Colorado Legislative Council Staff

Initiative #62

INITIAL FISCAL IMPACT STATEMENT

Date: November 1, 2017 **Fiscal Analyst:** Kate Watkins (303-866-3446)

LCS TITLE: STATE INCOME TAX

Fiscal Impact Summary	FY 2018-2019	FY 2019-2020	FY 2020-2021
State Revenue	**($1.0 billion to $6.3 billion)**	**($2.1 billion to $11.9 billion)**	**($2.2 billion to $12.3 billion)**
State Transfers	**Indeterminate**	**Indeterminate**	**Indeterminate**
General Fund to SEF*	($16.2 million)	($33.6 million)	($35.0 million)
State Expenditures	**(Up to $1.0 billion to up to $6.3 billion)**	**(Up to $2.1 billion to up to $11.9 billion)**	**(Up to $2.2 billion to up to $12.3 billion)**

**SEF = State Education Fund.*

Note: This *initial* fiscal impact estimate has been prepared for the Title Board. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the Blue Book Voter Guide if new information becomes available.

Summary of Measure

Effective for tax year 2019, the measure changes the state income tax structure to:

- allow only four lines on the state income tax form;
- eliminate all existing state income tax additions and tax credits;
- create a new, refundable state income tax credit; and
- incrementally reduce the state income tax rate from the current rate of 4.63 percent to 4.0 percent by tax year 2030, as shown in Table 1.

Table 1. State Income Tax Rate by Tax Year Under Initiative 2017-18 #62

2018	2019	2020 & 2021	2022 & 2023	2024 & 2025	2026 & 2027	2028 & 2029	After 2029
4.63%	4.6%	4.5%	4.4%	4.3%	4.2%	4.1%	4.0%

The tax credit created under this measure is a flat dollar amount for each resident individual income taxpayer, calculated as the sum of the following components divided by the number of adult Colorado full-year residents:

- the total amount of state income tax credits for tax year 2018;
- all state tobacco settlement revenue for the current tax year;
- all state vehicle registration fees for the current tax year, less $10 per registered vehicle;
- all non-federal revenue collected in the current year by state enterprises established after 2000 without voter approval; and

- all revenue retained under Referendum C in the current tax year.

The measure also makes the following changes to the administration of state income taxes and the prosecution of delinquent or fraudulent tax payments:

- requires the state to issue income tax refunds within 30 days;
- requires that the state pay three times any state overcharges to taxpayers, plus $300;
- requires that taxpayers pay three times a proven tax deficit;
- dismisses all existing state income tax criminal cases;
- prohibits the prosecution of tax liabilities of less than $20;
- for late tax payments, limits interest assessment to 0.75 percent monthly interest, and prohibits penalties; and
- prohibits seizures, levies, and liens on properties prior to final court judgement.

Additionally, the measure creates new requirements for ballot initiatives that require income tax increases. Under the measure, ballot initiatives that increase income taxes must state a fixed dollar amount of the income tax increase in their ballot titles, must start in the tax year following the year in which an election is held, and must expire in four years. Extensions to expiring income tax increases require a tax increase ballot title.

State Revenue

Assuming that no other changes are made from current law, this measure will reduce state revenue by an estimated $6.3 billion in FY 2018-19 (half-year impact), $11.9 billion in FY 2019-20, and $12.3 billion in FY 2020-21 with larger reductions in subsequent years. If changes are made to state enterprises, vehicle registration fees, and/or tobacco settlement payments, the revenue impact may be lower. At the very least, all revenue collected in excess of the TABOR limit base retained as a result of Referendum C will need to be included in the measure's new tax credit. This lower bound is equal to a revenue reduction of $1.0 billion in FY 2018-19 (half-year impact), $2.1 billion in FY 2019-20, and $2.2 billion in FY 2020-21. Table 2 summarizes revenue impact components of the measure through FY 2020-21.

Table 2. Summary of Revenue Impact Estimates Under Initiative 2017-18 #62

Component	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**
Tax Rate Reduction	($26.7 million)	($73.8 million)	($124.5 million)
New Tax Credit			
Under Current Law	(6,230.3 million)	(11,747.0 million)	(12,079.1 million)
Referendum C Revenue Only	(1,027.1 million)	(2,136.3 million)	($2,221.8 million)
Eliminate Existing Tax Credits	169.8 million	339.6 million	339.6 million
Eliminate State Additions	(223.7 million)	(465.2 million)	(483.8 million)
Penalties	Indeterminate	Indeterminate	Indeterminate
Net General Fund Revenue Impact	**($1.0 billion to $6.3 billion)**	**($2.1 billion to $11.9 billion)**	**($2.2 billion to $12.3 billion)**

Data and assumptions. To estimate the impact from tax rate reductions, this analysis uses the projected income tax revenue from the September 2017 Legislative Council Staff economic and revenue forecast proportionally reduced by the reduction in the income tax rate. When fully phased-in in FY 2030-31, the tax rate reduction is expected to reduce revenue by $895.8 million.

The impact of the new tax credit was calculated based on data from various sources, as summarized in Table 3, which includes estimates of the new tax credit for tax year 2019. This fiscal note assumes that corporate filers are not eligible for the new tax credit under the measure, and that all full-year Colorado resident adults will claim the credit. Tax credit estimates are expected to grow with revenue and population growth over time.

Table 3. Estimated Tax Credit for Tax Year 2019 Under Initiative 2017-18 #62

Component	Estimates	Data Source and Growth Assumptions
Enterprise Revenue	$10,574.0 million	TABOR schedule of computations, amounts grown by 5-year compound average annual growth rates. Excludes an estimated $1.8 billion in federal funds based the state Comprehensive Annual Financial Report and higher education institution financial reports.
Brand Board	5.2 million	
Capitol Parking Authority	1.2 million	
Clean Screen Authority	3.5 million	
CollegeAssist	253.9 million	
CollegeInvest	782.4 million	
Parks and Wildlife	225.5 million	
Higher Education Enterprises	7,737.8 million	
Petroleum Storage Tank Fund	46.4 million	
Statewide Bridge Enterprise	17.1 million	
Statewide Transportation Enterprise	23.2 million	
Unemployment Compensation and Service Enterprise	564.1 million	
Colorado Healthcare Affordability and Sustainability Enterprise	913.6 million	
+ Existing Income Tax Credits	$339.6 million	Estimates from the 2016 DOR Annual Report, grown by projected population growth.
+ Referendum C Revenue	$1,054.1 million	Assumes a half-year impact from 2018 Referendum C revenue and the elimination of Referendum C revenue in subsequent years.
+ Tobacco Settlement Revenue	$80.3 million	LCS 2017 tobacco settlement forecast.
+ Vehicle Registration Fees	$439.7 million	LCS September 2017 revenue forecast, less $10 multiplied by the estimated number of vehicle registrations, grown by projected population growth.
Subtotal	$12,460.6 million	Sum of the above components.
÷ Colorado Resident Adults	3,864,340	State Demography Office projections of the Colorado population aged 18 and older, less estimated part-year residents.
= Tax Credit per Single Filer	$3,225	The credit is doubled for joint filers.

DOR = Department of Revenue. LCS = Legislative Council Staff.

A total of $1.8 billion in enterprise revenue from federal funds was subtracted from enterprises revenue. To the extent that enterprises receive more (or less) federal funds than this amount, the tax credit will be lower (or higher). The measure is expected to reduce state revenue below the TABOR limit base, eliminating Referendum C revenue beginning in tax year 2019.

The estimates in Table 3 assume current law. If changes are made to state enterprises, vehicle registration fees, and/or tobacco settlement payments, the revenue impact may be lower. At the very least, all revenue collected in excess of the TABOR limit base retained as a result of Referendum C will need to be included in the measure's new tax credit. This lower bound is equal to a revenue reduction of $1.0 billion in FY 2018-19 (half-year impact), $2.1 billion in FY 2019-20, and $2.2 billion in FY 2020-21. The tax credit in this instance is estimated to be $512 per single filer.

The measure eliminates existing state income tax additions to federal taxable income. Eliminating these additions is expected to reduce income tax revenue by $347.8 million in FY 2019-20, the first full year in which the impact occurs. This amount is based on 2015 data provided by the Department of Revenue and is grown by projected growth in income tax revenue.

The reduction from the new tax credit and elimination of state additions are partially offset by adding back revenue from existing tax credits, which are also eliminated by the measure. Income tax credits totaled an estimated $278.7 million in tax year 2015 and are expected to grow with population and income growth.

Net revenue from the elimination of late fees, new charges for late or delinquent taxes, and payments for state overcharges under the measure cannot be determined as the number of taxpayers that will be impacted is not known. Changes to these penalties may increase or reduce revenue.

State Transfers

Assuming no other changes from current law, the estimated General Fund revenue reduction from the measure is greater than the amount of General Fund revenue available in FY 2019-20 and subsequent years. This fiscal impact assumes that cash funds will be transferred to the General Fund in order to issue the required income tax refunds under the measure. Additional transfers will be required to continue state funding for programs currently funded with General Fund moneys. However, the total amount of these transfers is indeterminate and dependant upon future action.

State Education Fund transfers. The measure eliminates state additions to federal taxable income. As a result, taxable income is reduced and constitutionally required transfers to the State Education Fund would also be reduced by an estimated 5.6 percent each year. This percentage reflects the ratio of state additions to federal taxable income in tax year 2015.

State Expenditures

This measure will require expenditure reductions of up to the amount of the revenue reduction, or up to $6.3 billion in FY 2018-19 (half-year impact), up to $11.9 billion in FY 2019-20, and up to $12.3 billion in FY 2020-21, with larger amounts in subsequent years. Assuming no other changes from current law, both General Fund and cash fund expenditure reductions are expected because the amount of revenue required to be refunded under the measure exceeds the amount of revenue available in the General Fund. In this case, there will be no money left in the General Fund to pay General Fund obligations, including the administration of income taxes, as a result of this measure.

Department of Revenue. Administrative changes for the Department of Revenue (DOR) are expected to decrease General Fund spending by at least $3.5 million in FY 2019-20, at least $5.3 million in FY 2020-21, and at least $6.0 million in subsequent years. These estimates assume reductions in personnel and document management costs with the elimination of existing state tax credits and additions, and the dismissal of existing criminal cases. Personnel reductions include review and audit, call center, and administrative support staff, and are based on historical personnel impacts for the creation of new income tax credits. Expenditure estimates assume that personnel reductions will be phased-in over a three-year period as the statute of limitations for existing tax credits expire.

Programming, testing, and form change costs for changes to tax forms and tax rates will be more than offset by other expenditure reductions, as summarized in Table 4. Reductions in DOR legal fees are also expected but are not included in expenditure estimates as the number of cases impacted is not known.

Table 4. DOR Expenditures Under Initiative 2017-18 #62

Cost Components	FY 2019-20	FY 2020-21	FY 2021-22
Personal Services	($2,405,457)	($3,807,319)	($4,393,352)
FTE	(47.0 FTE)	(74.0 FTE)	(84.0 FTE)
Operating Expenses and Capital Outlay Costs	(44,650)	(70,300)	(79,800)
Programming and Testing	51,440	5,240	5,240
Form Change Costs	2,400	2,400	2,400
Document Management, Printing, and Mailing	(505,335)	(513,421)	(521,635)
Employee Benefits	(584,875)	(922,694)	(1,053,914)
TOTAL	**($3,486,477)**	**($5,306,094)**	**($6,041,061)**

Department of Personnel and Administration. Data input, imaging, document management, printing, and mailing costs will be reduced with the elimination of state tax credits and additions. Form change costs will require $2,400 each year in which a tax rate changes. These costs are reappropriated from the Department of Revenue to the document management line for the Department of Personnel and Administration.

Local Government Impact

State expenditures include payments to local governments. To the extent that these payments are reduced as a result of the measure, local governments will receive less revenue and may reduce expenditures correspondingly.

Economic Impact

The measure eliminates taxes owed and creates a tax refund for most Colorado taxpayers. Tax liabilities will increase for some corporate filers and individual filers who receive more in tax credits under current law than the new credit created under this measure. As tax rates decline over time, taxpayer savings, spending, or investment will increase.

The measure creates a tax refund for most Colorado taxpayers, providing additional household income that may be spent or saved. The state will have less revenue to spend or save, resulting in a reduction in state services and the elimination of state government jobs and government contractor jobs. Reduced state spending may require additional household spending to obtain a similar level of services in areas such as health care, K-12 education, and transportation.

Effective Date

If approved by voters, the ballot initiative takes effect upon proclamation of the Governor within 30 days of the official canvass of votes at the 2018 November election.

State and Local Government Contacts

Department of Revenue

Abstract of Initiative 62: State Income Tax

This initial fiscal estimate, prepared by the Director of Research of the Legislative Council as of November 1, 2017, identifies the following impacts:

The abstract includes estimates of the fiscal impact of the proposed initiative. If this initiative is to be placed on the ballot, Legislative Council Staff will prepare new estimates as part of a fiscal impact statement, which includes an abstract of that information. All fiscal impact statements are available at www.ColoradoBlueBook.com and the abstract will be included in the ballot information booklet that is prepared for the initiative.

State revenue. Assuming no other changes from current law, income tax changes from the measure will reduce state revenue by $6.3 billion in FY 2018-19 (half-year impact), $11.9 billion in FY 2019-20, and $12.3 billion in FY 2020-21. Revenue reductions will grow each year through FY 2030-31. If additional changes in law are made to enterprises and/or other revenue sources, the revenue reduction may be as low as $1.0 billion in FY 2018-19 (half-year impact), $2.1 billion in FY 2019-20, and $2.2 billion in FY 2020-21.

State expenditures. Revenue reductions from this measure will require expenditure reductions of up to the amount of the revenue reductions.

Local government revenue, expenditures, taxes, or fiscal liabilities. State expenditures include payments to local governments. To the extent that these payments are reduced as a result of the measure, local governments will receive less revenue and may reduce expenditures correspondingly.

Taxpayer impacts. The measure eliminates taxes owed and creates a tax refund for most Colorado taxpayers. Tax liabilities will increase for some corporate filers and individual filers who receive more in tax credits under current law than the new credit created under this measure. As tax rates decline over time, taxpayer savings, sending, or investment will increase.

Economic impacts. The measure creates a tax refund for most Colorado taxpayers, providing additional household income that may be spent or saved. The state will have less revenue to spend or save, resulting in a reduction in state services and the elimination of state government jobs and government contractor jobs. Reduced state spending may require additional household spending to obtain a similar level of services in areas such as health care, K-12 education, and transportation.