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2023-2024 #13 & #14
Proponent Exhibit 1

EXHIBIT
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General Argument:

The tax table required under Proposition GG shows the impact of an income tax rate change based on averages across 8 designated ranges of federal adjusted gross income (AGI). While taxable income at the state level in Colorado begins with federal AGI, the state has a separate tax code that modifies taxable income for the purpose of calculating state income tax liability. For this reason, the table does not accurately represent to taxpayers the average impact of an income tax rate change on individuals and businesses that fall under each federal AGI range.

In some cases, state law may require a taxpayer to "add back" income they deducted when calculating their federal AGI. In such a case, an income tax rate reduction would reduce the taxpayer's "income tax owed" by more than the table indicates. In some of these cases, it could put the taxpayer's impact in line with an entirely different "income category" in the table. See Example 1 below.

This can also work in the opposite manner, where a taxpayer may have additional deductions or subtractions when calculating their state taxable income. For example, a taxpayer may be able to deduct income at the state level that was not deductible at the federal level. In such a case, an income tax rate reduction would reduce their income tax owed by less than the table indicates. In some cases, the table may indicate that a rate reduction will reduce someone's state income tax liability when in fact it has zero impact on their taxes owed.
See Example 2 below.

Initiative 14
Change in 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	$80	-$3
$25,001 - $50,000	$784	$757	-$27
$50,001 - $100,000	$1,899	$1,834	-$65
$100,001 - $200,000	$4,169	$4,027	-$142
$200,001 - $500,000	$9,241	$8,926	-$315
$500,001 - $1,000,000	$18,733	$18,094	-$639
$1,000,001 - $2,000,000	$29,888	$28,869	-$1,109
$2,000,001 - $5,000,000	$49,465	$47,779	-$1,686

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

Example 1:
For 2021 and 2022, HB20-1420 requires pass-through businesses that qualify for the 20-percent business income deduction under section 199A of the federal tax code to add back the amount of the deduction when calculating their state taxable income if their federal AGI exceeds $500,000 (for single filers) or $1,000,000 (for joint filers). This difference in the state versus federal tax codes means a taxpayer who takes advantage of the 199A deduction on their federal taxes would fall in a higher income category at the state level than what the Proposition GG table indicates.

Imagine an owner of a pass-through business who has a federal AGI of $440,000 after taking the full 20-percent pass-through deduction on her federal taxes. When filing her state taxes, she would have to add back $110,000, making her state taxable income $550,000. The Proposition GG table tells her that the average savings from an income tax rate reduction for people in her income category are that which falls under the fifth income category ($200,001 - $500,000). In fact, she would fall under the sixth category ($500,001 - $1,000,000), placing her in a group in which average savings from the rate cut are greater than the table indicates her savings will be.

The federal deduction ends after 2025; under current state law, the add-back requirement ends after 2022. It is common practice, however, for the legislature to put sunsets on tax expenditure bills and then extend the provision in future years. From 2019 through 2022, Colorado passed 68 different bills that extended or expanded existing tax expenditures previously set to expire. Proposition GG does not prohibit the legislature from extending this or other tax expenditure measures beyond their current expiration date.

Example 2:
All Social Security income is subject to federal income tax, but Colorado allows taxpayers to deduct Social Security income from state taxes for some taxpayers. With the passage of HB21-1311 in 2021, a taxpayer over the age of 65 can deduct 100 percent of their Social Security income from their Colorado taxable income. This means they would save less from an income tax rate reduction than the Proposition GG tax table suggests. In some cases, they may save nothing from an income tax rate reduction while the tax table may show them receiving significant tax savings.

If a 65-year-old Colorado senior collects $40,000 per year from Social Security and that is his only source of income, for example, the table required by Proposition GG would show them in the second category. In the case of an income tax cut, the table would lead the taxpayer to believe an income tax rate reduction provides them with some reduction in their tax liability. In fact, none of the $40,000 would be subject to Colorado income tax, regardless of the rate. An income tax rate reduction would thus have zero impact on their Colorado income tax liability.