



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Final Fiscal Note

Drafting Number:	LLS 22-0600	Date:	August 22, 2022
Prime Sponsors:	Rep. Rich Sen. Sonnenberg	Bill Status:	Postponed Indefinitely
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Bill Topic:	INCOME TAX RATE REDUCTION
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Summary of Fiscal Impact:	<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
	<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
	<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

The bill would have permanently reduced the state income tax rate by 0.05 percentage points in years where the state's TABOR refund obligation would trigger a temporary income tax reduction under current law. The bill will would have reduced state revenue beginning in FY 2023-24, and increased state expenditures in FY 2022-23 only.

Appropriation Summary:	For FY 2022-23, the bill would have required an appropriation of \$10,797 to the Department of Revenue.
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Fiscal Note Status:	The fiscal note reflects the introduced bill. This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.
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Table 1
State Fiscal Impacts Under HB 22-1125

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	-	(\$70.8 million)
Expenditures	General Fund	\$10,797	-
Transfers		-	-
Other Budget Impacts	TABOR Refund	-	(\$70.8 million)
	General Fund Reserve	\$1,620	-

Summary of Legislation

Under this bill, in years when the state's TABOR (Taxpayer's Bill of Rights) refund obligation would be sufficient to trigger a temporary income tax rate reduction, the state's individual and corporate income tax rate will instead be permanently reduced by 0.05 percentage points. To trigger the permanent income tax rate reduction, the state's TABOR refund obligation must exceed the amount necessary to fully fund the property tax exemption reimbursements to local governments refund mechanism, discussed below.

Background

TABOR requires that state revenue collected above the Referendum C cap for a given fiscal year be refunded in the following fiscal year. The state constitution does not require the use of any particular refund mechanism, but allows the General Assembly to select any reasonable method of refunds.

Under current law, there are three TABOR refund mechanisms:

- the property tax exemption reimbursement to local governments mechanism;
- the temporary income tax rate reduction; and
- the six-tier sales tax refund mechanism.

The property tax exemption reimbursement mechanism is the first refund mechanism when a TABOR refund is required. If the TABOR refund obligation exceeds the amount necessary to fully reimburse property tax exemptions, the temporary income tax rate reduction is triggered. Finally, if there are additional refund obligations after the temporary income tax rate reduction, the six-tier sales tax refund mechanism is triggered.

Assumptions

The fiscal note assumes that permanent income tax rate reductions under the bill will result in a revenue reduction to the state relative to current law one year after the temporary income tax rate reduction TABOR refund mechanism is triggered by a TABOR surplus. For example, if a FY 2022-23 TABOR surplus triggers the temporary income tax rate reduction TABOR refund mechanism for tax year 2023, the tax rate for tax year 2024 and future years will be permanently 0.05 percent lower than what it would be under current law.

Based on the December 2021 Legislative Council Staff Economic and Revenue Forecast, the temporary income tax reduction refund mechanism is projected to be triggered for tax years 2022 and 2023. Based on this forecast, this will result in a permanent income tax rate reduction from 4.55 percent in 2022 to 4.50 percent in tax year 2023, with an additional permanent reduction to 4.45 percent in tax year 2024 and future years. A forecast of TABOR revenue is not available beyond FY 2023-24; so while future tax rate reductions beyond 2024 may occur, they have not been accounted for in this fiscal note.

State Revenue

The bill will reduce state revenue by an estimated \$70.8 million in FY 2023-24 (a half-year impact), with larger impacts in subsequent years with increases in incomes and potential additional rate reductions in future years.

State Expenditures

The bill will increase General Fund expenditures by \$10,797 in FY 2022-23 only. Expenditures are presented in Table 2 and discussed below.

Table 2
Expenditures Under HB 22-1125

	FY 2022-23	FY 2023-24
Department of Revenue		
GenTax Programming	\$450	-
Computer and User Acceptance Testing	\$8,747	-
Data Reporting	\$1,600	-
Total Cost	\$10,797	-

Department of Revenue (DOR). The department will have one-time costs of \$10,797 in FY 2022-23 to implement this bill. The bill requires changes to the department's GenTax software system and additional testing. Changes are programmed by a contractor at a cost of \$225 per hour. Approximately two hours of computer programming will be required to implement this bill, totaling \$450. Additional computer and user acceptance testing are required to ensure programming changes function properly, resulting in additional costs of \$8,747. The Office of Research and Analysis within DOR will have costs of \$1,600 to update reporting processes, SQL code, worksheets, report templates, and GenTax database testing.

Other Budget Impacts

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save. In years when revenue subject to TABOR falls below the Referendum C cap, the bill will reduce General Fund revenue available for spending or saving.

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve beginning in FY 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by \$1,620 in FY 2022-23, which will decrease the amount of General Fund available for other purposes.

Effective Date

This bill was postponed indefinitely by the House State, Civic, Military and Veterans Affairs Committee on March 14, 2022.

State Appropriations

The bill requires General Fund appropriations to the Department of Revenue of \$10,797 in FY 2022-23.

State and Local Government Contacts

Information Technology
Personnel

Law
Revenue