SB 20-020

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

FISCAL NOTE

Drafting Number:	LLS 20-0796	**Date:**	January 17, 2020
Prime Sponsors:	Sen. Sonnenberg Rep. Pelton; Holtorf	**Bill Status:**	Senate SVMA
		Fiscal Analyst:	Greg Sobetski | 303-866-4105 Greg.Sobetski@state.co.us

Bill Topic: **REDUCE THE STATE INCOME TAX RATE**

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 4.49 percent for 2020 and all subsequent tax years and makes corresponding changes to the alternative minimum tax. It requires one-time implementation expenditures and reduces General Fund revenue on an ongoing basis. Through at least FY 2022-23, the bill requires expenditures for property tax exemption reimbursements that would otherwise be paid from the prior year TABOR surplus.

Appropriation Summary: For FY 2020-21, the bill requires an appropriation of $9,626 to the Department of Revenue.

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

Table 1
State Fiscal Impacts Under SB 20-020

		FY 2019-20 *(current year)*	FY 2020-21	FY 2021-22
Revenue	General Fund	($143.8 million)	($294.6 million)	($308.2 million)
Expenditures	General Fund	-	$1.4 million	$97.8 million
Transfers		-	-	-
TABOR Refund	General Fund	($143.8 million)	($294.6 million)	($308.2 million)

Summary of Legislation

For tax year 2020 and all subsequent years, this bill reduces the state income tax rate from 4.63 percent to 4.49 percent.

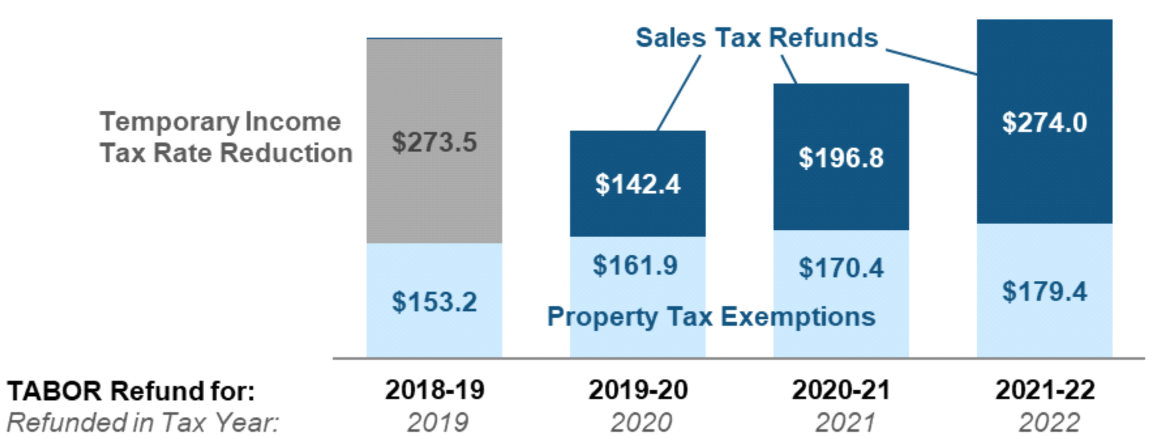
The bill also reduces the alternative minimum tax rate from 3.47 percent to 3.33 percent and reduces the percentage of the federal alternative minimum tax credit allowed to Colorado alternative minimum taxpayers from 12.00 percent to 11.86 percent. Additionally, the income tax rate used in years when the income tax rate reduction TABOR refund mechanism is triggered is reduced from 4.50 percent to 4.363930678 percent.

Background

TABOR refunds. The December 2019 Legislative Council Staff forecast anticipates that the state will collect TABOR surpluses in each of the current FY 2019-20, FY 2020-21, and FY 2021-22.

Any state TABOR surplus is required to be refunded to taxpayers in the following fiscal year. Under current law, TABOR surpluses are first refunded via reimbursements to local governments for property tax exemptions allowed to seniors and disabled veterans. The December 2019 forecast anticipates that TABOR surpluses for FY 2019-20, FY 2020-21, and FY 2021-22 will be sufficient to fully fund property tax exemption reimbursements for FY 2020-21, FY 2021-22, and FY 2022-23, respectively. The amounts by which each year's TABOR refund obligation exceeds the estimated property tax exemption reimbursement amount for the following fiscal year is expected to be refunded via a six-tier sales tax refund to full-year resident Colorado individual income taxpayers, as shown in Figure 1.

Figure 1
Current Law Refund Mechanisms for TABOR Surpluses Expected through FY 2021-22
December 2019 LCS Forecast; Dollars in Millions



In years when the state does not refund a TABOR surplus, or when the amount of the TABOR refund is less than the amount required to reimburse local governments for property tax exemptions, the remaining reimbursement requires an expenditure of General Fund revenue collected in the year in which reimbursements are paid.

State Revenue

The bill reduces General Fund revenue by an estimated $143.8 million in the current FY 2019-20, $294.6 million in FY 2020-21, $308.2 million in FY 2021-22, and similar amounts in subsequent years. The amount for the current FY 2019-20 represents a half-year impact for tax year 2020 on an accrual accounting basis. The bill reduces income tax revenue, which is subject to TABOR.

Tax rate reduction. For FY 2020-21 and subsequent years, this fiscal note assumes that individual and corporate income tax revenue will each be reduced by 3.02 percent, the proportion by which this bill reduces the income tax rate. For the current FY 2019-20 only, this fiscal note applies a 3.02 percent reduction to the share of accrual-basis fiscal year income tax revenue expected to be attributable to the 2020 tax year. 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. The bill's direct effect will increase after-tax income by up to 0.15 percent for Colorado taxpayers. 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.

State Expenditures

The bill is expected to increase General Fund expenditures by $1.4 million in FY 2020-21, $97.8 million in FY 2021-22, and $34.1 million in FY 2022-23. The bill impacts state expenditures in years beyond FY 2022-23 if it reduces the amount of state TABOR refunds issued via property tax exemption reimbursements; however, a forecast of refunds issued in this manner is unavailable beyond FY 2022-23. Expenditure impacts are summarized in Table 2 and detailed below.

Table 2
Expenditures Under SB 20-020

Cost Components	FY 2020-21	FY 2021-22	FY 2022-23
Department of Revenue			
Computer Programming and Testing	$4,090	-	-
Tax Reporting	$5,536	-	-
DOR (Subtotal)	**$9,626**	**$0**	**$0**
Department of Treasury			
Property Tax Exemption Reimbursements	$1.4 million	$97.8 million	$34.1 million
DOT (Subtotal)	**$1.4 million**	**$97.8 million**	**$34.1 million**
Total	**$1.4 million**	**$97.8 million**	**$34.1 million**

Department of Revenue. For FY 2020-21, this bill requires one-time General Fund expenditures of $4,090 to program, test, and update database fields in the Department of Revenue's (DOR'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 $5,536. Ongoing reporting costs are minimal and can be accomplished within existing appropriations.

Conforming changes to DOR rules will be required during FY 2020-21 and can be accomplished within existing appropriations to the DOR and the Department of Law.

Department of Treasury. For each of FY 2020-21, FY 2021-22, and FY 2022-23, the bill reduces the amount of senior and disabled veteran property tax exemptions that will be funded from the restricted prior year TABOR surplus. For each of these years, the exemptions will be fully funded from a combination of the remaining restricted prior year TABOR surplus and General Fund revenue collected in the year in which reimbursements are paid. The amounts in Table 2 reflect the amount by which the bill is expected to require new expenditures of General Fund revenue collected in the year of payment based on the December 2019 LCS forecast. Actual expenditures will depend on the presence and amount of TABOR surpluses for the current FY 2019-20 through FY 2021-22.

Changes to expenditures for property tax exemption reimbursements do not require a change in appropriations. The department receives General Fund appropriations for reimbursements regardless of whether appropriations are paid from the restricted prior year TABOR surplus or revenue collected in the year in which the reimbursement is paid. The amounts shown in Tables 1 and 2 represent the amount by which required expenditures for property tax exemption reimbursements will decrease the amount of General Fund revenue otherwise available to be spent or saved each fiscal year.

TABOR refunds. The bill is expected to decrease state General Fund obligations for TABOR refunds by $143.8 million for the current FY 2019-20, $294.6 million for FY 2020-21, and $308.2 million for FY 2021-22. Under current law and the December 2019 Legislative Council Staff forecast, the bill will eliminate six-tier sales tax refunds that would otherwise be made available on income tax returns for tax years 2020, 2021, and 2022, respectively. Refunds issued via property tax exemption reimbursements will be reduced as discussed in the preceding paragraphs. A forecast of state revenue subject to TABOR is not available beyond FY 2021-22.

Technical Note

The bill changes the income tax rate for the current tax year 2020, 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 immediately following the bill's enactment.

Effective Date

The bill takes effect August 5, 2020, if the General Assembly adjourns on May 6, 2020, as scheduled, and no referendum petition is filed. The income tax rate reduction in the measure applies to tax years beginning on or after January 1, 2020.

State Appropriations

For FY 2020-21, the bill requires a General Fund appropriation of $9,626 to the Department of Revenue.

State and Local Government Contacts

Personnel	Revenue