



# Legislative Council Staff

*Nonpartisan Services for Colorado's Legislature*

# Memorandum

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**TO:** Interested Persons  
**FROM:** Legislative Council Staff Economists, 303-866-3446  
**SUBJECT:** Federal Tax Legislation Interested Persons Memo

## Summary

The passage of the federal Tax Cuts and Jobs Act (TCJA) is expected to increase Colorado's state income tax revenue beginning in FY 2017-18 through at least FY 2026-27. Revenue impact estimates are currently unchanged from those published in the December 2017 Legislative Council Staff forecast. However, these estimates are subject to downside risk, where unexpected shifts in taxpayer behavior could result in significantly smaller revenue increases than those estimated.

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The following provides a summary of the estimated impacts of the TCJA. This memorandum also provides an overview of the methodology used to arrive at these estimates and the specific provisions of the TCJA expected to have the largest revenue impacts for the state of Colorado.

## Summary of Revenue Impacts

The TCJA, which was signed into law on December 22, 2017, will result in the most significant changes to federal income tax policy since the Tax Reform Act of 1986. These changes affect both individual and corporate income taxes, and have important downstream impacts on state tax revenue.

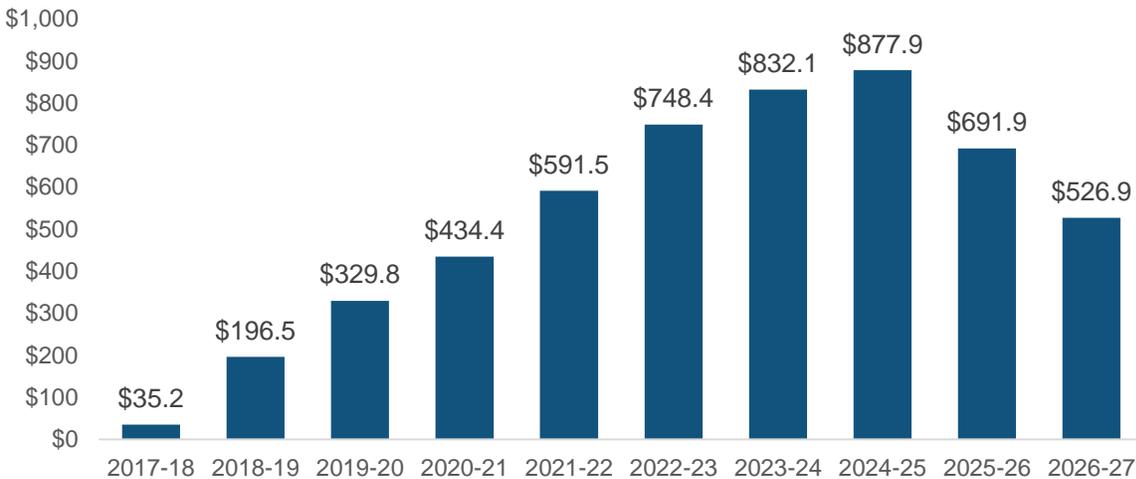
The TCJA broadens the federal tax base and lowers federal tax rates. While these changes will reduce federal income tax revenue, the impacts are expected to increase state income tax revenue for Colorado. The TCJA broadens Colorado's state income tax base, while the state income tax rate will remain constant under current law at 4.63 percent. The net impact of a broader tax base and constant tax rate is a state revenue increase.

Colorado's state revenue impacts may be larger as a share of total state revenue than that for many other states because Colorado's state tax base begins with federal taxable income (for more

information on how federal and state income taxes are calculated, see page 5). Most states with an income tax instead use federal adjusted gross income as a starting point. The TCJA impacts on federal taxable income are much more significant than those for adjusted gross income. The ultimate impact on each state, however, will be driven by the degree to which the state’s tax code is coupled to the federal tax code.

Figure 1 summarizes the total revenue impact expected for the state of Colorado as a result of the TCJA. Individual and corporate income tax revenue accounts for all impacts shown in Figure 1, though other revenue streams may be indirectly impacted, including insurance premium taxes. Estimates are summarized by revenue stream in Table 1 through FY 2021-22. Additional information on each revenue stream and for each of the major provisions of the TCJA are detailed beginning on page 7.

**Figure 1**  
**Preliminary Estimates of State Revenue Impacts from the TCJA**  
*Dollars in Millions*



Source: Legislative Council Staff estimates based on Joint Committee on Taxation estimates and available data.  
 Note: Estimates remain preliminary and subject to change with additional information or data.

### Revenue Impacts Are Temporary Unless Extended by Congress

The vast majority of provisions under the TCJA impact taxable income in tax years 2018 through 2025 only and are repealed thereafter. As a result, Colorado state revenue increases under the bill are expected to peak in FY 2024-25, before falling to pre-TCJA levels over the subsequent three years unless Congress acts to extend them.

### Estimates Are Subject to Downside Risk

Revenue impact estimates from the tax bill are unchanged relative to those published in the December 2017 Legislative Council Staff forecast.<sup>1</sup> Estimates remain preliminary and subject to change as additional information and data become available. Unanticipated shifts in taxpayer behavior pose significant downside risk to these estimates. Additionally, estimates cannot be validated due to the

<sup>1</sup>See pages 10 and 11 of the December 2017 forecast, available at: <http://leg.colorado.gov/publications/forecast-december-2017>.

complexity of the changes under TCJA. While tax collections for 2018 will reflect the changes under the bill, the impact of the bill will be difficult, if not impossible, to isolate from that of the business cycle, natural shifts in taxpayer behavior, and other factors impacting tax collections.

**Table 1**  
**Preliminary Estimates of State Revenue Impacts by Revenue Stream**  
*Dollars in Millions*

Revenue Stream	2017-18*	2018-19	2019-20	2020-21	2021-22
<b>General Fund Revenue</b>	<b>\$35.2</b>	<b>\$196.5</b>	<b>\$329.8</b>	<b>\$434.4</b>	<b>\$591.5</b>
Individual Income Tax	\$61.9	\$218.8	\$312.2	\$385.2	\$488.1
Corporate Income Tax	-\$26.7	-\$22.2	\$17.6	\$49.2	\$103.5
Insurance Premium Tax	<i>Indeterminate impact</i>				
<b>Other State &amp; Local Impacts</b>					
Federal Mineral Lease Payments	<i>No impact expected under current law</i>				

Source: Legislative Council Staff estimates based on Joint Committee on Taxation estimates and available data.  
Notes: Estimates remain preliminary and subject to change with additional information or data. Totals may not sum due to rounding.  
\*Partial-year impact.

## Revenue Impact Estimate Methodology

Data are not available at the state level to model most provisions of the TCJA. Therefore, state-level estimates are largely based on federal estimates published by the Joint Committee on Taxation (JCT).<sup>2</sup> The Congressional Budget Act of 1974 created the JCT and charged its nonpartisan staff with providing official estimates for all tax legislation considered by Congress. Legislative Council Staff's state-level estimates use the JCT estimates of federal revenue impacts that were published on December 18, 2017, as a starting point. Legislative Council Staff's estimates then follow a four-step process: (1) estimate total federal taxable income for all U.S. taxpayers; (2) estimate the share of federal taxable income attributable to Colorado filers; (3) apply the state tax rate; and (4) adjust for state-specific tax provisions. Each step is detailed at greater length below.

The JCT's estimates provide the federal revenue impact of legislation and are generally published for each major provision of a bill, with some provisions grouped. For each provision of the TCJA that impacts Colorado income tax, the JCT's December 18, 2017 estimates were divided by an estimate of the average effective federal tax rate to arrive at an estimate of total federal taxable income impacted by the TCJA. Estimates published here and in the December 2017 Legislative Council Staff forecast assume an average effective federal individual income tax rate of 19.0 percent, and an average effective federal corporate income tax rate of 23.3 percent.<sup>3</sup>

Many of the business provisions of the TCJA apply to both corporate and individual filers. Legislative Council Staff's state revenue impact estimates assume that 48.2 percent of taxable income is attributable to corporate filers based on 2013 data published by the Internal Revenue Service.<sup>4</sup> The share of taxable income assumed attributable to corporate filers was divided by the effective corporate tax rate assumption. The remaining share was divided by the individual income tax rate assumption.

<sup>2</sup>For these estimates and more information on the Joint Committee on Taxation, visit: <http://www.jct.gov/>.

<sup>3</sup>Assumptions are based on the JCT's assumptions and on Internal Revenue Service 2013 Statistics of Income data, respectively.

<sup>4</sup>Data are available at: <http://www.irs.gov/statistics/soi-tax-stats-returns-of-active-corporations-table-1>.

Next, total federal taxable income was multiplied by an assumption of the share attributable to Colorado filers to arrive at an estimate of federal taxable income for Colorado filers. Data from the 2015 Statistics of Income published by the Internal Revenue Service were used to determine Colorado's historical share of total federal taxable income by taking the ratio of total taxable income across Colorado filers to total taxable income across all filers. This Colorado share (1.74 percent) was applied across estimates for most provisions of the TCJA, while the Colorado share for provisions impacting the standard deduction (2.02 percent) and itemized deductions (1.81 percent) relied upon Statistics of Income data for these specific deductions. For provisions affecting corporate filers, a 1.70 percent assumption was used based on the Colorado's share of gross operating surplus for 2015.<sup>5</sup>

For each provision, estimates of Colorado taxable income were multiplied by the state tax rate of 4.63 percent to estimate the state revenue impact of the TCJA. Finally, adjustments were made for specific state tax provisions that interact with the TCJA, namely the state add-back for state income taxes.

Legislative Council Staff estimates were compared to those computed by the Colorado Department of Revenue. Department of Revenue estimates are based in part on actual tax year 2015 taxpayer data that model likely shifts in taxpayer behavior from claiming itemized deductions to claiming the standard deduction, or visa-versa. Both Legislative Council Staff and Department of Revenue methodologies produced similar results.

### Margin of Error in Estimates

Changes in federal tax policy will cause shifts in taxpayer behavior as individuals and businesses seek to minimize their combined state and federal income tax liabilities. The full extent and timing of these shifts are unknown and pose a significant risk to estimates, where revenue impacts may be smaller than those published here.

Without an estimate of the margin of error for the JCT's estimates, a margin of error for state-level estimates cannot be quantified. The JCT estimates assume a baseline for economic growth. To the extent that the economy under- or overperforms relative to this baseline, impacts will be lower or higher than estimated. To the extent that federal taxable income among Colorado filers differs from that of all federal filers and these differences are not captured by the state estimate methodology, estimates will over- or understate the revenue impacts of the TCJA.

The complexity of the changes made under the TCJA and data limitations make verification of state revenue impact estimates impossible. Without access to detailed taxpayer data, there is no way to disentangle the changes under the TCJA from changes caused by the business cycle, natural shifts in taxpayer behavior, or other factors that would have occurred regardless of the bill.

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<sup>5</sup>This assumption is based on data published by the U.S. Bureau of Economic Analysis.

## Individual Income Tax Impacts

Individual income tax collections are the largest single source of revenue to the state, and account for about two-thirds of General Fund revenue. On net, the TCJA is expected to increase Colorado individual income tax revenue, as provisions that increase the state tax base are expected to more than offset those that reduce the state tax base.

The TCJA provisions with the largest individual income tax impacts include the following:

- roughly doubling the standard deduction;
- eliminating the deduction for personal exemptions; and
- modifying certain itemized deductions.

In addition to these federal tax changes, Colorado has a state addition and state subtraction that interact with certain provisions of the TCJA. Namely, the state income tax add-back offsets the revenue impact of capping the state and local tax (SALT) deduction, and the state deduction for contributions to 529 college savings plans may be impacted by the broadening of allowable contributions to 529 to kindergarten through twelfth grade education expenses under the TCJA. Each of these provisions and state-level factors are detailed in greater length below.

### How Are Income Taxes Calculated?

To understand how changes to the federal tax law will impact Colorado taxes, it is helpful to understand how federal and state taxes are calculated. Figure 2 summarizes these calculations and illustrates how state and federal taxable income are tied. Changes to federal taxable income flow through to Colorado taxable income. Changes to federal tax rates and tax credits, however, have no direct impact on the Colorado income tax. The following provides a brief description of the calculation of both federal and state taxable income.

When filing a federal income tax return, taxpayers first compute their **federal adjusted gross income**. Adjusted gross income differs from total income because the federal tax code allows certain amounts to be excluded, exempted, or deducted. These provisions are sometimes called “**above the line**” **deductions** because they are available regardless of whether a taxpayer chooses to use the standard or itemized deduction. Notable examples of “above the line” deductions from the 2017 tax form include those for:

- educator expenses;
- health savings account contributions;
- moving expenses;
- health insurance expenses by self-employed persons; and
- student loan interest.

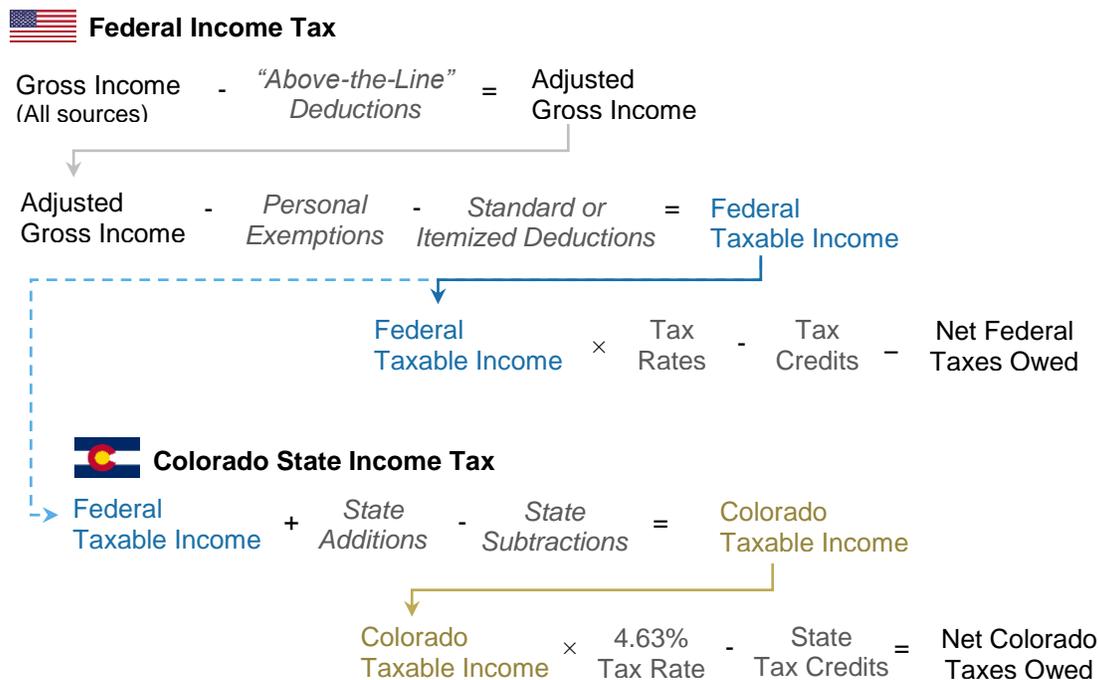
After calculating adjusted gross income, taxpayers next have to compute their federal taxable income. For 2017 and prior years, taxpayers with adjusted gross incomes less than \$384,000 (\$436,300 for joint filers) are able to claim a **deduction for personal exemptions** for each taxpayer and dependent claimed on the return. Each personal exemption is a flat per person amount (e.g., \$4,050 for tax year 2017) that is subtracted from adjusted gross incomes up to \$261,500 (\$313,800 for joint filers).

Taxpayers may also subtract from their adjusted gross income a fixed amount called the **standard deduction**, or may instead choose to subtract **itemized deductions**. Taxpayers using the standard deduction cannot use any of the itemized deductions to reduce their federal taxable income, and taxpayers choosing to itemize cannot use the standard deduction. For tax year 2017, the standard deduction amount is \$6,350 for single filers, \$9,350 for heads of household, and \$12,700 for joint filers. Individuals who are at least 65 years old at the start of the tax year, and/or who are blind, are able to claim larger standard deduction amounts. Itemized deductions include, but are not limited to:

- medical and dental expenses;
- state and local taxes (SALT);
- home mortgage and investment interest;
- gifts to charity; and
- unreimbursed employee expenses.

A taxpayer’s **federal taxable income** equals his or her adjusted gross income less his or her personal exemption(s) and either standard or itemized deductions, as shown in Figure 2.

**Figure 2**  
**Calculating Federal and Colorado State Individual Income Taxes**



The starting point for **Colorado taxable income** is federal taxable income. From federal taxable income, Colorado taxpayers are then required to add or subtract certain state-specific additions and subtractions to arrive at Colorado taxable income. The largest **state addition** to taxable income is the state add-back for state income taxes deducted from federal taxable income.<sup>6</sup> Notable **state subtractions** include those for:

<sup>6</sup>Section 39-22-104 (3)(d)(I), C.R.S.

- contributions to 529 (CollegeInvest) savings plans;<sup>7</sup>
- retirement income included in federal taxable income (limited to \$20,000 for those aged 55 to 64 years of age, and \$24,000 for those 65 and older);<sup>8</sup> and
- up to \$500 in charitable contributions for taxpayers who claim the standard deduction.<sup>9</sup>

## Is Colorado Unique?

Colorado's tax structure is unusual among states. Most of the states that levy an income tax use adjusted gross income as their tax base. This includes 28 states and the District of Columbia. Adjusted gross income is largely unchanged under the TCJA.

Colorado and six other states, including Idaho, Minnesota, North Dakota, Oregon, and South Carolina use federal taxable income as the starting point of their tax base.<sup>10</sup> Among these states, only Colorado and North Dakota have "rolling conformity" with federal tax laws, meaning federal tax law changes immediately carry through to the state level. The remaining four states have "static conformity," where state tax codes are fixed to the federal tax code as of a specific point in time (e.g., January 1, 2015, for Idaho). The impacts of the TCJA will vary considerably across states and will depend on the degree to which each state's tax code is coupled to the federal tax code, as well as other specifics of a given state's tax structure.

## Individual Income Tax Revenue Impacts of the TCJA

The following provides additional information on each of the major provisions affecting state individual income tax revenue for Colorado.

- ***Roughly doubling the standard deduction (reduces revenue).*** The TCJA increases the standard deduction for tax years 2018 through 2025, roughly doubling the amount that can be claimed. Table 2 illustrates the increase in the standard deduction between tax year 2017 and 2018. For years beyond 2018, the standard deduction amount will increase by U.S. inflation using a revised inflation calculation methodology.

**Table 2**  
**Federal Standard Deductions for Tax Years 2017 and 2018**

	Tax Year 2017 (Pre-TCJA)	Tax Year 2018 (Under TCJA)
Single Filers	\$6,350	\$12,000
Joint Filers	\$12,700	\$24,000
Heads of Households	\$9,350	\$18,000

Source: Internal Revenue Service.

Note: The additional standard deduction for those age 65 and older or blind is \$1,250 in 2017 and \$1,300 in 2018. For unmarried filers, the additional deduction is \$1,550 in 2017 and \$1,600 in 2018.

<sup>7</sup>Section 39-22-104 (4)(i), C.R.S.

<sup>8</sup>Section 39-22-104 (4)(f), C.R.S.

<sup>9</sup>Section 39-22-104 (4)(m), C.R.S.

<sup>10</sup>Vermont changed its tax base from federal taxable income to adjusted gross income beginning in 2018.

For taxpayers who would have claimed the standard deduction for tax year 2018 with or without the TCJA, the larger standard deduction reduces Colorado income tax liability by about \$255 for taxpayers filing single returns, \$509 for joint filers, or \$391 for heads of household.

Combined with changes to several itemized deductions, increases in the standard deduction amounts will cause some taxpayers to claim the standard deduction beginning in tax year 2018, instead of itemizing deductions.

- **Elimination of personal exemptions (increases revenue).** The TCJA repeals personal and dependent exemptions. For most households, repealing these exemption will increase taxable income by \$4,130 per taxpayer and per dependent based on inflation assumptions for 2018. This provision will correspondingly increase a taxpayer's Colorado tax liability by \$191 per taxpayer and dependent.
- **Modifications to itemized deductions (increases revenue on net).** The TCJA makes several modifications to itemized deductions that on net are expected to increase taxable income among Colorado taxpayers. The changes that broaden the state income tax base include the following:
  - Limits the deduction for state and local taxes (SALT) to \$10,000;
  - For mortgages taken out after December 14, 2017, only the interest on the first \$750,000 of mortgage debt is deductible;
  - Repeals the deduction for interest on home equity loans;
  - Retains the personal casualty loss deduction only for losses incurred in a federally declared disaster area; and
  - Repeals miscellaneous itemized deductions subject to the "2 percent rule," including tax preparation expenses, work clothing, hobby expenses, and unreimbursed business expenses. Under the 2 percent rule, deductions were limited to 2 percent of a taxpayer's adjusted gross income.

Several other modifications partially offset these base-broadening provisions. The charitable contribution deduction limit is 60 percent of adjusted gross income under the TCJA, up from 50 percent. Under the TCJA, taxpayers may deduct unreimbursed medical expenses that exceed 7.5 percent of their adjusted gross income in tax years 2017 and 2018. Under prior law, the threshold was 10 percent. Finally, the TCJA repeals the overall limitation on itemized deductions. Under the prior limit, for tax year 2017, taxpayers were required to reduce itemized deductions by 3 percent of every dollar of taxable income above \$261,500 for single filers and \$313,800 for married couples.

## Distributional Impacts

For taxpayers, the net tax impacts of federal changes will vary depending on the unique characteristics of the filer(s). Filers with a small number of dependents who typically claim the standard deduction will generally see their state income tax liability fall. Those with a larger number of dependents, however, will see lower tax savings or may incur a higher state tax liability. Impacts are more nuanced for taxpayers who typically claim itemized deductions. Filers who claim itemized deductions that are eliminated and/or capped by the TCJA may experience a larger tax liability.

## State Add-back

Under current state law, filers who itemize deductions must add back on their Colorado return any state income tax deducted on their federal return as a part of the state and local tax (SALT) deduction. The SALT deduction can be claimed for state or local income, sales, or property taxes. The TCJA caps the SALT deduction to \$10,000, thereby increasing taxable income for some taxpayers. Because of the state add-back, the impact of limiting the SALT deduction is not expected to be as large for Colorado state tax revenue. Revenue impact estimates were adjusted to account for this state-specific policy.

## Changes to 529 Education Savings Plans

Under Section 529 of the federal Internal Revenue Code, taxpayers may establish a "529" college savings plan for which investment earnings and withdrawals for qualified higher education expenses are excluded from federal taxable income.<sup>11</sup> These 529 plans are administered at the state level. CollegeInvest, a division of the Colorado Department of Higher Education, manages Colorado's program. In Colorado, contributions to CollegeInvest savings plans may be deducted from taxable income on state individual income tax returns, regardless of the beneficiary or origin of these contributions.<sup>12</sup>

Under the TCJA, taxpayers may contribute to 529 savings plans for K-12 education expenses in addition to college-related expenses. The implications of the TCJA on the state deduction are a matter of ongoing legal consideration. According to an Office of Legislative Legal Services (OLLS) legal memorandum dated February 27, 2018, 529 account contributions for K-12 expenses and for the other expenses added in the TCJA are eligible for the deduction; however, 529 account disbursements for these purposes are subject to income tax recapture, including penalty and interest by the Department of Revenue.

The Legislative Council Staff estimates in this memorandum assume the OLLS interpretation of current law. These estimates also assume that the risk of recapture will provide a disincentive to taxpayers such that they will not claim contributions for the 529 deduction that are intended to be used for K-12 education expenses on their state income tax returns. To the extent that these changes increase contributions claimed under the state 529 deduction, state tax revenue will be reduced.

## Business Income Tax Impacts

The TCJA includes provisions that impact income taxes for businesses, some impacting businesses that file taxes using an individual income tax form, some that file as corporations, and some impacting both corporate and individual filers. Like individual income tax, Colorado's corporate income tax is based on federal taxable income. Therefore any changes to federal corporate income tax deductions will carry through to the state level. The provisions in the TCJA with the largest impact on Colorado state tax revenue are discussed below.

- ***Deduction for pass-through entities (reduces revenue).*** Income earned by many smaller businesses is passed through to the business owner and is reported using the individual income

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<sup>11</sup>26 U.S. Code § 529.

<sup>12</sup>Section 39-22-104 (4)(i), C.R.S.

tax form. The TCJA creates a new income tax deduction equal to 20 percent of qualified business income from certain pass-through entities. The deduction is limited to 50 percent of W-2 wages of the pass-through's employees. The deduction is not available for certain service industries, including accounting, law, consulting, or health care. This new deduction reduces federal taxable income, which will reduce taxes owed by certain business and in turn will reduce state tax revenue. Certain businesses may choose to change their filing status after weighing the relative tax benefits of creating a pass-through entity and filing individual income taxes, or filing as a C corporation to leverage lower corporate income taxes.

- **Immediate expensing of property depreciation (reduces revenue in the near-term, increases revenue over the longer-term).** The depreciation deduction allows taxpayers to recover the cost of certain property over the life of the property. It is an annual allowance for the wear and tear, deterioration, or obsolescence of the property and is deducted from the income of the business. The larger the deduction, the lower the federal taxable income. The Internal Revenue Service publishes depreciation schedules for different types of property. Most types of tangible property (except land), such as buildings, machinery, vehicles, furniture, and equipment, are depreciable and have unique depreciation schedules.

Table 3 provides an example of depreciation of a \$50,000 computer, which is on the five-year depreciation schedule. Taxpayers are allowed to deduct 50 percent of the price in the first year under bonus depreciation, and then the regular depreciation schedule is applied to the remaining 50 percent. Under the TCJA, taxpayers claim the full amount in the first year, with no further deductions in subsequent years. Under the example in Table 3, the change in depreciation reduces Colorado corporate income taxes by \$752 in the first year, followed by increases in years two through six. Over the full six-year period, however, there is no change in total tax liability.

For the state of Colorado, the change to immediate expensing is expected to reduce corporate income tax revenue over the next five years (FY 2017-18 through FY 2021-22) and then increase revenue in subsequent six years (FY 2022-23 through at least FY 2026-27).

**Table 3**  
**Pre-TCJA Bonus Depreciation vs. Immediate Expensing under TCJA**

<b>Depreciation Schedule</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Total</b>
Bonus Depreciation	35%	26%	15.6%	11%	11%	1.4%	100%
Immediate Expensing	100%						100%
<b>Deduction Allowed</b>							
Bonus Depreciation	\$33,750	\$6,500	\$3,900	\$2,753	\$2,753	\$345	\$50,000
Immediate Expensing	\$50,000						\$50,000
<i>Difference</i>	<i>(\$16,250)</i>	<i>\$6,500</i>	<i>\$3,900</i>	<i>\$2,753</i>	<i>\$2,753</i>	<i>\$345</i>	<i>\$0</i>
<b>Colorado Tax Change*</b>	<b>(\$752)</b>	<b>\$301</b>	<b>\$181</b>	<b>\$127</b>	<b>\$127</b>	<b>\$16</b>	<b>\$0</b>

\*Calculated as the change in the deduction multiplied by the state tax rate of 4.63 percent.

- **Limitation on the interest deduction (increases revenue).** A business's "adjusted taxable income" is calculated as the business's earnings before interest, taxes, depreciation, and

amortization. For most businesses, the TCJA limits the deduction of interest to 30 percent of adjusted taxable income. However, any interest that cannot be deducted can be carried forward indefinitely. This change will increase taxable income for highly leveraged businesses with high levels of debt, resulting in higher state tax revenue.

- **Net operating loss deduction modification (increases revenue).** Businesses are able to deduct from taxable income net operating losses (NOLs) incurred during any given tax year to offset profits in other tax years. Prior to the passage of the TCJA, businesses could carry back NOLs to the prior two tax years and carry forward NOLs for up to 20 future tax years. The TCJA eliminates carrybacks and limits the NOL deduction to 80 percent of federal taxable income starting in 2018. Amounts carried forward must be adjusted to account for the 80 percent limitation. Colorado has disallowed the carryback of NOLs since 1987.<sup>13</sup> Therefore, limiting the carryback provisions will not impact Colorado income taxes. However, limiting the NOL deduction to 80 percent of taxable income will increase Colorado tax revenue by increasing taxable income.
- **Transition from a worldwide to a territorial tax system (reduces revenue).** Prior to the passage of the TCJA, a corporation headquartered in the U.S. was required to pay corporate income tax on income regardless of where it was earned. This is referred to as a “worldwide” tax system. The TCJA transitions corporate taxes from a worldwide to a “territorial” tax system, where foreign income earned by a foreign subsidiary of a U.S. corporation is exempt from the U.S. corporate income tax. This exemption will reduce taxable income for some corporations, thereby reducing Colorado corporate income tax revenue.
- **Repatriated foreign income (minimal to no impact).** The federal tax law creates a one-time tax on repatriated foreign income. Cash would be taxed at a rate of 15.5 percent, while illiquid assets would be taxed at 8.0 percent. These rates are less than the new 21.0 percent tax rate, creating an incentive for corporations to “repatriate” income that has been held overseas. Under current state law, taxpayers are allowed to subtract foreign source income from their taxable income on their state tax return.<sup>14</sup> Therefore, the changes under the TCJA are not expected to impact state tax revenue. Further supporting this assumption, in 2004 U.S. firms were temporarily able to repatriate foreign profits at a reduced rate. No substantive increase in Colorado corporate income taxes was experienced at that time.

## Impacts to Federal Mineral Lease Payments

**No impacts expected under current federal law.** According to the Congressional Budget Office, the federal tax legislation will increase the budget deficit by \$1.5 trillion in the years between 2018 and 2027. This increase in the deficit triggered pay-as-you-go procedures, automatically reducing the amount of money the federal government spends. The state receives a portion of mineral lease and royalty income on natural resource production on federal land that occurs in Colorado. The federal pay-as-you-go procedures would have reduced the share of federal mineral lease royalties the state receives. However, the Bipartisan Budget Act, which was signed into law on February 9, 2018, suspended the pay-as-you-go procedures triggered by the increased budget deficit due to the TCJA.

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<sup>13</sup>Section 39-22-504, C.R.S.

<sup>14</sup>Line 9 on Colorado Corporate Income Tax Form, DR 0112.

## Insurance Premium Tax Impacts

**Indeterminate impacts.** The TCJA reduces the federal penalty for not having health care insurance to zero. As a result, the number of people with health insurance may decrease, which could reduce revenue collected on insurance premiums taxes. The individuals who continue to purchase health care insurance may have higher health care costs on average, causing health insurance companies to increase insurance premiums. Premium increases would increase insurance premium tax collections and could offset the decline from fewer insured individuals. On net, the impact of these changes on insurance premium taxes is indeterminate.

## Impacts to Real Estate Markets

**Minimal impacts.** Two provisions of the TCJA reduce the federal tax benefits of home ownership for some taxpayers, which could mute home price appreciation by lessening demand for homeownership. These impacts are more likely for higher-priced homes. Under the TCJA, taxpayers may only deduct interest on new mortgages of less than \$750,000. In addition, the bill caps the total state and local tax (SALT) deduction at \$10,000. To the extent that the cap limits the amount of property tax deducted from federal taxable income for a given taxpayer, federal and Colorado state tax savings from homeownership will be diminished. For tax year 2017, Table 4 shows the distribution of property taxes paid for single family properties based on data provided by county assessors to the state's property tax auditor, Wildrose Appraisal, Inc.

**Table 4**  
**Share of Taxpayers by Colorado Property Tax Liability, 2017 Tax Year**

<b>Taxes Owed</b>	<b>Number</b>	<b>Share</b>
Up to \$2,500	1,382,762	73.3%
\$2,501 to \$5,000	408,818	21.7%
\$5,001 to \$7,500	65,716	3.5%
\$7,501 to \$10,000	14,868	0.8%
Over \$10,000	14,535	0.8%
<b>Total</b>	<b>1,886,699</b>	<b>100.0%</b>

Source: Wildrose Appraisal, Inc.

Those impacted by the TCJA are expected to be limited to taxpayers with high property taxes and those who take out mortgages on high-priced homes. Demand for housing in Colorado is expected to remain strong in coming years, offsetting much of the impacts otherwise incurred due to the changes under TCJA.