



2019 Temporary Income Tax Rate Reduction

By Greg Sobetski

When Colorado taxpayers file their 2019 income taxes, they will pay tax at a rate of 4.50 percent, rather than the state's usual 4.63 percent rate. The rate reduction affects state income tax payments by all taxpayers, including individuals, corporations, non-corporate businesses, and other fiduciaries. This *issue brief* provides information on this temporary income tax rate reduction.

Tax Rate Reduction Trigger

The temporary income tax rate reduction is a **TABOR refund mechanism**.¹ The income tax is reduced if the state collects a sufficiently large TABOR surplus.² Specifically, the rate reduction requires a TABOR surplus large enough to fully fund both the estimated cost of the following fiscal year's senior and disabled veteran property tax exemptions and the estimated cost of the reduced tax rate.

In FY 2018-19, the state collected \$428.3 million above the TABOR limit. The state TABOR refund obligation for FY 2019-20 totals \$428.5 million, including \$428.3 million from the FY 2018-19 surplus and \$0.2 million from prior year underrefunds. This amount is required to be refunded in FY 2019-20 as shown in Table 1.

Table 1
TABOR Refunds in FY 2019-20

| | |
|-----------------------------------|----------------------|
| TABOR Refund Obligation | \$428.5 million |
| Estimated Property Tax Exemptions | (\$153.2 million) |
| Estimated Cost of Rate Reduction | (\$273.5 million) |
| Outstanding Amount | \$1.8 million |

¹Section 39-22-627, C.R.S.

Because the amount remaining to be refunded after accounting for the estimated cost of property tax exemptions was greater than the estimated cost of the income tax rate reduction, the income tax rate reduction is triggered for tax year 2019. Under current law, the rate will return to 4.63 percent for tax year 2020 unless the state again collects a sufficiently large TABOR surplus in FY 2019-20. Returning the income tax rate to 4.63 percent does not require voter approval.

The refund amounts used to determine TABOR refund mechanisms are estimates based on expected taxpayer activity. For this reason, the mechanisms may overrefund or underrefund the \$428.5 million obligation. Any underrefund would be added to future TABOR refunds, and any overrefund would be subtracted from future TABOR refunds.

History of the Refund Mechanism

The temporary income tax rate reduction was created during the same legislative session when Referendum C was referred to voters. The refund mechanism first became effective in FY 2010-11 following the five-year TABOR timeout period in Referendum C.

Since the mechanism's creation, the state has collected TABOR surpluses in three fiscal years: FY 2014-15, FY 2017-18, and FY 2018-19. The refund requirements for tax years 2015 and 2018 were not large enough to trigger the rate reduction.

²For additional information on the TABOR limit, see this Legislative Council Staff Interested Persons memorandum: <https://leg.colorado.gov/publications/tabor-revenue-limit>

Therefore, the 2019 tax year is the first year in which the temporary rate reduction has applied.³

tax owed for specific amounts of taxable income is presented beginning on page 15 of the Colorado Department of Revenue’s 2019 Individual Income Tax Filing Guide.⁵

Budget Impact

Revenue collected in excess of the TABOR limit is restricted in the General Fund in the year of its collection and is required to be refunded to taxpayers in the following fiscal year. This revenue may not be spent for state programs. The rate reduction is accounted so that it affects only the restricted TABOR refund obligation, not state revenue for future fiscal years. Therefore, there is no impact to the General Fund budget for FY 2019-20 or FY 2020-21.

Taxpayer Impacts

The decrease in taxes owed as a result of the rate reduction is proportional to Colorado taxable income, which is the same as federal taxable income for most taxpayers. In other words, those with higher incomes will receive a larger TABOR refund. Table 2 shows changes to income tax liability for taxpayers of different levels of Colorado taxable income under the refund mechanism.

Table 2
Impact of Rate Cut on Income Tax Due

| Colorado Taxable Income | Tax at 4.63% | Tax at 4.50% | TABOR Refund |
|-------------------------|--------------|--------------|--------------|
| \$25,000 | \$1,158 | \$1,125 | \$33 |
| \$50,000 | \$2,315 | \$2,250 | \$65 |
| \$100,000 | \$4,630 | \$4,500 | \$130 |
| \$250,000 | \$11,575 | \$11,250 | \$325 |

Taxpayers will pay taxes at the 4.50 percent rate on line 7 of their Colorado income tax return.⁴ Income

³For additional information on TABOR refund mechanisms, see this Legislative Council Staff Interested Persons memorandum: http://leg.colorado.gov/sites/default/files/images/history_of_tabor_refund_mechanisms.pdf

⁴The tax form is online here: https://www.colorado.gov/pacific/sites/default/files/DR0104_2019.pdf

⁵The tax filing guide is online here: https://www.colorado.gov/pacific/sites/default/files/DR0104Book_2019.pdf#page=15