

Proposition ? : State Income Tax Rate Reduction

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

1 **Proposition ? 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 ? reduces the

7 state income tax rate to 4.40 percent for
8 tax year 2022 and future years.

NO

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

1 **Summary and Analysis for Proposition ?**

2 Proposition ? reduces the state income tax rate from 4.55 percent to 4.40 percent
3 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 individuals and corporate taxpayers. Colorado taxable income is equal to federal
9 taxable income, adjusted for any state additions and deductions.

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

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

16 Proposition ? 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 used to pay for general
24 government operations such as education, health care, human services, and
25 corrections. In state budget year 2020-21, the state income tax generated
26 \$10.7 billion, which accounted for 68.4 percent of General Fund revenue. In
27 addition to General Fund revenue, the state budget also includes money from
28 federal funds and other taxes and fees. More information about the state budget
29 can be found here: <https://leg.colorado.gov/explorebudget/>

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

31 The measure’s effect on state spending depends on whether state revenue is
32 above or below the constitutional revenue limit, which is called the Taxpayer’s Bill
33 of Rights (TABOR) limit. Money collected under the limit may be spent or saved,
34 while money collected over the limit must be returned to taxpayers. The money
35 that is returned is called the TABOR refund, and is different from the refund a
36 taxpayer gets when they overpay their income taxes. During years when the
37 state collects money over this limit, Proposition ? will reduce the amount of
38 money returned to taxpayers and will not change the amount of money available
39 to pay for state operations. During years when the state collects less than the
40 limit, Proposition ? will reduce the amount of money available for state
41 government operations. The state currently expects to return money collected
42 above the limit through at least budget year 2023-24.

1 **How does Proposition ? 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. When this occurs, the taxpayers who
 10 would receive less money may be different than those that benefit from a
 11 reduced tax burden under Proposition ?.

12 **Table 1**
 13 **Estimated Impact of Proposition ? 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 ?**

2 1) Proposition ? permanently lowers the tax burden on families and businesses.
3 The state government currently collects more taxes than it uses for the
4 programs it funds, and, in fact, more tax money than it is legally allowed to
5 spend. Proposition ? ensures that this money remains with families and
6 businesses in the future rather than paying for a larger government
7 bureaucracy.

8 2) Even with the tax decrease under Proposition ?, the state budget is expected
9 to increase in the next budget year, thus resulting in no overall decrease in
10 the state budget in the near future. The measure is a modest change and is
11 not expected to reduce funds available for state operations for at least the
12 next few years. Households that are struggling and foregoing basic
13 purchases need their earnings more than the state government does.

14 **Arguments Against Proposition ?**

15 1) Most of the measure’s benefits will go to a small population of very wealthy
16 taxpayers, including corporations. About 75 percent of taxpayers will receive
17 a tax cut of less than \$63 per year. Comparatively, those with incomes over
18 \$1 million, representing less than 1 percent of taxpayers, will receive nearly
19 half of the total tax savings from the measure. On average, these taxpayers
20 are expected to save almost \$7,000 per year. In addition, corporations
21 outside of Colorado will keep more money, which they may choose to invest
22 elsewhere or pay as profits to out-of-state shareholders.

23 2) High inflation, the ongoing pandemic, and chaotic international relations have
24 elevated the risk of an economic recession. If a recession occurs, the
25 measure will likely reduce the amount of money available for the state
26 budget, making it harder for the state to respond to economic challenges and
27 provide critical services to those most impacted. Now is not the time to
28 weaken the state’s safety net.

29 **Fiscal Impact for Proposition ?**

30 **State revenue.** Proposition ? reduces state General Fund revenue by an
31 estimated \$215 million in state budget year 2021-22 and \$422 million in state
32 budget year 2022-23. The first-year estimate is lower because the change in the
33 tax rate takes effect in the middle of the state budget year.

34 **State spending.** Implementation of the measure is expected to cost the state
35 about \$11,000. Based on state economic forecasts, the measure would not
36 affect the amount of General Fund available for the state to spend or save in
37 state budget year 2022-23.

38 **TABOR.** The Taxpayer’s Bill of Rights Amendment, or TABOR, limits the
39 amount of revenue that the state may spend and save each year. The revenue
40 limit increases each year to account for inflation and population growth.
41 Revenue the state collects over the limit must be returned to taxpayers.
42 Lowering the state income tax rate will reduce the amount returned.

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