



Legislative  
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**FISCAL NOTE**

<b>Drafting Number:</b>	LLS 18-0830	<b>Date:</b>	January 25, 2018
<b>Prime Sponsors:</b>	Sen. Sonnenberg; Grantham	<b>Bill Status:</b>	Senate Finance
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**Bill Topic:** REDUCE THE STATE INCOME TAX RATE

**Summary of Fiscal Impact:**

<input checked="" type="checkbox"/> State Revenue	<input 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

This bill reduces the state income tax rate from 4.63 percent to 4.43 percent for 2018 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 in the current FY 2017-18 and all future years.

**Appropriation Summary:** This bill requires General Fund appropriations to the Department of Revenue of \$1,450 in the current FY 2017-18 and \$6,249 in FY 2018-19.

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

**Table 1**  
**State Fiscal Impacts Under SB 18-061**

		FY 2017-18 <i>current year</i>	FY 2018-19	FY 2019-20
<b>Revenue</b>	General Fund	(\$170.2 million)	(\$365.0 million)	(\$384.2 million)
<b>Expenditures</b>	General Fund	\$1,450	\$6,249	-
<b>Transfers</b>		-	-	-

## **Summary of Legislation**

For tax year 2018 and all subsequent years, this bill reduces the state income tax rate from 4.63 percent to 4.43 percent.

The bill also reduces the alternative minimum tax rate from 3.47 percent to 3.27 percent and reduces the percentage of the federal alternative minimum tax credit allowed to Colorado alternative minimum taxpayers from 12.0 percent to 11.8 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 4.305615346 percent.

## **State Revenue**

This bill reduces General Fund revenue by an estimated \$170.2 million in the current FY 2017-18, \$365.0 million in FY 2018-19, \$384.2 million 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 4.32 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 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 \$170.2 million in the current FY 2017-18, \$365.0 million in FY 2018-19, and \$384.2 million in FY 2019-20. State revenue is not currently 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.

## **State Expenditures**

This bill increases General Fund expenditures by \$1,450 in the current FY 2017-18 and \$6,249 in FY 2018-19. These one-time implementation costs are summarized in Table 2 and explained below.

**Table 2**  
**Expenditures Under SB 18-061**

	FY 2017-18 <i>current year</i>	FY 2018-19	FY 2019-20
<b>Department of Revenue</b>			
Personal Services	-	\$6,249	-
Document Management	\$1,200	-	-
Computer Programming	\$250	-	-
<b>Total Cost</b>	<b>\$1,450</b>	<b>\$6,249</b>	<b>\$0</b>

*\*Centrally appropriated costs are not included in the bill's appropriation.*

**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, requiring personal services expenditures during FY 2018-19 due to the General Fund pay date shift.

**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.

**Computer programming.** This bill requires changes to the Department of Revenue's GenTax software system estimated to require one hour of work. Changes are programmed by a contractor at a rate of \$250 per hour.

**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**

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

**State Appropriations**

For the current FY 2017-18, this bill requires a General Fund appropriation of \$1,450 to the Department of Revenue, from which \$1,200 should be reappropriated to the Department of Personnel and Administration.

For FY 2018-19, this bill requires a General Fund appropriation of \$6,249 to the Department of Revenue.

**State and Local Government Contacts**

Information Technology  
Personnel and Administration

Law  
Revenue