HB 22-1021

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Demographic Note

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BILL TOPIC:	**REDUCE STATE INCOME TAX RATE**
Demographics Analyzed:	• Socioeconomic Status • Race/Ethnicity
Bill Impacts:	☒ Economic ☐ Health ☐ Public Safety ☐ Employment ☐ Education The bill is expected to impact economic disparities by reducing the income tax rate from 4.55 percent to 4.40 percent, thereby increasing incomes through tax savings. The impact of the bill varies across taxpayer incomes, where many low-income taxpayers who do not have a tax liability under current law will be unaffected, some taxpayers with lower income tax liabilities may experience a decline in tax savings when the state is in a TABOR surplus situation, and higher income taxpayers will experience tax savings.
Report Status:	The demographic note reflects the introduced bill.

Demographic Impact Summary

This demographic note[1] analyzes potential impacts of HB 22-1021 on disparities in economic outcomes based on available data, including by socioeconomic status as measured by income, race, and ethnicity.[2]

This bill may increase existing income disparities by providing larger tax savings for those with higher incomes, both in absolute amounts and proportionally to income. Individuals who are not required to file income taxes because they have insufficient incomes and those without an income tax liability due the structure of the federal and state income tax code (e.g., deductions and tax credits) will be unaffected by the change in income tax liability under the bill. Higher income earners, who tend to have a higher income tax liability, are more likely to experience income increases from tax savings under HB 22-1021. Additionally, the income tax rate reduction under the bill results in higher taxpayer savings for higher income earners and lower savings for lower income earners than the

[1]Pursuant to Section 2-2-322.5, C.R.S., this demographic note uses available data to outline the potential impacts of proposed legislation on disparities within the state. Disparities are defined by statute as the difference in economic, employment, health, education, or public safety outcomes between the state population as a whole and subgroups of the population, as defined by socioeconomic status, race, ethnicity, sex, gender identity, sexual orientation, disability, geography, or any other relevant characteristic for which data are available. It is beyond the scope of this analysis to examine each of the varied causes contributing to a given disparity. For further information on the contents of demographic notes, see "Demographic Notes Overview" Memorandum available at https://leg.colorado.gov/sites/default/files/images/lcs/demographic_notes_overview.pdf.

[2] Terminology used to distinguish demographic groups (e.g., black/African American, Hispanic or Latina/Latino) is based on the terminology used in the data sources referenced. These terms may differ from the self-identification of these populations.

savings under the current six-tier sales tax TABOR refunds, which would otherwise be expected under current law and the December 2021 Legislative Council Staff forecast. Demographic data suggest that higher income households are more likely to be white and non-Hispanic.

The ultimate impact of the bill on economic outcomes will depend on the several factors that are unknown at this time, including individual decisions made by taxpayers and businesses, the amount of the TABOR surplus in future years, and budgetary tradeoffs when the state is not in a TABOR surplus situation.

Legislative Background

Individual income tax. Colorado has a single or "flat" income tax rate applied universally across all income brackets. Initially set at 5 percent for individuals and corporations in 1987, the income tax rate was subsequently reduced to 4.75 percent in 1999, to 4.63 percent in 2000, and to 4.55 percent in 2020. Nine other states apply a flat tax rate to individual incomes, ranging from 3.07 percent in Pennsylvania to 5.0 percent in Massachusetts and New Hampshire, which levies a flat tax on interest and dividend income only.[3]

Corporate income tax. Colorado enacted a corporate income tax in 1937. The tax was set at a flat rate of 5.0 percent beginning in tax year 1994 and was subsequently lowered to 4.75 percent in 1999, to 4.63 percent in 2000, and to 4.55 percent in 2020. Thirty-one other states levy a flat corporate income tax, ranging from 2.5 percent in North Carolina to 9.99 percent in Pennsylvania.[4]

Key Provisions and Demographic Comparisons

Beginning in tax year 2022, HB 22-1021 reduces the state income tax rate from 4.55 percent to 4.40 percent. The rate reduction applies to both individual and corporate income taxes. The following analysis presents the demographic considerations raised by the bill and, where data are available, compares the populations affected by the bill to the statewide population across different demographic groups. Pursuant to statute and based on available data on demographic differences between affected and statewide comparison populations, this analysis identifies potential effects of the bill on existing disparities.

Colorado Tax Savings by Family Money Income

Table 1 shows estimates for characteristics of Colorado's taxpayer population and taxpayer savings under HB 22-1021 by family money income (FMI) for full-year Colorado residents in 2019, the most recent year for which data are available. FMI aims to capture all income available to Colorado households and includes taxable and nontaxable income as well as transfer payments. Negative FMI is associated with self-employment, investment losses, and other losses.

[3] Source: Federation of Tax Administrators. January 2022. Available at: https://www.taxadmin.org/assets/docs/Research/Rates/ind_inc.pdf
[4] Source: Federate of Tax Administrators. January 2022. Available at: https://www.taxadmin.org/assets/docs/Research/Rates/corp_inc.pdf

Taxpayers with no change in income tax liability under HB 22-1021. The data in Table 1 do not include those who do not file tax returns because their income is too low. Based on data from the Census Bureau's 2019 American Community Survey, up to 51,000 households in Colorado may not file tax returns. In addition, some households may file taxes, but have no Colorado income tax liability. For example, taxpayers whose federal adjusted gross income in 2019 is less than the federal standard deduction of $24,400 for married couples filing jointly, or $12,200 for single taxpayers would be unlikely to have any state income tax liability and therefore are unlikely to have any income tax savings under the bill. Taxpayers ages 65 and over have an additional standard deduction of $1,300. As shown in Table 1, average Colorado taxable income is negative for family incomes up to $15,000. This indicates that many taxpayers in these income brackets had zero income tax liability because their deductions exceeded their federal taxable income. These two groups of taxpayers, those who do not file returns and those with insufficient taxable income, will generally not be impacted by the reduction in income tax liability due to HB 22-1021. They may be impacted by changes in the six-tier sales tax TABOR refund discussed below.

Changes in individual income tax liability under HB 22-1021. Reflecting the current distribution of FMI, taxpayers with a higher FMI will have a higher average savings under HB 22-1021. Taxpayers with an FMI of $200,000 or more will save an estimated average of $592 per year, while those with an FMI of $0 to $15,000 will save an average of $8 per year. The average taxpayer will save $100. Those in lower income groups have a lower estimated savings in dollar amount and as a share of FMI, which, as shown in Table 1,is slightly higher for higher income groups.

Changes in corporate tax liability under HB 22-1021. The demographic composition of affected corporations and their employees cannot be determined based on available data and because impacts depend on business decisions that are unknown. For example, corporations may pass cost savings on to consumers, but the demographics of those consumers are unknown.

Recent tax policy changes. Table 1 reflects data for tax year 2019. Since then, state and federal income taxes have undergone significant changes that will impact the amount of taxes paid. Notable federal policy changes include the federal CARES Act, which provided temporary tax relief to taxpayer across the income distribution. Notable state-level policy changes include those under House Bill 21-1311, which enacted a state child tax credit and expanded of the state earned income tax credit. Both credits are refundable. These changes generally result in lower taxes for those with an adjusted gross income of less than $85,000 for joint filers and $75,000 for single filers. HB 21-1311 made several other income tax policy changes that impact taxpayers across the income distribution. For example, the bill altered the cap on the pension and annuity deduction so that all federally taxed social security income is deductible in Colorado, in addition to the first $24,000 of pension and annuity income for those ages 65 and over. On net, recent federal and state tax policy changes likely eliminated the tax liabilities for many lower-income taxpayers, and reduced the tax liabilities for most but not all taxpayers across the income distribution, reducing the potential savings for these taxpayers under HB 22-1021 relative to what the 2019 data may suggest.

Table 1
Taxpayer Population and Estimated Savings Under HB 22-1021 by Family Money Income, Tax Year 2019*

	Taxpayer Population				Estimated Changes Under HB 22-1021*			
Family Money Income (FMI)	Taxpayer Population	Average Colorado Taxable Income	Share of Taxpayers	Share of FMI	Estimated Colorado Gross Tax at 4.4%	Average Taxpayer Savings Under HB 22-1021	Share of Taxpayer Savings/ Gross Colorado Tax	Average Taxpayer Savings as a Share of FMI
Negative Income	14,838	($149,276)	0.6%		$242	$8	0.1%	
$0 to $15,000	227,899	($5,023)	9.4%	0.9%	$109	$4	0.4%	0.05%
$15,000 to $29,999	417,001	$4,114	17.3%	4.1%	$307	$10	1.8%	0.04%
$30,000 to $39,999	280,169	$14,446	11.6%	4.2%	$729	$25	2.9%	0.07%
$40,000 to $49,999	245,856	$22,703	10.2%	4.7%	$1,080	$37	3.8%	0.08%
$50,000 to $69,999	333,159	$34,383	13.8%	8.6%	$1,591	$54	7.5%	0.09%
$70,000 to $99,999	308,080	$54,359	12.8%	11.1%	$2,435	$83	10.7%	0.10%
$100,000 to $149,999	267,165	$86,938	11.1%	14.1%	$3,862	$132	14.6%	0.11%
$150,000 to $199,999	123,657	$130,209	5.1%	9.2%	$5,775	$197	10.1%	0.11%
$200,000 and more	195,243	$391,316	8.1%	43.1%	$17,373	$592	48.1%	0.12%
TOTAL	**2,413,067**	**$62,956**	**100.0%**	**100.0%**	**$2,919**	**$100**	**100.0%**	**0.10%**

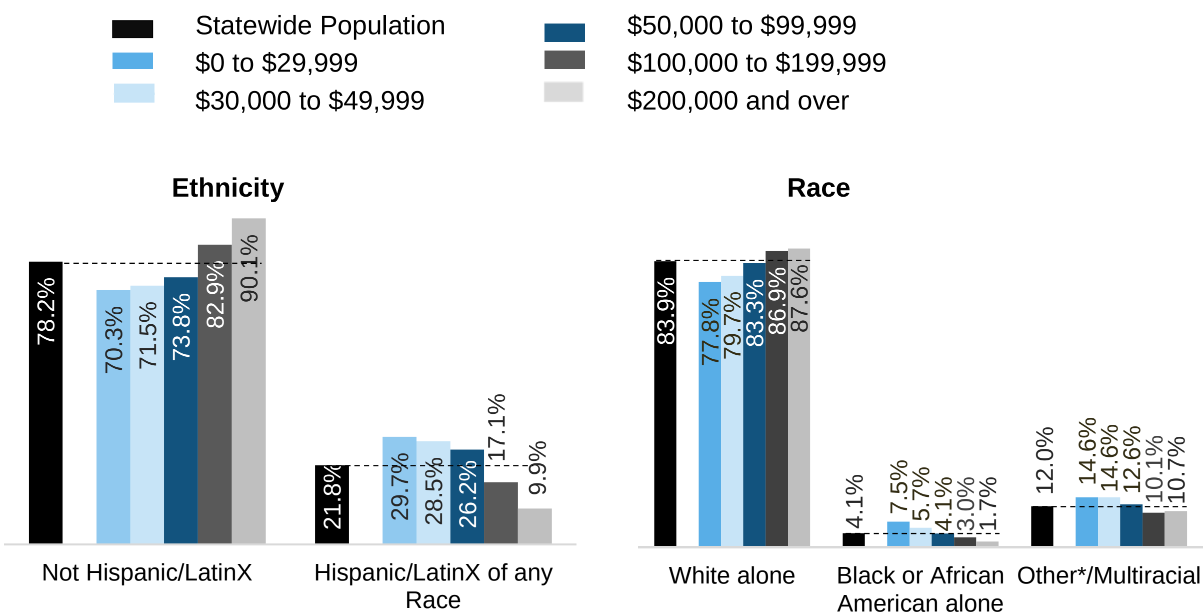
Source: Colorado Department of Revenue, Office of Research and Analysis and LCS calculations. Full year residents only.
**Estimates based on data from the 2019 tax year, which does not account for tax policy changes enacted in subsequent years.*

Demographics of Colorado Households by Income

Income is often correlated with other demographic characteristics, as shown in Figure 1, which compares the racial and ethnic composition of populations living in households by family income bands with the statewide population as a whole.

The data suggest that compared to the statewide population, Coloradans who are Hispanic/LatinX and black/African American, of another non-white race, or multiracial are more likely to be living in lower income households while those who are non-Hispanic or white are more likely to be living in higher income households. For example, while Hispanic/LatinX individuals constitute 21.8 percent of the statewide population, they constitute 29.7 percent of those with a family income of $0 to $29,999 and 9.9 percent of those with a family income of $100,000 or more.

Figure 1
Colorado Population Comparisons
Share of Total Population by Race/Ethnicity across Incomes



Source: U.S. Census Bureau, American Community Survey 1-Year Estimates, 2019.
** Other races include Asian, American Indian, Alaska Native, Native Hawaiian, other Pacific Islander, or some other race alone.*

Analysis and Findings

The bill is expected to increase after-tax income for many households who file tax returns and have a Colorado state income tax liability. Many low-income taxpayers without a tax liability will be unaffected by the change in state income tax liability, but may have reduced refunds via the six-tier sales tax TABOR refund mechanism. Lower-income taxpayers with a liability may owe more relative to current law when the state experiences a TABOR refund. Higher income taxpayers are expected to experience higher savings under the bill relative to current law.

Based on a comparison between the statewide and affected populations, the analysis suggests that the bill may increase existing economic disparities by socioeconomic status, race, and ethnicity. Demographics characteristics of Colorado households by FMI suggest that individuals living in lower-income households are more likely than the statewide population to be black or African American, multiracial or of another race than white, and Hispanic, and those living in higher income households are more likely to be white or non-Hispanic. To the extent that the bill alters taxpayer behavior, there may be additional impacts that cannot be known at this time.

Impact of the bill on TABOR refunds and taxpayer savings. Under current law and the December 2021 Legislative Council Staff forecast, the bill is expected to reduce the amount of TABOR refunds to taxpayers in each year from FY 2021-23 through FY 2023-24. TABOR refunds are distributed to taxpayers based on refund mechanisms set in state statute. Based on the fiscal note for this bill, the bill is expected to eliminate the income tax rate reduction refund mechanism and reduce the amount refunded via the six-tier sales tax refund mechanism in tax years 2022 through 2024. As shown in Table 2, relative to the six-tier refund mechanism under current law, the income tax rate reduction under this bill is expected to result in higher taxpayer savings for those with higher incomes and lower taxpayer savings for those with lower incomes. For example, the combined six-tier sales tax refund and average income tax savings under HB 22-1021 are estimated to total $281 for single filers with incomes $45,000 or below, which is $33 less than expected refunds from the two existing TABOR refund mechanisms under current law. For single filers with incomes greater than $254,000, the combined savings under HB 22-1021 are $2,227, which is $763 more than estimated under current law. For estimates of impacts for tax years 2023 and 2024, see the Appendix.

Table 2
Estimated TABOR Refunds and Taxpayer Savings Under HB 22-1021, Tax Year 2022

		Amounts and Changes Under HB 22-1021				
		Six-Tier Sales Tax Refund*		Average Income Tax Savings from Rate Reduction	Combined Net Tax Savings/(Liability) under HB 22-1021	
Adjusted Gross Income Bands*	Taxpayer Population	Single Filers	Joint Filers	Single & Joint Filers	Single Filers	Joint Filers
up to $45,000	1,230,271	$263	$526	$18	-$33	-$78
$45,001 to $91,000	947,666	$350	$700	$101	$5	-$55
$91,001 to $144,000	612,928	$403	$806	$209	$66	-$3
$144,001 to $200,000	319,680	$479	$958	$340	$138	$56
$200,001 to $254,000	152,890	$516	$1,032	$477	$221	$133
$254,001 and more	253,533	$830	$1,660	$1,397	$763	$621

Source: Legislative Council Staff calculations based on the December 2021 Legislative Council Staff forecast, the fiscal note for HB 22-1021, and Department of Revenue income tax data for tax year 2018.
**Six-tier sales tax refund amounts are identical for taxpayers in each AGI tier and adjusted gross income bands and based on the six tiers set in state statute.*

In years when the state does not experience a TABOR surplus, taxpayer savings will depend on the taxpayer's income tax liability and impacts are expected to follow a similar distribution as those shown in Table 1.

Budgetary tradeoffs. For future years in which the state does not collect revenue above the TABOR limit, the bill will reduce money available for the state budget. To the extent that this results in a reduction in state services, some demographics may be disproportionately impacted.

Dynamic impacts. This bill may result in dynamic economic impacts, which may offset the static impacts identified in this demographic note for some populations or may exacerbate the impacts identified. A bill's dynamic impacts include its downstream effects throughout the economy and can take several years to fully materialize. A reduced state income tax rate may stimulate economic activity that generates additional tax revenues and additional incomes for individuals and businesses. For example, a reduction in the state income tax rate results in lower tax liability for affected taxpayers. With higher post-tax income, these individuals may spend more on goods and services, increasing income to certain businesses. Corporations may invest tax savings on research and development or hire more employees. A reduced TABOR refund via the six-tier sales tax mechanism may have offsetting impacts for lower income taxpayers, who have a higher propensity to spend.

Demographics Not Analyzed

Some demographic groups have not been included in the analysis due to data limitations. Data on the relevant populations delineated by sex, gender identity, disability, sexual orientation, and geography were not available at the time of the analysis. Should data become available, this analysis may be updated.

Data Sources and Agencies Contacted

Revenue

Appendix
Estimated TABOR Refunds and Taxpayer Savings Under HB 22-1021

Tax Year 2023

		Amounts and Changes Under HB 22-1021				
		Six-Tier Sales Tax Refund*		**Average Savings from Income Tax Rate Reduction**	**Combined Net Tax Savings/(Liability) under HB 22-1021**	
Adjusted Gross Income Bands*	**Taxpayer Population**	Single Filers	Joint Filers	Single & Joint Filers	Single Filers	Joint Filers
up to $46,000	1,245,142	$231	$462	$27	-$29	-$76
$46,001 to $93,000	959,121	$308	$616	$118	$15	-$47
$93,001 to $146,000	620,337	$355	$710	$226	$76	$5
$146,001 to $203,000	323,544	$422	$844	$370	$156	$72
$203,001 to $259,000	154,738	$454	$908	$506	$238	$147
$259,001 and more	256,598	$730	$1,460	$1,522	$843	$697

Tax Year 2024

		Amounts and Changes Under HB 22-1021				
		Six-Tier Sales Tax Refund*		**Average Savings from Income Tax Rate Reduction**	**Combined Net Tax Savings/(Liability) under HB 22-1021**	
Adjusted Gross Income Bands*	**Taxpayer Population**	Single Filers	Joint Filers	Single & Joint Filers	Single Filers	Joint Filers
up to $47,000	1,260,020	$242	$484	$28	-$32	-$82
$47,001 to $94,000	970,581	$323	$646	$124	$15	-$51
$94,001 to $149,000	627,749	$372	$744	$237	$79	$3
$149,001 to $207,000	327,410	$442	$884	$397	$169	$79
$207,001 to $2564,000	156,587	$476	$952	$546	$260	$164
$264,001 and more	259,663	$765	$1,530	$1,595	$884	$728

Source: Legislative Council Staff calculations based on the December 2021 Legislative Council Staff forecast, the fiscal note for HB 22-1021, and Department of Revenue income tax data for tax year 2018.
**December 2021 Legislative Council Staff forecast, page 25.Six-tier sales tax refund amounts are identical for taxpayers in each AGI tier and adjusted gross income bands and based on the six tiers set in state statute.*