to 4.49 percent for 2020 and all subsequent tax years and made corresponding changes to the alternative minimum tax. It would have required one-time implementation expenditures and reduced General Fund revenue on an ongoing basis.

Appropriation Summary: For FY 2020-21, the bill would have required an appropriation of \$9,601 to the Department of Revenue.

Fiscal Note Status: This final fiscal note reflects the introduced bill. The bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

**Table 1
State Fiscal Impacts Under SB 20-020**

		FY 2019-20 <i>(current year)</i>	FY 2020-21	FY 2021-22
Revenue	General Fund	(\$143.8 million)	(\$294.6 million)	(\$308.2 million)
Expenditures	General Fund	-	\$9,601	-
Transfers		-	-	-
TABOR Refund		-	-	-

Summary of Legislation

For tax year 2020 and all subsequent years, this bill reduces the state income tax rate from 4.63 percent to 4.49 percent.

The bill also reduces the alternative minimum tax rate from 3.47 percent to 3.33 percent and reduces the percentage of the federal alternative minimum tax credit allowed to Colorado alternative minimum taxpayers from 12.00 percent to 11.86 percent. Additionally, the income tax rate used in years when the income tax rate reduction TABOR refund mechanism is triggered is reduced from 4.50 percent to 4.363930678 percent.

State Revenue

The bill reduces General Fund revenue by an estimated \$143.8 million in the current FY 2019-20, \$294.6 million in FY 2020-21, \$308.2 million in FY 2021-22, and similar amounts in subsequent years. The amount for the current FY 2019-20 represents a half-year impact for tax year 2020 on an accrual accounting basis. The bill reduces income tax revenue, which is subject to TABOR. Revenue estimates are based on the December 2019 Legislative Council Staff forecast.

Tax rate reduction. For FY 2020-21 and subsequent years, this fiscal note assumes that individual and corporate income tax revenue will each be reduced by 3.02 percent, the proportion by which this bill reduces the income tax rate. For the current FY 2019-20 only, this fiscal note applies a 3.02 percent reduction to the share of accrual-basis fiscal year income tax revenue expected to be attributable to the 2020 tax year. Alternative minimum tax revenue is assumed to be reduced proportionally to individual income tax revenue as these revenue streams are forecast together.

This fiscal note does not account for any economic stimulus attributable to a tax rate reduction of this magnitude. The bill's direct effect will increase after-tax income by up to 0.15 percent for Colorado taxpayers. To the extent that the lower tax rate increases pre-tax personal income via increased employment or compensation, or consumer spending on goods and services subject to the state sales tax, the amount of the estimated revenue reduction will be partially offset.

State Expenditures

The bill increases General Fund expenditures by \$9,601 in FY 2020-21. The bill impacts state expenditures in years beyond FY 2022-23 if it reduces the amount of state TABOR refunds issued via property tax exemption reimbursements; however, a forecast of refunds issued in this manner is unavailable for these years. Expenditure impacts are summarized in Table 2 and detailed below.

Table 2
Expenditures Under SB 20-020

Cost Components	FY 2020-21	FY 2021-22	FY 2022-23
Department of Revenue			
Computer Programming and Testing	\$4,065	-	-
Tax Reporting	\$5,536	-	-
Total	\$9,601	\$0	\$0

Department of Revenue. For FY 2020-21, this bill requires one-time General Fund expenditures of \$4,065 to program, test, and update database fields in the Department of Revenue's (DOR's) GenTax software system. Programming costs are estimated at \$225, representing one hour of contract programming. Costs for testing at the department are estimated at \$3,840, representing 160 hours of testing at a rate of \$24 per hour. Expenditures in the Office of Research and Analysis are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$5,536. 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.

Department of Treasury. The state is not expected to issue TABOR refunds through FY 2022-23. In years beyond FY 2022-23 in which the state would have issued TABOR refunds under current law, the bill reduces the amount of senior and disabled veteran property tax exemptions that will be funded from the restricted prior year TABOR surplus. For each of these years, the exemptions will be fully funded from a combination of the remaining restricted prior year TABOR surplus and General Fund revenue collected in the year in which reimbursements are paid. Expenditures will depend on the presence and amount of TABOR surpluses for these years and the amount of the state's reimbursement obligation for the exemptions.

TABOR refunds. In years beyond FY 2021-22 in which the state would have incurred a TABOR refund obligation under current law, the bill will decrease General Fund obligations for TABOR refunds by the lesser of its revenue impact or the total amount of the obligation that would have arisen under current law. A forecast of state revenue subject to TABOR is not available beyond FY 2021-22.

Technical Note

The bill changes the income tax rate for the current tax year 2020, for which wage withholding schedules have already been prepared by the DOR and implemented by employers. Retroactive changes to the withholding schedules will require emergency rulemaking immediately following the bill's enactment.

Effective Date

The bill was postponed indefinitely by the Senate State, Veterans, and Military Affairs Committee on January 22, 2020.

State Appropriations

For FY 2020-21, the bill would have required a General Fund appropriation of \$9,601 to the Department of Revenue.

State and Local Government Contacts

Personnel

Revenue