



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Initiative # 195

INITIAL FISCAL IMPACT STATEMENT

Date: February 4, 2020

Fiscal Analyst: Greg Sobetski (303-866-4105)

LCS TITLE: POLICY CHANGES PERTAINING TO STATE INCOME TAXES

Fiscal Impact Summary		FY 2020-21	FY 2021-22	FY 2022-23
Revenue	General Fund	-	up to \$1.4 billion	up to \$2.7 billion
Expenditures	General Fund	-	\$204,692	\$145,309

Disclaimer. This initial fiscal impact statement has been prepared for the Title Board. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the ballot information booklet (Blue Book) if new information becomes available.

Summary of Measure

The measure repeals the constitutional requirement that all taxable net income be taxed at one rate.

The General Assembly is directed to enact a graduated income tax for tax year 2022 and subsequent years, whereby Colorado taxable income earned above certain thresholds is taxed at higher rates. The measure states that its passage constitutes voter approval for enactment of the graduated income tax selected by the General Assembly. Additional revenue generated by the tax is required not to exceed 0.5 percent of Colorado personal income for 2020.

If the General Assembly does not enact such a tax, the measure enacts a graduated individual income tax with the following rates beginning in 2022:

- for taxable income up to \$250,000, the current rate of 4.63 percent;
- for taxable income from \$250,000 up to \$500,000, 7.25 percent;
- for taxable income from \$500,000 up to \$1,000,000, 8.50 percent; and
- for taxable income from \$1,000,000 and up, 9.85 percent.

If the tax above is enacted, the income tax brackets are adjusted for 2023 and subsequent years according to growth in Colorado personal income as measured by the Bureau of Economic Analysis in the U.S. Department of Commerce.

Revenue collected from the increased individual income tax is exempt from the state TABOR limit as a voter-approved revenue change. Revenue is required to be appropriated and spent to address the impacts of a growing population and a changing economy. The Director of Research of the Legislative Council is required to report annually the amount of revenue received and the how funds were spent.

State Revenue

The measure increases state revenue by up to \$1.4 billion in FY 2021-22 and up to \$2.7 billion in FY 2022-23 and subsequent years. The estimate for FY 2021-22 represents a half-year impact for tax year 2022 on an accrual accounting basis. These estimates represent the additional income tax revenue that would be generated by the tax that the measure enacts if the General Assembly does not create a different tax. Any graduated income tax enacted by the General Assembly would be limited to \$1.9 billion based on the December 2019 Legislative Council Staff forecast for 2020 Colorado personal income.

Graduated individual income tax. The graduated individual income tax is expected to increase state revenue by up to \$1.4 billion in FY 2021-22 and up to \$2.7 billion in FY 2022-23 over that which would otherwise be collected at the 4.63 percent income tax rate applied to all taxable income under current law. Estimated impacts for each of the tax year 2022 income tax brackets in the measure are shown in Table 1. Further discussion of taxpayer impacts is presented in the Taxpayer Impacts section of this fiscal impact statement below.

Table 1
Revenue Increase from Graduated Individual Income Tax Provision
Tax Year 2022

Tax Bracket	Number of Returns	Taxable Income	Gross Tax* at 4.63%	New Tax Rate**	Gross Tax* in Measure	Tax Increase
\$0 - \$249,999	3,003,000	\$121.9 billion	\$5.6 billion	4.63%	\$5.6 billion	\$0
\$250,000 - \$499,999	80,000	\$26.9 billion	\$1.2 billion	7.25%	\$1.4 billion	\$0.2 billion
\$500,000 - \$999,999	24,000	\$16.4 billion	\$0.8 billion	8.50%	\$1.1 billion	\$0.3 billion
\$1,000,000 and up	12,000	\$48.3 billion	\$2.2 billion	9.85%	\$4.4 billion	\$2.2 billion
	3,120,000	\$205.8 billion	\$9.9 billion		\$12.0 billion	\$2.7 billion

Based on December 2019 Legislative Council Staff forecast; totals may not sum due to rounding.

** Gross tax amounts do not include reduced tax liability as a result of income tax credits.*

*** These tax rates apply only to income earned in the tax bracket in the leftmost column of this table. Income earned in lower brackets is taxed at the appropriate lower rate.*

The estimates in Table 1 are based on actual tax returns for tax years 2016, 2017, and 2018, adjusted consistent with the December 2019 Legislative Council Staff forecast. Because per capita income grows less quickly than total state personal income as the population grows, revenue from the graduated income tax brackets is expected to grow less quickly from year to year than individual income tax revenue would under current law. Migration of taxpayer incomes across and within the tax brackets in the measure is difficult to predict and actual revenue collections may be less than or greater than estimated. Estimates do not incorporate the effects of changes in taxpayer behavior as a result of higher tax rates. To the extent that taxpayers choose to relocate or to source income elsewhere, the revenue increase will be less than estimated.

State Expenditures

The measure directly increases state expenditures by \$204,692 and 2.0 FTE in FY 2021-22 and \$145,309 and 2.0 FTE in FY 2022-23 and subsequent years. These expenditures are for implementation and administration of tax policy changes and required annual reporting. The measure also makes tax revenue available for expenditure in FY 2021-22 and future years; expenditures of this revenue are assumed to be determined in future legislation.

New tax revenue. The measure requires that new tax revenue collected as a result of the measure be spent to address the impacts of a growing population and a changing economy. It is assumed that expenditures and appropriations for these purposes will be made pursuant to subsequent legislation; therefore, expenditures for these purposes are not identified in this fiscal impact statement.

Department of Revenue. The measure increases General Fund expenditures for the department by \$204,692 and 2.0 FTE in FY 2021-22 and \$145,309 and 2.0 FTE in FY 2022-23 and subsequent years. These are the estimated costs of implementing and administering any graduated income tax beginning in tax year 2022, whether the General Assembly selects tax rates or the tax rates in the measure is ultimately enacted. Expenditures to implement the individual income tax rate increases are estimated at \$41,790 in FY 2021-22. These costs are for computer programming and testing and adjustments to tax forms. The remaining amounts identified are ongoing expenditures to administer a graduated income tax.

Legislative Council Staff. Legislative Council Staff workload will increase to prepare and publish reports on tax revenue and spending. This workload increase can be accomplished within existing appropriations.

Economic Impact

The measure increases the state income tax burden for some taxpayers; however, the taxpayer population affected will depend on the tax structure chosen. Affected taxpayers will have less after-tax income available to spend or save, decreasing their consumption of goods and services. Increased tax rates may influence location decisions for some high-income taxpayers.

The measure will increase state government spending for programs selected in the future. Government spending may increase employment or wages among public sector employees and government contractors. Additional government services may make these services available at a lower cost to citizens.

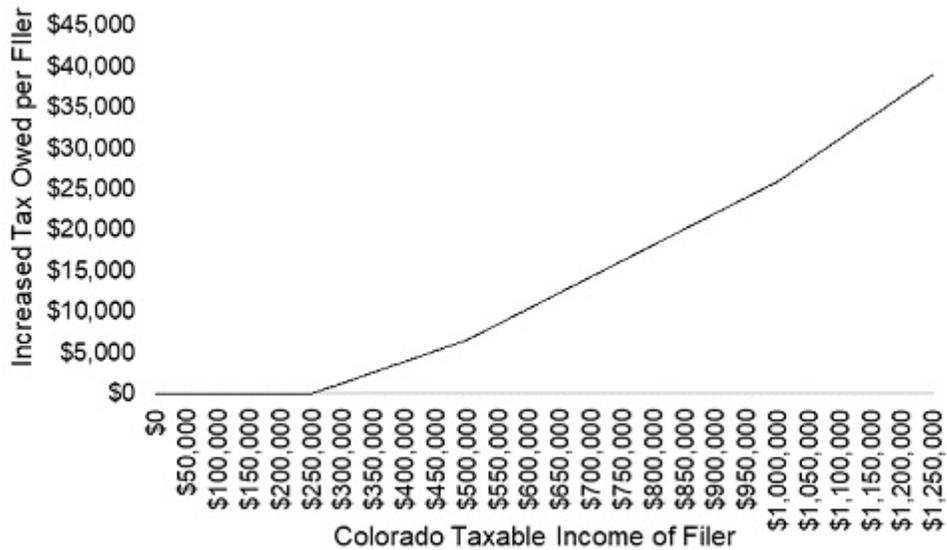
Any overall change in economic activity will depend on the net economic impact of lower after-tax household and business income for affected taxpayers and additional investment in public services.

Taxpayer Impacts

Total state income taxes paid are expected to increase by up to \$2.7 billion for tax year 2022 and subsequent years. The change in tax owed will depend on the tax structure selected by the General Assembly and a taxpayer's Colorado taxable income. Figure 1 presents tax impacts for tax year 2022 if the General Assembly does not select a tax structure and the graduated income

tax in the measure is enacted. While, on average, individual income taxpayers will pay an additional \$869 in individual income taxes each year, those with taxable income below \$250,000 will be unaffected.

Figure 1
Individual Income Tax Impacts by Colorado Taxable Income
Tax Year 2022



Effective Date

If approved by voters at the 2020 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

Legislative Council Staff Economics Section

Revenue

Abstract of Initiative 195: POLICY CHANGES PERTAINING TO STATE INCOME TAXES

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.

This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of February 2020, identifies the following impacts:

State revenue. The measure allows the General Assembly to enact a graduated income tax that increases state revenue by up to \$1.9 billion per year. If the General Assembly does not enact a new tax, the measure is expected to increase state revenue from income taxes by up to \$1.4 billion in FY 2021-22 and up to \$2.7 billion in FY 2022-23 and subsequent years.

State expenditures. The measure directly increases state expenditures by \$204,692 in FY 2021-22 and \$145,309 in FY 2022-23 and subsequent years. The measure also makes tax revenue available for expenditure in FY 2021-22 and future years; expenditures of this revenue are assumed to be determined in future legislation.

Economic impacts. Across the economy, taxpayers will have less after-tax income available to spend or save, decreasing their consumption of goods and services. The measure will increase state government spending for programs selected in the future. Any overall change in economic activity will depend on the net economic impact of lower after-tax household and business income for some taxpayers and additional investment in public services.

Taxpayer impacts. The total tax increase and impact per taxpayer will depend on the tax enacted. If no substitute tax is enacted, the measure is expected to increase taxes by \$2.7 billion per year beginning in 2022. The change in tax owed will depend on a taxpayer's Colorado taxable income. If no substitute tax is enacted, individual income taxpayers will pay an additional \$869 on average each year, while those with taxable income below \$250,000 will be unaffected.