

Proposition 116: State Income Tax Rate Reduction

- 1 **Proposition 116 proposes amending the Colorado statutes to:**
2 • reduce the state income tax rate from 4.63 percent to 4.55 percent for tax year
3 2020 and future years.

4 **What Your Vote Means**

YES A “yes” vote on Proposition 116 reduces the state income tax rate to 4.55 percent for tax year 2020 and future years.

NO A “no” vote on Proposition 116 keeps the state income tax rate unchanged at 4.63 percent.

1 **Summary and Analysis for Proposition 116**

2 Proposition 116 reduces the state income tax rate from 4.63 percent to 4.55 percent
 3 for tax year 2020 and future years. This analysis provides information on the current
 4 state income tax and the changes proposed in the measure.

5 **What is the state’s current income tax rate?**

6 Since 2000, Colorado’s income tax rate has been a flat 4.63 percent, which means
 7 that all taxpayers pay the same tax rate regardless of their taxable income. The
 8 income tax rate applies to the Colorado taxable income of both individuals and
 9 corporate taxpayers. Colorado taxable income is equal to federal taxable income,
 10 adjusted for any state additions and deductions.

11 **How are state income tax collections spent?**

12 State income tax collections are the main source of General Fund revenue, which is
 13 the primary resource for financing state government operations. In state budget
 14 year 2018-19, the state income tax generated \$9.2 billion and accounted for
 15 67 percent of General Fund revenue. Currently, most of the money in the General
 16 Fund is spent on health care, education, human services, and other state programs.

17 **How does Proposition 116 change the state’s income tax rate?**

18 Proposition 116 reduces the state individual and corporate income tax rate from
 19 4.63 percent to 4.55 percent for tax year 2020 and future years. The measure is
 20 expected to reduce state income tax revenue by \$154 million in state budget
 21 year 2021-22, equal to 1.2 percent of expected state General Fund revenue for that
 22 year.

23 **Taxpayer impacts.** Table 1 shows the reduction in state income tax owed for
 24 taxpayers of different levels of Colorado taxable income, which is less than the total
 25 amount of income reported by the taxpayer.

26 **Table 1**
 27 **Income Taxes Under Current Law and Proposition 116**

Taxable Income	Tax Owed at Current Rate of 4.63%	Tax Owed Under Proposition 116	Decrease in Tax Owed Under Proposition 116
\$10,000	\$463	\$455	\$8
\$25,000	\$1,158	\$1,138	\$20
\$50,000	\$2,315	\$2,275	\$40
\$125,000	\$5,788	\$5,688	\$100
\$250,000	\$11,575	\$11,375	\$200
\$1,000,000	\$46,300	\$45,500	\$800

For information on those issue committees that support or oppose the measures on the ballot at the November 3, 2020, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

1 **Arguments For Proposition 116**

- 2 1) At a time when households and businesses are struggling to make ends meet,
3 Proposition 116 leaves more money in the pocket of every taxpayer. Allowing
4 taxpayers to keep more of their earnings will promote spending, business
5 investment, and employment.
- 6 2) After years of growth in the state's budget, the state government can handle a
7 small tax decrease to provide relief to families and businesses. Even with the tax
8 reduction under Proposition 116, state revenue is expected to increase in the
9 next budget year; the measure only modestly slows the rate by which it will grow.
10 Households that are struggling and foregoing basic purchases need their
11 earnings more than the state government does.

12 **Arguments Against Proposition 116**

- 13 1) Reducing state revenue will compound the impact of significant budget cuts
14 already being made to education, transportation, health care programs, and other
15 state services as a result of the current economic crisis. Additional loss of state
16 revenue will cause layoffs and reduce critical state services, further hurting
17 Colorado's economy and quality of life. Now is not the time to reduce state
18 revenue further.
- 19 2) Most of the measure's benefits will go to only a very small population of very
20 wealthy taxpayers, including corporations. About 75 percent of taxpayers will
21 receive a tax cut of less than \$50 per year. Comparatively, those with incomes
22 over \$500,000, representing less than 2 percent of taxpayers, will receive over
23 half of the total tax savings.

24 **Estimate of Fiscal Impact for Proposition 116**

25 **State revenue.** Proposition 116 reduces state General Fund revenue by an
26 estimated \$203 million in state budget year 2020-21 and \$154 million in state budget
27 year 2021-22. The first-year estimate includes the measure's full impact for tax year
28 2020 and half of its impact for tax year 2021 due to the timing of the change in the
29 tax rate.

30 **State spending.** The measure is expected to increase state spending by about
31 \$15,000 to administer the tax rate change. By reducing tax revenue, Proposition 116
32 reduces the amount available to be spent or saved beginning in state budget year
33 2020-21.

34 **Taxpayer impacts.** All taxpayers will pay 1.7 percent less in state income tax,
35 though the impact in dollar terms will vary by income. On average, individual income
36 taxpayers will pay \$37 less in individual income taxes for tax year 2020.