



Legislative Council Staff

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Fiscal Note

Drafting Number: LLS 23-0612
Prime Sponsors: Rep. Bottoms

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Bill Status: House State Affairs
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Bill Topic: REDUCTION OF STATE INCOME TAX RATE

Summary of Fiscal Impact:

- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

The bill will reduce the state income tax rate from 4.40 percent to 3.50 percent beginning in tax year 2024. The bill will decrease state revenue beginning in FY 2023-24 and increase state expenditures in FY 2023-24 only. Beginning in FY 2024-25, the bill is expected to completely eliminate the expected TABOR refund obligation and reduce the amount of General Fund revenue available to be spent or saved.

Appropriation Summary: For FY 2023-24, the bill requires an appropriation of \$10,498 to the Department of Revenue.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 23-1063

		Budget Year FY 2023-24	Out Year FY 2024-25
Revenue	General Fund	(\$1.29 billion)	(\$2.70 billion)
Expenditures	General Fund	\$10,498	-
Transfers		-	-
Other Budget Impacts	TABOR Refund	(\$1.29 billion)	(\$1.37 billion)
	General Fund Reserve	\$1,575	-

Summary of Legislation

Beginning in tax year 2024, the bill reduces the state income tax rate from 4.40 percent to 3.50 percent. The rate reduction applies to both individual and corporate income taxes.

State Revenue

The bill reduces General Fund revenue by \$1.29 billion in FY 2023-24 and by \$2.70 billion in FY 2024-25 and thereafter. The amount for FY 2023-24 represents a half-year impact for tax year 2024 on an accrual accounting basis.

Beginning in tax year 2024, this fiscal note assumes that individual and corporate income tax revenue will each be reduced by 20.45 percent, the proportion by which this bill reduces the income tax rate. Revenue reductions are applied to expectations published in the December 2022 Legislative Council Staff forecast. This fiscal note does not account for any potential dynamic effects on economic activity and government spending attributable to the tax rate reduction.

State Expenditures

The bill is expected to increase General Fund expenditures by \$10,498 in FY 2023-24. Expenditures are presented in Table 2 and discussed below.

Table 2
Expenditures Under HB 23-1063

	FY 2023-24	FY 2024-25
Department of Revenue		
GenTax Programming	\$450	-
Computer and User Acceptance Testing	\$2,656	-
Data Reporting	\$7,392	-
Total Cost	\$10,498	-

Department of Revenue. The department will have one-time costs of \$10,498 in FY 2023-24 to implement this bill. The bill requires changes to the department's GenTax software system and additional testing. Changes are programmed by a contractor at a cost of \$225 per hour. Approximately two hours of computer programming will be required to implement this bill, totaling \$450. Additional computer and user acceptance testing are required to ensure programming changes function properly, resulting in additional costs of \$2,656. The Office of Research and Analysis within DOR will have costs of 7,392 to update reporting processes, SQL code, worksheets, report templates, and GenTax database testing.

Other Budget Impacts

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by \$1.29 billion for FY 2023-24 and by \$1.37 billion for FY 2024-25. This estimate assumes the December 2022 LCS revenue forecast, which anticipates TABOR refund obligations of \$1.53 billion for FY 2023-24 and \$1.37 billion for FY 2024-25. Because TABOR refunds are paid from the General Fund, this portion of the decrease in General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save.

General Fund budget. In years when the amount by which the bill reduces revenue exceeds the TABOR surplus, the bill will reduce the amount of revenue available to be spent or saved. Based on the December 2022 LCS revenue forecast, the bill is not expected to have an impact on the amount available for the FY 2023-24 budget, but such an impact is possible if state revenue falls short of the forecast. For FY 2024-25, the bill is expected to reduce the amount available for the General Fund budget by \$1.33 billion, the amount by which the revenue reduction in the bill exceeds the expected TABOR refund obligation under current law. This effect will occur in all future years when the TABOR refund obligation under current law would be less than the revenue reduction attributable to the bill.

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve beginning in FY 2022-23. Based on this fiscal note, the bill is expected to decrease the amount of General Fund held in reserve by the amounts shown in Table 1, which will increase the amount of General Fund available for other purposes.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2023-24, the bill requires a General Fund appropriation of \$10,498 to the Department of Revenue.

State and Local Government Contacts

Information Technology

Personnel

Revenue

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit: leg.colorado.gov/fiscalnotes.