

Proposition 121: State Income Tax Rate Reduction

Placed on the ballot by citizen initiative • Passes with a majority vote

- 1 **Proposition 121 proposes amending the Colorado statutes to:**
2 • reduce the state income tax rate for individuals and corporations from
3 4.55 percent to 4.40 percent for tax year 2022 and future years.

4 **What Your Vote Means**

YES 5 A “yes” vote on
6 Proposition 121 reduces
7 the state income tax rate to 4.40 percent
8 for tax year 2022 and future years.

NO A “no” vote on Proposition 121
keeps the state income tax rate
unchanged at 4.55 percent.

1 **Summary and Analysis for Proposition 121**

2 Proposition 121 reduces the state income tax rate from 4.55 percent to
3 4.40 percent for individuals and corporations for tax year 2022 and future years.

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

5 Colorado’s permanent income tax applies at a flat rate of 4.55 percent, which
6 means that all taxpayers pay the same tax rate regardless of their taxable
7 income. The income tax applies to the Colorado taxable income of both
8 individual and corporate taxpayers. Colorado taxable income is equal to federal
9 taxable income, adjusted for any state additions and deductions.

10 In some years, existing law temporarily reduces the state income tax rate to
11 4.50 percent in order to pay back a portion of the amount the state collected over
12 its revenue limit, which the state is required to return to taxpayers. The tax rate
13 was reduced to 4.50 percent in 2020 and 2021, and is expected to be reduced to
14 4.50 percent in each of 2022 through 2024, to return money to taxpayers.

15 **How does Proposition 121 change state income tax collections?**

16 Proposition 121 reduces the state individual and corporate income tax rate to
17 4.40 percent for tax year 2022 and future years. The measure is expected to
18 reduce state income tax collections by \$412.6 million in state budget
19 year 2023-24. This amount represents a reduction in expected state General
20 Fund revenue of approximately 2.4 percent.

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

22 State income tax collections are the main source of General Fund revenue. The
23 General Fund is the main source of state revenue available to be allocated by the
24 state legislature to pay for general government operations such as education,
25 human services, and corrections. In state budget year 2020-21, the state income
26 tax generated \$10.7 billion, which accounted for 68.4 percent of General Fund
27 revenue. In addition to General Fund revenue, the state budget also includes
28 money from federal funds and other taxes and fees. More information about the
29 state budget can be found at: <https://leg.colorado.gov/explorebudget/>.

30 **How does Proposition 121 affect state spending?**

31 The measure’s long-term effect on state spending depends on whether state
32 revenue is above or below the constitutional revenue limit, which is called the
33 Taxpayer’s Bill of Rights (TABOR) limit. Money collected under the limit may be
34 spent or saved, while money collected over the limit must be returned to
35 taxpayers. The money that is returned is called the TABOR refund, and is
36 different from the refund a taxpayer gets when they overpay their income taxes.

37 During years when the state collects money over the TABOR limit, Proposition
38 121 will reduce the amount of money returned to taxpayers and will not change
39 the amount of money available to pay for state operations. During years when
40 the state collects less than the limit, Proposition 121 will reduce the amount of
41 money available for state government operations. The state currently expects to
42 return money collected above the TABOR limit through at least budget year
43 2023-24.

1 **How does Proposition 121 affect taxpayers?**

2 Table 1 shows the estimated decrease in state income tax owed for individual
 3 taxpayers with different levels of Colorado taxable income if the state income tax
 4 is reduced to 4.40 percent. Because Colorado taxable income is determined by
 5 applying additions and deductions to federal taxable income, the income shown
 6 in Table 1 may be less than the total amount of income earned by the taxpayer.

7 In addition to lowering the tax burden, the measure will also reduce the amount
 8 of money that is returned to taxpayers in any year that the state collects money
 9 above its constitutional revenue limit (TABOR). When this occurs, the taxpayers
 10 who would receive less money may be different than those that benefit from a
 11 reduced tax burden under Proposition 121.

12 **Table 1**
 13 **Estimated Impact of Proposition 121 on Individual Income Taxpayers**
 14 **by Income Category in State Budget Year 2023-24**
 15 *(Showing an Income Tax Rate Decrease from 4.55% to 4.40%)*

Colorado Taxable Income Category	Estimated Number of Taxpayers	Total Change in Taxes Owed	Average Change in Taxes Owed
\$14,999 or less	1,198,693	-\$4.3 million	-\$7
\$15,000 to \$29,999	477,377	-\$11.2 million	-\$23
\$30,000 to \$39,999	247,465	-\$9.1 million	-\$37
\$40,000 to \$49,999	197,402	-\$9.4 million	-\$47
\$50,000 to \$69,999	285,180	-\$17.9 million	-\$63
\$70,000 to \$99,999	267,148	-\$23.7 million	-\$89
\$100,000 to \$149,999	227,416	-\$29.3 million	-\$129
\$150,000 to \$199,999	106,782	-\$19.5 million	-\$182
\$200,000 to \$249,999	56,750	-\$13.4 million	-\$236
\$250,000 to \$499,999	89,206	-\$32.1 million	-\$360
\$500,000 to \$999,999	33,309	-\$24.1 million	-\$725
\$1,000,000 or more	29,109	-\$188.3 million	-\$6,647
Total	3,215,835	-\$382.3 million	-\$119

For information on those issue committees that support or oppose the measures on the ballot at the November 8, 2022, 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 121

- 2 1) The state government currently collects more taxes than it uses for the
3 programs it funds, and, in fact, more tax money than it is legally allowed to
4 spend. By permanently lowering the tax rate, Proposition 121 cuts out the
5 inefficiency of sending money to the government that just gets returned, while
6 providing taxpayers with tax relief during future economic downturns.
7 Families and businesses are better off when they can keep more of their own
8 money.
- 9 2) There is no better time to cut the tax rate. The measure is a modest change
10 that, according to the state's own forecasts, won't change the amount of
11 money available for state spending for at least the next three years. The
12 state legislature just approved the largest budget in state history and the
13 budget is only expected to grow, even with the tax decrease under
14 Proposition 121.

15 Arguments Against Proposition 121

- 16 1) Most of the measure's benefits will go to a small population of very wealthy
17 taxpayers, including corporations. About 75 percent of taxpayers will receive
18 a tax cut of less than \$63 per year. Comparatively, those with incomes over
19 \$1 million, representing less than 1 percent of taxpayers, will receive nearly
20 half of the total tax savings from the measure. On average, these taxpayers
21 are expected to save almost \$7,000 per year. In addition, corporations
22 outside of Colorado will keep more money, which they may choose to invest
23 elsewhere or pay as profits to out-of-state shareholders.
- 24 2) High inflation, the ongoing pandemic, and chaotic international relations have
25 elevated the risk of an economic recession. If a recession occurs, the
26 measure will likely reduce the amount of money available for the state
27 budget, making it harder for the state to respond to economic challenges and
28 provide critical services to those most impacted. Now is not the time to
29 weaken the state's safety net.

30 Fiscal Impact for Proposition 121

31 **State revenue.** Proposition 121 reduces state General Fund revenue by an
32 estimated \$638 million in state budget year 2022-23 and \$413 million in state
33 budget year 2023-24. The estimate for budget year 2022-23 represents a
34 full-year impact for tax year 2022 and a half-year impact for tax year 2023,
35 because the measure takes effect after completion of budget year 2021-22.

36 **State spending.** Implementation of the measure is expected to cost the state
37 about \$11,000. Based on state economic forecasts, the measure would not
38 affect the amount of General Fund available for the state to spend or save in
39 budget year 2022-23 or budget year 2023-24. In future years when state
40 revenue is below the constitutional limit (TABOR), the measure reduces the
41 amount of General Fund available to be spent or saved. The three largest
42 General Fund operating appropriations in state budget year 2021-22 were health
43 and human services programs; kindergarten through 12th grade education; and
44 corrections and judicial operations.

45 **TABOR refunds.** The Taxpayer's Bill of Rights Amendment, or TABOR, limits
46 the amount of revenue that the state may spend and save each year. The

1 revenue limit increases each year to account for inflation and population growth.
2 Revenue the state collects over the limit must be returned to taxpayers.
3 Proposition 121 lowers the state income tax rate, which will reduce the amount to
4 be returned.

5 **Taxpayer impacts.** All taxpayers will pay 3.3 percent less in state income tax,
6 though the impact in dollar terms will vary by income. On average, individual
7 income taxpayers will pay \$93 less in individual income taxes for tax year 2022.
8 In years where a refund is required by the Taxpayer's Bill of Rights including
9 budget year 2022-23, lower income households may experience a net decrease,
10 since the amount returned to them as a result of TABOR may fall by more than
11 the amount they owe in income taxes.