SB 18-061

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

FINAL FISCAL NOTE

Drafting Number:	LLS 18-0830	**Date:**	June 1, 2018
Prime Sponsors:	Sen. Sonnenberg; Grantham Rep. Lawrence	**Bill Status:**	Postponed Indefinitely
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Bill Topic: REDUCE THE STATE INCOME TAX RATE

Summary of Fiscal Impact:

- ☒ State Revenue
- ☒ State Expenditure
- ☐ State Transfer
- ☒ TABOR Refund
- ☐ Local Government
- ☐ Statutory Public Entity

This bill reduces the state income tax rate from 4.63 percent to 4.43 percent for 2018 and all subsequent tax years and makes corresponding changes to the alternative minimum tax. It requires one-time implementation expenditures and reduces General Fund revenue in the current FY 2017-18 and all future years.

Appropriation Summary: For the current FY 2017-18, this bill requires and includes a General Fund appropriation of $10,890 to the Department of Revenue.

Fiscal Note Status: The revised fiscal note reflects the introduced bill and the March 2018 Legislative Council Staff revenue forecast. This bill did not become law; therefore, the impacts identified in this analysis do not take effect.

Table 1
State Fiscal Impacts Under SB 18-061

		FY 2017-18 *current year*	FY 2018-19	FY 2019-20
Revenue	General Fund	($190.0 million)	($374.8 million)	($395.3 million)
Expenditures	General Fund	$10,890	-	-
Transfers		-	-	-
TABOR Refund		-	($30.3 million)	($156.4 million)

Summary of Legislation

For tax year 2018 and all subsequent years, this bill reduces the state income tax rate from 4.63 percent to 4.43 percent.

The bill also reduces the alternative minimum tax rate from 3.47 percent to 3.27 percent and reduces the percentage of the federal alternative minimum tax credit allowed to Colorado alternative minimum taxpayers from 12.0 percent to 11.8 percent. Additionally, the income tax rate used in years when the income tax rate reduction TABOR refund mechanism is triggered is reduced from 4.50 percent to 4.305615346 percent.

State Revenue

This bill reduces General Fund revenue by an estimated $190.0 million in the current FY 2017-18, $374.8 million in FY 2018-19, $395.3 million in FY 2019-20, and similar amounts in subsequent years. The amount for the current FY 2017-18 represents a half-year impact for tax year 2018 on an accrual accounting basis.

Tax rate reduction. Beginning in tax year 2018, this fiscal note assumes that individual and corporate income tax revenue will each be reduced by 4.32 percent, the proportion by which this bill reduces the income tax rate. Revenue reductions are applied relative to expectations published in the December 2017 Legislative Council Staff forecast. Alternative minimum tax revenue is assumed to be reduced proportionally to individual income tax revenue as these revenue streams are forecast together.

This fiscal note does not account for any economic stimulus attributable to a tax rate reduction of this magnitude. To the extent that the lower tax rate increases pre-tax personal income via increased employment or compensation, or consumer spending on goods and services subject to the state sales tax, the amount of the estimated revenue reduction will be partially offset.

Conservation easement credit. The bill is expected to increase income tax revenue by $5.0 million in tax year 2019 and $4.8 million in tax year 2020 by reducing the value of allowed conservation easement income tax credits. In most years, the conservation easement credit is nonrefundable. In tax years following fiscal years when the state collects a TABOR surplus, the credit is partially refundable, meaning a larger credit is available to some taxpayers and state income tax revenue is reduced. This bill is expected to eliminate TABOR surpluses currently anticipated for FY 2018-19 and FY 2019-20, making the credit fully nonrefundable in tax years 2019 and 2020 and increasing income tax revenue. This increase will partially offset the revenue reductions anticipated for FY 2018-19, FY 2019-20, and FY 2020-21.

TABOR Refund

This bill reduces state income tax revenue by an amount sufficient to eliminate the TABOR surpluses that are expected to be collected in FY 2018-19 and FY 2019-20 under current law and the March 2018 Legislative Council Staff revenue forecast. For FY 2018-19, because the bill reduces state revenue by $374.8 million while reducing the amount required to be set aside for TABOR refunds by $8.4 million, the bill reduces the amount available for the General Fund budget by $366.4 million.

For FY 2019-20, this bill reduces General Fund revenue by $395.3 million while reducing the amount required to be set aside for TABOR refunds by $156.4 million, for a net budget reduction of $238.9 million. However, the amount available for the budget will be further reduced by $30.3 million. This is because, under current law, moneys set aside for TABOR refunds are first used to pay reimbursements in the following year to local governments for the property tax loss they experience as a result of the senior homestead exemption and disabled veterans property tax exemption up to the annual expenditure for this reimbursement, estimated at $160.6 million in FY 2019-20. Under the bill, because no funds will be set aside under TABOR in FY 2018-19, all local government reimbursements must be expended from the General Fund in FY 2019-20.

In addition, the elimination of these surpluses will result in the following fiscal impacts:

- TABOR refund obligations carried over from prior surpluses, estimated at $21.8 million, will be postponed until the next TABOR refund occurs. This amount was already set aside in the General Fund during prior years; and
- partial refundability of the gross conservation easement income tax credit will not be available in tax years 2019 and 2020, resulting in an estimated $2.5 million General Fund revenue increase in FY 2018-19 and a $4.9 million revenue increase in FY 2019-20.

State revenue subject to TABOR is not estimated for years beyond FY 2019-20. The bill's TABOR impacts are presented in Table 2.

Table 2
TABOR Impacts of SB 18-061

	FY 2018-19	**FY 2019-20**
Current Law		
TABOR Surplus	$8.4 million	$156.4 million
Adjustments for Previous Underrefunds	$21.8 million	-
TABOR Refund Obligation	$30.3 million	$156.4 million
SB 18-061		
TABOR Surplus	-	-
Adjustments for Previous Underrefunds	-	-
TABOR Refund Obligation	-	-
Change in TABOR Surplus	**($8.4 million)**	**($156.4 million)**
Change in TABOR Refund Obligation	**($30.3 million)**	**($156.4 million)**

State Expenditures

This bill increases General Fund expenditures by $10,890 in the current FY 2017-18 only. This one-time implementation cost is summarized in Table 3 and explained below.

Table 3
Expenditures Under SB 18-061

	FY 2017-18 *current year*	FY 2018-19	FY 2019-20
Department of Revenue			
Personal Services	$5,600	-	-
Computer Programming and Testing	$4,090	-	-
Document Management	$1,200	-	-
Total Cost	**$10,890**	**$0**	**$0**

Personal services. The Office of Research and Analysis in the Department of Revenue (DOR) is responsible for aggregating, managing, and analyzing tax data. This office conducts testing and documentation for changes to income tax forms. This bill requires changes to five forms, each of which is assumed to require 32 hours of staff analysis for a total of 160 hours. Work is assumed to be performed by a contract employee during June 2018.

Computer programming. This bill requires expenditures of $4,090 for the Department of Revenue to program and test changes to its GenTax software system. Programming is estimated to require one hour of work at a cost of $250. All programming changes are tested by department staff. Testing for this bill will require the expenditures for contract personnel totaling $3,840, representing 160 hours of testing at a rate of $24 per hour.

Document management. One form change is expected to require $1,200 in contract expenditures to update the optical character recognition system used to process state income tax forms. DOR imaging and scanning services are contracted through the Department of Personnel and Administration and paid with reappropriated General Fund moneys.

Rulemaking. Conforming changes to DOR regulations will be required during the current FY 2017-18 and can be accomplished within existing DOR and Department of Law appropriations.

Technical Note

The bill changes the income tax rate for the current tax year 2018, for which wage withholding schedules have already been prepared by the DOR and implemented by employers. Retroactive changes to the withholding schedules will require emergency rulemaking during the current FY 2017-18. This provision also may distort income tax collections for 2018, with a disproportionately large share of tax withheld requiring greater than usual income tax refunds in early 2019.

Effective Date

This bill was postponed indefinitely by the House State, Veterans, and Military Affairs Committee on May 2, 2018.

State Appropriations

For the current FY 2017-18, this bill requires and includes a General Fund appropriation of $10,890 to the Department of Revenue, from which $1,200 should be reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Information Technology   Personnel   Revenue