



Initiative 31

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Impact Statement

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LCS TITLE: STATE INCOME TAX RATE REDUCTION

Fiscal Impact Summary		FY 2024-25	FY 2025-26
Revenue	General Fund	(\$230.0 million)	(\$161.2 million)
Expenditures	General Fund	\$10,512	

Summary of Measure

For tax year 2024 and all subsequent years, the measure reduces the state income tax rate from 4.40 percent to 4.35 percent.

State Revenue

The measure reduces General Fund revenue by an estimated \$230.0 million in FY 2024-25, and by \$161.2 million in FY 2025-26. In later years, the amount by which the measure reduces revenue will depend on Colorado taxable income. Estimates assume the June 2023 Legislative Council Staff forecast. The measure reduces both corporate and individual income tax revenue, which is subject to TABOR.

Timing assumptions. The measure reduces the tax rate for the 2024 tax year, but will not become law until after the November 2024 election. It is assumed that the State Controller will not be able to make an adjustment to account for the portion of reduced taxes for 2024 that would normally affect revenue for FY 2023-24, estimated at \$74.3 million, a half-year impact for tax year 2024. Accordingly, this fiscal impact statement identifies a one-and-a-half-year revenue impact for FY 2024-25, representing a full-year impact for tax year 2024 and a half-year impact for tax year 2025. The estimate for FY 2025-26 is a full-year impact and is similar to the impact expected for later years, with fluctuations for economic circumstances and policy changes.

Taxpayer Impact

The table below shows the estimated decrease in state income tax owed for individual income taxpayers with different levels of adjusted gross income if the state income tax is reduced to 4.35 percent.

Initiative 31 Change in Colorado Income Taxes Owed by Income Category

Income Categories*	Current Average Income Tax Owed	Proposed Average Income Tax Owed	Proposed Change in Average Income Tax Owed + or -
\$25,000 or less	\$83	\$82	-\$1
\$25,001 - \$50,000	\$784	\$775	-\$9
\$50,001 - \$100,000	\$1,899	\$1,877	-\$22
\$100,001 - \$200,000	\$4,169	\$4,121	-\$47
\$200,001 - \$500,000	\$9,241	\$9,136	-\$105
\$500,001 - \$1,000,000	\$18,733	\$18,520	-\$213
\$1,000,001 - \$2,000,000	\$29,888	\$29,548	-\$340
\$2,000,001 - \$5,000,000	\$49,465	\$48,903	-\$562

*Adjusted Gross Income reported to the federal Internal Revenue Service.

State Expenditures

The measure is expected to increase General Fund expenditures by \$10,512 in FY 2024-25 only. It also reduces the amount available to be spent, saved, or refunded to taxpayers in FY 2024-25 and future fiscal years.

Department of Revenue. The department will have one-time costs of \$10,512 in FY 2024-25 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 \$231.75 per hour. Approximately two hours of computer programming will be required to implement this bill, totaling \$464. Additional computer and user acceptance testing are required to ensure programming changes function properly, resulting in additional costs of \$2,656. The Office of Research and Analysis within DOR will have costs of 7,392 to update reporting processes, SQL code, worksheets, report templates, and GenTax database testing.

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by \$230.0 million for FY 2024-25. This estimate assumes the June 2023 LCS revenue forecast, which anticipates that state revenue will exceed the TABOR limit by \$1.97 billion for FY 2024-25. Because TABOR refunds are paid from the General Fund, this portion of the decrease in 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. A forecast of state revenue subject to TABOR is not yet available beyond FY 2024-25.

Budget considerations. The measure reduces the amount of General Fund revenue available to be spent or saved in years when state revenue is less than the TABOR limit, or when the measure causes state revenue to fall below the TABOR limit.

Effective Date

If approved by voters at the 2024 general election, this measure takes effect upon proclamation of the Governor, no later than 30 days after the official canvass of the vote is completed.

State and Local Government Contacts

Information Technology

Personnel

Revenue