



Fiscal Impact Statement

Date: May 28, 2024

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LCS TITLE: STATE INCOME TAX REDUCTION

Fiscal Impact Summary		FY 2024-25	FY 2025-26
Revenue	General Fund	(\$631.7 million)	(\$1.3 billion)
Expenditures	General Fund	\$10,512	\$7,328

Disclaimer. This initial fiscal impact statement has been prepared for an initiative approved for petition circulation by the Secretary of State. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the ballot information booklet (Blue Book) if new information becomes available.

Summary of Measure

Beginning in tax year 2025, the measure reduces the state income tax rate from 4.4 percent to 4.0 percent. The rate reduction applies to both individual and corporate income taxes.

State Revenue

The measure reduces General Fund revenue by \$631.7 million in FY 2024-25 and by \$1.3 billion in FY 2025-26 and by similar amounts thereafter. The amount for FY 2024-25 represents a half-year impact for tax year 2025 on an accrual accounting basis.

Beginning in tax year 2025, this fiscal note assumes that individual and corporate income tax revenue will each be reduced by 9.1 percent, the proportion by which this measure reduces the income tax rate. Revenue reductions are applied to expectations published in the March 2024 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.

Taxpayer Impact

Table 2 below shows the estimated decrease in state income tax owed for individual income taxpayers with different levels of adjusted gross income if the state income tax is reduced to 4.0 percent. The measure is also expected to reduce state TABOR refunds to taxpayers for tax years 2025 and 2026 under current law.

Table 2
Change in Income Taxes Owed by Income Category Under Initiative 178

Income Categories*	Current Average Income Tax Owed	Proposed Average Income Tax Owed	Proposed Change in Average Income Tax Owed if Passed + or -
\$25,000 or less	\$83	\$76	-\$7
\$25,001 - \$50,000	\$784	\$713	-\$71
\$50,001 - \$100,000	\$1,899	\$1,726	-\$173
\$100,001 - \$200,000	\$4,169	\$3,790	-\$379
\$200,001 - \$500,000	\$9,241	\$8,401	-\$840
\$500,001 - \$1,000,000	\$18,733	\$17,030	-\$1,703
\$1,000,001 - \$2,000,000	\$29,888	\$27,171	-\$2,717
\$2,000,001 - \$5,000,000	\$49,465	\$44,968	-\$4,497

* Adjusted Gross Income reported to the federal Internal Revenue Service

State Expenditures

The measure is expected to increase General Fund expenditures for implementation by \$10,512 in FY 2024-25, and by \$7,328 in FY 2025-26 and future years. Implementation expenditures are presented in Table 3 and discussed below. The measure will decrease the state obligation for TABOR refunds in FY 2024-25 and FY 2025-26, and may reduce General Fund revenue available for the budget.

Table 3
Implementation Expenditures Under Initiative 178

	FY 2024-25	FY 2025-26
Department of Revenue		
GenTax Programming	\$464	-
Computer and User Acceptance Testing	\$2,656	-
Data Reporting	\$7,392	\$7,328
Total Cost	\$10,512	\$7,328

Initiative 178

Department of Revenue. For FY 2024-25 only, this measure requires expenditures of \$10,512 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at \$464, representing 2 hours of contract programming at a rate of \$231.75 per hour. Costs for testing at the department include \$2,656 for 83 hours of user acceptance testing at a rate of \$32 per hour. Expenditures in the Office of Research and Analysis (ORA) 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 \$7,392, representing 231 hours for data management and reporting at \$32 per hour. ORA costs are ongoing.

TABOR Refunds and General Fund Budget Impacts. The March 2024 LCS forecast estimated that state revenue would exceed the TABOR limit by \$1.91 billion for FY 2024-25. However, tax policy changes enacted during the 2024 legislative session are expected to reduce this amount relative to the March forecast, such that the FY 2024-25 TABOR surplus is expected to be less than \$1.4 billion under current law. Given the amount of expected revenue above the TABOR limit, this measure will reduce TABOR refunds by \$631.7 million in FY 2024-25 and by \$1.3 billion in FY 2025-26. A forecast of TABOR revenue is not available beyond FY 2025-26. In any future year when state revenue is below the Referendum C cap after accounting for the impact of this measure, Initiative 178 will reduce revenue available to spend or save in the General Fund budget.

Effective Date

If approved by voters at the 2024 general election, this measure takes effect upon proclamation of the Governor, no later than 30 days after the official canvass of the vote is completed.

State and Local Government Contacts

Information Technology
Treasury

Personnel

Revenue

Revisions from Fiscal Summary

The fiscal impact was revised to reflect new information based on the March 2024 Legislative Council Staff forecast and legislation enacted during the 2024 legislative session.