

Legislative Oversight Committee Concerning Tax Policy

Members of the Committee

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Senator Chris Hansen, Vice-Chair

Senator Chris Kolker
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Committee Charge

The Legislative Oversight Committee Concerning Tax Policy (committee) is charged with reviewing the state's current tax policy and the evaluations of tax expenditures that are statutorily completed by the Office of the State Auditor. The committee is also charged with oversight of the Task Force Concerning Tax Policy. For purposes of the committee's work, tax policy includes:

- decisions by the state or local governments regarding taxes that have or may be levied; and
- analysis of the benefits and burdens of the state's overall tax structure with respect to the promotion of certainty, fairness, adequacy, transparency, and administrative ease.

In addition, the committee must annually define in writing the scope of tax policy to be considered for the committee and task force. For 2021, the scope of tax policy to be considered for the committee is:

- tax expenditure evaluations produced by the Office of the State Auditor, and the policy considerations contained therein;
- recommendations, proposals, and studies arising from the work of the task force; and
- other tax expenditure policy considerations arising during the work of the committee.

For 2021, the scope of tax policy to be considered for the task force is:

- applying the state income tax to federal adjusted gross income rather than federal taxable income;
- homestead exemptions for senior citizens and veterans with a disability;
- the geographic extent of enterprise zones within Colorado, and options for their continuation or discontinuation;
- property tax treatment of short term rentals; and
- options for expanding the sales and use tax to apply to services.

Committee Activities

During the 2021 interim, the committee held five meetings. The committee heard presentations on tax expenditures and tax expenditure evaluation from the Tax Foundation and the Pew Charitable Trusts as well as presentations on tax expenditures in Colorado's state budget and Taxpayers' Bill of Rights (TABOR) considerations from legislative staff. The committee also reviewed expenditure evaluations produced by the Office of the State Auditor (OSA). The following subsections discuss the committee's actions during the 2021 interim.

Tax Foundation and Pew Charitable Trusts. Representatives of the Tax Foundation and the Pew Charitable Trusts presented to the committee on tax expenditures and tax expenditure evaluation. The Tax Foundation discussed the principles of sound tax policy; common types of tax expenditures; structural versus preferential tax expenditures; the importance of evaluating tax expenditures; tax

incentive effectiveness; and questions to ask when evaluating tax expenditures. The Pew Charitable Trusts highlighted the necessity of evaluating tax expenditures; how different states approach tax expenditure evaluation; the components of high-quality evaluation; a history of Colorado's tax evaluation process; how other states use tax expenditure evaluation to inform policy; questions to consider when evaluating tax expenditures; and success stories from Maryland and North Dakota.

Tax expenditures in the Colorado state budget. A representative of the Legislative Council Staff presented to the committee on tax expenditures in Colorado's state budget. The presentation covered the following topics: how tax expenditures impact that state's General Fund revenue, how these impacts depend on the state's Taxpayers' Bill of Rights (TABOR) situation, and estimates of the amount of revenue foregone by the state due to various types of tax expenditures.

TABOR considerations. A representative of the Office of Legislative Legal Services presented to the committee on various aspects of TABOR. The representative discussed circumstances that require prior voter approval; several court decisions that may impact the committee's work; circumstances that do not require prior voter approval under TABOR; the election provisions in TABOR; the TABOR fiscal year spending limit; and other considerations under TABOR. The representative answered questions related to the impacts of TABOR refund requirements, TABOR's refund mechanisms, and the Referendum C cap.

OSA expenditure evaluations. Representatives of the OSA presented to the committee on their tax expenditure evaluation reports with policy considerations. OSA highlighted several categories of expenditures, including: income tax, excise tax, insurance, and sales and use tax. In total, the OSA presented on 32 tax expenditures to the committee. Information on the tax expenditure evaluation reports covered may be found here:

https://leg.colorado.gov/sites/default/files/images/committees/2017/osa_policy_considerations_for_tax_policy_committee_8.2021.pdf

Committee Recommendations

As a result of committee discussion and deliberation, the Legislative Oversight Committee Concerning Tax Policy recommends the following five bills for consideration in the 2022 legislative session.

Bill A — Alternative Transportation Options Credit. The bill eliminates the current corporate income tax deduction for expenses incurred to provide alternative means of transportation for employees, and replaces this deduction with a new refundable tax credit equal to 50 percent of expenditures incurred by employers to provide alternative transportation options to their employees beginning in 2023. The tax credit is set to expire at the end of 2032.

Bill B — Repeal of Infrequently Used Tax Expenditures. The bill eliminates several tax expenditures from the state's insurance premium tax, income tax, sales and use tax, and the liquor excise tax.

Bill C – Sales & Use Tax Exemption for Public School Construction. The bill requires home rule municipalities to exempt sales of construction and building materials used in public school construction to contractors and subcontractors.

Bill D – Increase Alcohol Beverage Excise Tax Exemption. The bill expands the current excise tax exemption for alcohol brought by air passengers into the state from a foreign country from up to one gallon, or four liters to:

- 2.25 gallons of malt liquor or hard cider;
- 9 liters of vinous liquor; and
- 6 liters of spirituous liquor.

Bill E – Farm Close-out Exemption Exclude Motor Vehicles. The bill excludes vehicles subject to state registration requirements from the farm close-out sales tax exemption.