



**Legislative
Council Staff**
Nonpartisan Services for Colorado's Legislature

Initiative # 255

INITIAL FISCAL IMPACT STATEMENT

Date: February 14, 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 |
|-----------------------|--------------|---------------|---------------|
| Revenue | General Fund | \$1.2 billion | \$2.4 billion |
| Expenditures | General Fund | \$127,137 | \$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. Beginning in tax year 2021, the measure replaces the current 4.63 percent tax on income earned by individuals and fiduciaries with a graduated income tax, whereby Colorado taxable income earned above certain thresholds is taxed at higher rates. For tax year 2021, the rates in the measure are:

- for taxable income up to \$250,000, 4.58 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.

The income tax brackets in the measure are adjusted for 2022 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 as follows:

- 50 percent to supplement current funding for pre-primary through twelfth grade education; and
- 50 percent to address the impacts of a growing population and a changing economy, of which no more than 10 percent may be expended for administrative costs.

Funds are required to be appropriated and spent through current funding distributions. The Director of Research of the Legislative Council is required to report annually the amount of revenue received and the how funds were spent.

Beginning in FY 2029-30, the measure creates a 25-member Fair Tax Commission (commission), to include representatives of state government, local government, tax practitioners, business owners, and the public. On or before January 1, 2031, the commission is required to report on the effects of the state income tax rate structure on revenue, the income distribution, and the state business climate, and to recommend modifications to the structure.

State Revenue

The measure is expected to increase state revenue by \$1.2 billion in FY 2020-21 and \$2.4 billion in FY 2021-22 and subsequent years. The estimate for FY 2020-21 represents a half-year impact for tax year 2021 on an accrual accounting basis. Revenue increases will result from the graduated individual income tax as discussed below.

Graduated individual income tax. The graduated individual income tax is expected to increase state revenue by \$1.2 billion in FY 2020-21 and \$2.4 billion in FY 2021-22 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 2021 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 2021

| Tax Bracket | Number of Returns | Taxable Income | Gross Tax* at 4.63% | New Tax Rate** | Gross Tax* in Measure | Tax Impact |
|-----------------------|--------------------------|-----------------------|----------------------------|-----------------------|------------------------------|------------------------|
| \$0 - \$249,999 | 2,969,000 | \$120.6 billion | \$5.6 billion | 4.58% | \$5.5 billion | (\$0.1 billion) |
| \$250,000 - \$499,999 | 77,000 | \$25.8 billion | \$1.2 billion | 7.25% | \$1.4 billion | \$0.2 billion |
| \$500,000 - \$999,999 | 23,000 | \$15.2 billion | \$0.7 billion | 8.50% | \$1.0 billion | \$0.3 billion |
| \$1,000,000 and up | 11,000 | \$44.2 billion | \$2.0 billion | 9.85% | \$4.1 billion | \$2.0 billion |
| | 3,080,000 | \$205.8 billion | \$9.6 billion | | \$12.0 billion | \$2.4 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 \$127,137 and 0.9 FTE in FY 2020-21 and \$145,309 and 2.0 FTE in FY 2021-22 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 2020-21 and future years; expenditures of this revenue are assumed to be determined in future legislation.

New tax revenue. The measure requires that \$1.2 billion annually collected from the additional taxes in the measure be spent for pre-primary through twelfth grade education, and that the remaining \$1.2 billion annually be spent that 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 \$127,137 and 0.9 FTE in FY 2020-21 and \$145,309 and 2.0 FTE in FY 2021-22 and subsequent years. Expenditures to implement the individual income tax rate increases are estimated at \$41,790 in FY 2020-21. These costs are for computer programming and testing and adjustments to tax forms. The remaining amounts identified are ongoing expenditures to administer the tax policy changes in the measure.

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.

Fair Tax Commission. Workload will increase beginning in FY 2029-30 for state agencies required to staff or serve on the commission. Depending on the commission's activities, increased workload may require additional staff in the Legislative Branch, the Governor's Office, the Department of Revenue, and/or the Department of the Treasury. Staff requirements, if any, will be addressed in future state budgets.

Economic Impact

The measure decreases the state income tax burden for taxpayers with taxable incomes up to \$254,770 and increases the state income tax burden for taxpayers with taxable incomes over \$254,770. Across the economy, taxpayers will have less after-tax income available to spend or save overall, decreasing their consumption of goods and services. Increased tax rates may influence location decisions for some high-income taxpayers.

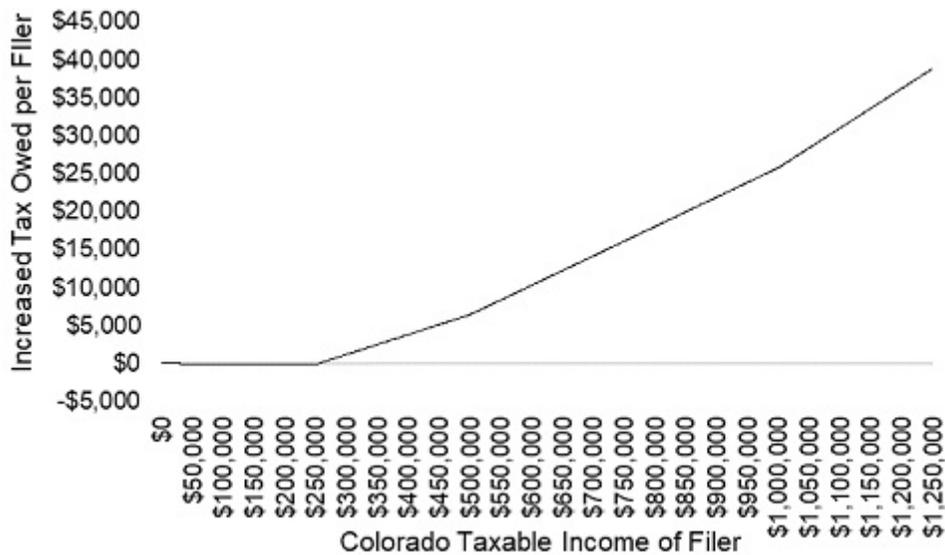
The measure will increase state government spending for pre-primary through twelfth grade education and other programs selected in the future. Government spending may increase employment or wages among public sector employees and government contractors. Additional government services may make these services 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 some taxpayers and additional investment in public services.

Taxpayer Impacts

Total state income taxes paid are expected to increase by \$2.4 billion for tax year 2021 and subsequent years. The change in tax owed will depend on a taxpayer's Colorado taxable income. Figure 1 presents tax impacts for tax year 2021 for taxpayers of different income levels. While, on average, individual income taxpayers will pay an additional \$783 in individual income taxes each year, income tax due will decrease by an average of \$20 for those with taxable income below \$254,770.

Figure 1
Individual Income Tax Impacts by Colorado Taxable Income
Tax Year 2021



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 255: 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 is expected to increase state revenue from income taxes by \$1.2 billion in FY 2020-21 and \$2.4 billion in FY 2021-22 and subsequent years.

State expenditures. The measure directly increases state expenditures by \$127,137 in FY 2020-21 and \$145,309 in FY 2021-22 and subsequent years. The measure also makes tax revenue available for expenditure in FY 2020-21 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 pre-primary through twelfth grade education and other 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. Total state income taxes paid are expected to increase by \$2.4 billion for tax year 2021 and subsequent years. The change in tax owed will depend on a taxpayer's Colorado taxable income. While, on average, individual income taxpayers will pay an additional \$783 each year, income tax due will decrease by an average of \$20 for those with taxable income below \$254,770.