HB 18-1203

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

FINAL FISCAL NOTE

Drafting Number:	LLS 18-0849	**Date:**	August 28, 2018
Prime Sponsors:	Rep. Neville P. Sen. Neville T.	**Bill Status:**	Postponed Indefinitely
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Bill Topic: REDUCE THE STATE INCOME TAX

Summary of Fiscal Impact:

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

This bill would have reduced the state income tax rate from 4.63 percent to 4.00 percent for 2018 and all subsequent tax years and made corresponding changes to the alternative minimum tax. It would have required one-time implementation expenditures and reduced General Fund revenue in FY 2017-18 and all future years.

Appropriation Summary: For the current FY 2017-18, this bill would have required a General Fund appropriation of $10,890 to the Department of Revenue.

Fiscal Note Status: This fiscal note reflects the introduced bill. The bill did not become law; therefore, the impacts identified in this analysis do not take effect.

Table 1
State Fiscal Impacts Under HB 18-1203

		FY 2017-18 *current year*	FY 2018-19	FY 2019-20
Revenue	General Fund	($0.54 billion)	($1.15 billion)	($1.21 billion)
Expenditures	General Fund	$10,890	-	-
Transfers		-	-	-

Summary of Legislation

For tax year 2018 and all subsequent years, this bill reduces the state income tax rate from 4.63 percent to 4.00 percent.

The bill also reduces the alternative minimum tax rate from 3.47 percent to 2.84 percent and reduces the percentage of the federal alternative minimum tax credit allowed to Colorado alternative minimum taxpayers from 12.0 percent to 11.37 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 3.8876888 percent.

State Revenue

This bill reduces General Fund revenue by an estimated $0.54 billion in the current FY 2017-18, $1.15 billion in FY 2018-19, $1.21 billion in FY 2019-20, and similar amounts in subsequent years. The amount for the current FY 2017-18 represents a half-year impact for tax year 2018 on an accrual accounting basis.

Beginning in tax year 2018, this fiscal note assumes that individual and corporate income tax revenue will each be reduced by 13.6 percent, the proportion by which this bill reduces the income tax rate. Revenue reductions are applied relative to expectations published in the December 2017 Legislative Council Staff (LCS) forecast. Alternative minimum tax revenue is assumed to be reduced proportionally to individual income tax revenue as these revenue streams are forecast together.

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.

TABOR Impact

This bill decreases General Fund revenue subject to TABOR by $0.54 billion in the current FY 2017-18, $1.15 billion in FY 2018-19, and $1.21 billion in FY 2019-20. Under the December 2017 LCS forecast, state revenue is not expected to exceed the TABOR limit in any of these years and no refund is required. Therefore, the bill is not expected to impact TABOR refunds through tax year 2020. However, refunds in future years when the state next collects a TABOR surplus will be reduced and could be eliminated for some years based on the revenue reduction anticipated to result from this bill.

State Expenditures

This bill increases General Fund expenditures by $10,890 in the current FY 2017-18 only. This one-time implementation cost is summarized in Table 2 and explained below.

Table 2
Expenditures Under HB 18-1203

	FY 2017-18 *current year*	FY 2018-19	FY 2019-20
Department of Revenue			
Personal Services	$5,600	-	-
Computer Programming and Testing	$4,090	-	-
Document Management	$1,200	-	-
Total Cost	**$10,890**	**$0**	**$0**

Personal services. The Office of Research and Analysis in the Department of Revenue (DOR) is responsible for aggregating, managing, and analyzing tax data. This office conducts testing and documentation for changes to income tax forms. This bill requires changes to five forms, each of which is assumed to require 32 hours of staff analysis for a total of 160 hours. Work is assumed to be performed by a contract employee during June 2018.

Computer programming. This bill requires expenditures of $4,090 for the Department of Revenue to program and test changes to its GenTax software system. Programming is estimated to require one hour of work at a cost of $250. All programming changes are tested by department staff. Testing for this bill will require the expenditures for contract personnel totaling $3,840, representing 160 hours of testing at a rate of $24 per hour.

Document management. One form change is expected to require $1,200 in contract expenditures to update the optical character recognition system used to process state income tax forms. DOR imaging and scanning services are contracted through the Department of Personnel and Administration and paid with reappropriated General Fund moneys.

Rulemaking. Conforming changes to DOR regulations will be required during the current FY 2017-18 and can be accomplished within existing DOR and Department of Law appropriations.

Technical Note

The bill changes the income tax rate for the current tax year 2018, 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 2017-18. This provision also may distort income tax collections for 2018, with a disproportionately large share of tax withheld requiring greater than usual income tax refunds in early 2019.

Effective Date

This bill was postponed indefinitely by the House State, Veterans, and Military Affairs Committee on March 8, 2018.

State Appropriations

For the current FY 2017-18, this bill requires a General Fund appropriation of $10,890 to the Department of Revenue, from which $1,200 should be reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Information Technology	Law
Personnel	Revenue