HB 19-1097

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

FISCAL NOTE

Drafting Number:	LLS 19-0576	**Date:**	January 18, 2019
Prime Sponsors:	Rep. Neville	**Bill Status:**	House SVMA
		Fiscal Analyst:	Greg Sobetski | 303-866-4105 Greg.Sobetski@state.co.us

Bill Topic: GENERAL FUND REDUCTIONS

Summary of Fiscal Impact:

- ☒ State Revenue
- ☒ State Expenditure
- ☐ State Transfer
- ☒ TABOR Refund
- ☐ Local Government
- ☐ Statutory Public Entity

This bill reduces the state income tax rate from 4.63 percent to 4.25 percent for 2019 and all subsequent tax years and makes corresponding changes to the alternative minimum tax. It requires the State Controller to proportionally void General Fund appropriations in amounts equal to the revenue decrease it is expected to cause. The bill reduces General Fund revenue on an ongoing basis and reduces General Fund expenditures for most principal departments.

Appropriation Summary: For the current FY 2018-19, the bill requires a General Fund appropriation of $6,726 to the Department of Revenue.

Fiscal Note Status: This fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 19-1097

		FY 2018-19 *current year*	FY 2019-20	FY 2020-21
Revenue	General Fund	($374.3 million)	($760.7 million)	($772.5 million)
Expenditures	General Fund	($374.3 million)	($760.7 million)	-
Transfers		-	-	-
TABOR Refund	General Fund	($374.3 million)	($189.0 million)	-

Summary of Legislation

For tax year 2019 and all subsequent years, this bill reduces the state income tax rate from 4.63 percent to 4.25 percent.

The bill also reduces the alternative minimum tax rate from 3.47 percent to 3.09 percent and reduces the percentage of the federal alternative minimum tax credit allowed to Colorado alternative minimum taxpayers from 12.00 percent to 11.62 percent. Additionally, the income tax rate used in years when the income tax rate reduction TABOR refund mechanism is triggered is reduced from 4.50 percent to 4.13066935 percent.

For the current FY 2018-19, the State Controller is required to proportionally void appropriations to all principal departments, except the Department of Education, by $374.3 million. For FY 2019-20, the State Controller is required to proportionally void appropriations to all principal departments, except the Department of Education, by $760.7 million. These amounts reflect the estimated amount by which the bill is expected to reduce state revenue in these years.

State Revenue

This bill reduces General Fund revenue by an estimated $374.3 million in the current FY 2018-19, $760.7 million in FY 2019-20, $772.5 million in FY 2020-21, and similar amounts in subsequent years. The amount for the current FY 2018-19 represents a half-year impact for tax year 2019 on an accrual accounting basis.

Tax rate reduction. Beginning in tax year 2019, this fiscal note assumes that individual and corporate income tax revenue will each be reduced by 8.21 percent, the proportion by which this bill reduces the income tax rate. Revenue reductions are applied relative to expectations published in the December 2018 Legislative Council Staff forecast. Alternative minimum tax revenue is assumed to be reduced proportionally to individual income tax revenue as these revenue streams are forecast together. Both income tax and alternative minimum tax revenue are subject to TABOR.

This fiscal note does not account for any economic stimulus attributable to a tax rate reduction of this magnitude. To the extent that the lower tax rate increases pre-tax personal income via increased employment or compensation, or consumer spending on goods and services subject to the state sales tax, the amount of the estimated revenue reduction will be partially offset.

Conservation easement credit. The bill is expected to increase income tax revenue by $5.0 million in tax year 2020 by reducing the value of allowed conservation easement income tax credits. In most years, the conservation easement credit is nonrefundable. In tax years following fiscal years when the state collects a TABOR surplus, the credit is partially refundable, meaning a larger credit is available to some taxpayers and state income tax revenue is reduced. This bill is expected to eliminate the TABOR surplus currently anticipated for FY 2019-20, making the credit fully nonrefundable in tax year 2020 and increasing income tax revenue. This increase will partially offset the revenue reductions anticipated for FY 2019-20 and FY 2020-21.

State Expenditures

The bill reduces General Fund expenditures by $374.3 million in the current FY 2018-19 and by $760.7 million in FY 2019-20 because the State Controller is required to void appropriations authorized for these years. The bill also requires one-time implementation expenditures for software programming.

Voided appropriations. The bill directs the State Controller to proportionally void appropriations to all principal departments, excluding the Department of Education, in the amounts of $374.3 million in the current FY 2018-19 and $760.7 million in FY 2019-20. The amounts voided reduce expenditures because they reduce departmental spending authority; however, it is assumed that these expenditure reductions do not require appropriation reductions in this bill. The amounts by which appropriations to each department will be reduced depend on budgeting decisions to be made by the General Assembly during the 2019 and 2020 legislative sessions.

The bill does not void appropriations approved for FY 2020-21 and subsequent years. Budgets for these years will be determined by appropriations acts authorized in future legislative sessions.

Software programming. This bill requires one-time General Fund expenditures of $6,726 to program, test, and update database fields in the Department of Revenue's GenTax software system. Programming costs are estimated at $250, representing one hour of contract programming. Costs for testing at the department are estimated at $3,840, representing 160 hours of testing at a rate of $24 per hour. Expenditures in the Office of Research and Analysis 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 $2,636. Based on the safety clause and an assumed June 1 effective date, these costs are expected to occur in the current FY 2018-19.

Rulemaking. Conforming changes to Department of Revenue regulations will be required during the current FY 2018-19 and can be accomplished within existing Department of Revenue and Department of Law appropriations.

TABOR refunds. The bill is expected to decrease state General Fund obligations for TABOR refunds by $374.3 million in the current FY 2018-19. Based on the December 2018 forecast, the bill will eliminate a total of $239.6 million in refunds to taxpayers expected to be made via sales tax refunds on income tax returns for tax year 2019. The bill will also reduce the amount expected to be refunded via local government reimbursements for the senior and disabled veteran property tax exemptions from $140.8 million to $6.1 million. Because the difference between these amounts will not be set aside in FY 2018-19 to finance property tax reimbursements, the bill will obligate $134.7 million to be paid from the FY 2019-20 General Fund budget instead.

The bill is expected to eliminate the $189.0 million General Fund obligation for TABOR refunds expected for FY 2019-20 under current law, thereby eliminating refunds to taxpayers currently expected to be paid in FY 2020-21. Specifically, the bill will eliminate $39.5 million in sales tax refunds expected to be paid on income tax returns for tax year 2020, as well as $149.5 million expected to be refunded via property tax reimbursements. Because the TABOR surplus set aside in FY 2019-20 will no longer be available to finance property tax reimbursements, the bill will obligate an equal amount for reimbursements to be paid from the FY 2020-21 General Fund budget instead.

The state is not expected to collect a TABOR surplus in FY 2020-21. A forecast of state revenue subject to TABOR is not yet available for FY 2021-22 and subsequent years.

Technical Note

The bill changes the income tax rate for the current tax year 2019, for which wage withholding schedules have already been prepared by the DOR and implemented by employers. Retroactive changes to the withholding schedules will require emergency rulemaking during the current FY 2018-19. This provision also may distort income tax collections for 2019, with a disproportionately large share of tax withheld requiring greater than usual income tax refunds in early 2020.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For the current FY 2018-19, the bill requires a General Fund appropriation of $6,726 to the Department of Revenue.

State and Local Government Contacts

Information Technology	Office of State Planning and Budgeting
Personnel	Revenue