INITIAL FISCAL IMPACT STATEMENT

Date: February 13, 2020  Fiscal Analyst: Larson Silbaugh (303-866-4720)

LCS TITLE: TAX DEDUCTION FOR LIMITED VEHICLE USAGE

<table>
<thead>
<tr>
<th>Fiscal Impact Summary</th>
<th>FY 2020-21</th>
<th>FY 2021-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>General Fund</td>
<td>($310.4 million)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>($310.4 million)</td>
</tr>
<tr>
<td>Expenditures</td>
<td>Indeterminate Increase</td>
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<tr>
<td></td>
<td>Total</td>
<td>Indeterminate Increase</td>
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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

Beginning in tax year 2021, this measure creates a $5,000 state income tax deduction for taxpayers who drive their primary vehicle between 9,000 and 12,000 miles per year, and a $10,000 tax deduction for taxpayers who drive their primary vehicles less than 9,000 per year. This deduction is available through tax year 2031.

State Revenue

This measure decreases state income tax revenue by $310.4 million in FY 2020-21 and $620.7 million starting in FY 2021-22.

Assumptions. The U.S. Department of Transportation publishes survey data on household income and vehicle usage. Using these data for Colorado, it is estimated that about 1.9 million vehicles meet both criteria for the deduction:

- they are the taxpayer's primary vehicle, and;
- are driven less than 12,000 miles per year.

After adjusting for household income and size, it is estimated that the deduction in the measure will reduce taxable income by about $13.4 billion per year. After applying the state's 4.63 percent tax rate, the measure will reduce state General Fund revenue by $620.7 million tax per year. The

FY 2020-21 revenue impact represents a half-year impact for 2021 on an accrual accounting basis. This revenue estimate is based on survey data from 2016. To the extent that taxpayers change their behavior and more vehicles become eligible for the deduction, the revenue reduction will be larger than estimated.

**State Expenditures**

This measure will increase state expenditures by an indeterminate amount. There is currently no way for the Department or Revenue to verify annual mileage, which would be required to administer the deduction in the bill. State expenditures to administer the deduction will be determined by the enabling legislation and will depend on the method and government(s) or other entities required to certify mileage.

**Local Government Impact**

Local government expenditures may increase if the enabling legislation requires local governments to verify annual mileage and report mileage to the Department of Revenue.

**Economic Impact**

This measure will reduce state income tax revenue, resulting in more money to be spent or saved in other areas of the economy. The reduction in state revenue will reduce the amount of money available for the General Assembly to save or spend on government programs.

Some taxpayers may change their behavior in order to reduce the annual mileage in their primary vehicles to below 12,000 or 9,000 to qualify for the expanded deduction. These behavioral changes may result in less road congestion.

**Taxpayer Impacts**

The $5,000 deduction in the measure will reduce Colorado income tax liability by up to $232 for each vehicle that qualifies for the deduction. The $10,000 deduction will reduce Colorado income tax liability by up to $463 for each vehicle that qualifies for the larger deduction. Not every taxpayer will have the ability to claim the entire deduction because of their tax liability. Married filers that file joint tax returns will be able to claim the deduction for up to two vehicles, potentially doubling their tax benefit.

**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**

Colorado Energy Office  Counties  Revenue  Transportation
Abstract of Initiative 259: TAX DEDUCTION FOR LIMITED VEHICLE USAGE

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. This measure decreases state income tax revenue by $310.4 million in FY 2020-21 and $620.7 million per year starting in FY 2021-22.

State and local government expenditures. State and/or local government expenditures will increase to verify annual mileage and administer the deduction.

Economic impacts. This measure will reduce state income tax revenue, resulting in more money to be spent or saved in other areas of the economy. The reduction in state revenue will reduce the amount of money available for the General Assembly to save or spend on government programs.

Some taxpayers may change their behavior in order to reduce the annual mileage in their primary vehicles to below 12,000 or 9,000 to qualify for the expanded deduction. These behavioral changes may result in less road congestion.

Taxpayer Impacts. The $5,000 deduction in the measure will reduce Colorado income tax liability by up to $232 for each vehicle that qualifies for the deduction. The $10,000 deduction will reduce Colorado income tax liability by up to $463 for each vehicle that qualifies for the larger deduction. Not every taxpayer will have the ability to claim the entire deduction because of their tax liability. Married filers that file joint tax returns will be able to claim the deduction for up to two vehicles, potentially doubling their tax benefit.