



Fiscal Note
Legislative Council Staff
Nonpartisan Services for Colorado’s Legislature

SB 25-138: PERMANENT REDUCTIONS TO STATE INCOME TAX

Prime Sponsors:
Sen. Carson

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Bill Outcome: Postponed Indefinitely
Drafting number: LLS 25-0757

Version: Final Fiscal Note
Date: May 22, 2025

Fiscal note status: The final fiscal note reflects the introduced bill. The bill was postponed indefinitely by the Senate State, Veterans, & Military Affairs Committee on February 27, 2025; therefore, the impacts identified in this analysis do not take effect.

Summary Information

Overview. For tax years 2025 through 2034, the bill would have reduced the state income tax rate from 4.40 percent to 4.25 percent, and starting with tax year 2035, would have eliminated the state income tax.

Types of impacts. The bill was projected to affect the following areas starting in FY 2024-25:

- State Expenditures
- State Revenue
- TABOR Refunds

Appropriations. For FY 2025-26, the bill would have required an appropriation of \$18,478 to the Department of Revenue.

Table 1
State Fiscal Impacts

Type of Impact	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2035-36
State Revenue (General Fund)	-\$211.9 million	-\$457.5 million	-\$480.2 million	-\$18.3 billion
State Expenditures (General Fund)	\$0	\$18,478	\$8,702	not estimated
Transferred Funds	\$0	\$0	\$0	\$0
Change in TABOR Refunds	-\$211.9 million	-\$457.5 million	-\$480.2 million	not estimated
Change in State FTE	0.0 FTE	0.0 FTE	0.0 FTE	not estimated

Summary of Legislation

For tax years 2025 through 2034, the bill reduces the state income tax rate from 4.40 percent to 4.25 percent. Starting with tax year 2035, the bill eliminates the state income tax.

Assumptions

This fiscal note assumes that individual and corporate income tax revenue will each be reduced by 3.4 percent for tax years 2025 through 2034, and by 100 percent beginning in tax year 2035, the proportion by which this bill reduces the income tax rate. Revenue reductions are applied to expectations published in the December 2024 Legislative Council Staff forecast. This fiscal note does not account for any potential dynamic effects on economic activity and government spending attributable to the tax rate reduction.

State Revenue

The bill reduces General Fund revenue by \$211.9 million in FY 2024-25, by \$457.5 million in FY 2025-26, by \$480.2 million in FY 2026-27, and by similar amounts through FY 2033-34. Repealing the income tax would then result in greater reductions starting in FY 2034-35 when the income tax is eliminated (described below). The amount for FY 2024-25 represent a half-year impact for tax year 2025 on an accrual accounting basis.

A forecast of income tax revenue is not available beyond FY 2026-27. However, assuming 3 percent annual growth in income tax collections, state General Fund revenue would decrease by about \$18 billion for tax year 2035 under the bill. This would result in a reduction in about \$9 billion in FY 2034-35 (a half-year impact), and \$18.3 billion in FY 2035-36, the first full fiscal year affected by the repeal.

State Expenditures

The bill increases state expenditures in the Department of Revenue by \$18,478 in FY 2025-26 and \$8,702 in FY 2026-27. These costs, paid from the General Fund, are summarized in Table 2 and discussed below.

Table 2
State Expenditures
Department of Revenue

Cost Component	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27
Computer Programming	\$0	\$464	\$0
Programming Support	\$0	\$6,580	\$0
User Acceptance Testing	\$0	\$2,656	\$0
Data Analysis and Reporting	\$0	\$8,778	\$8,702
Total Costs	\$0	\$18,478	\$8,702
Total FTE	\$0	0.0 FTE	0.0 FTE

Department of Revenue

For FY 2025-26, this bill requires one-time expenditures of \$9,700 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at \$464, representing 2 hours of contract programming at a rate of \$231.75 per hour. Costs for programming support are \$6,580, representing 188 hours at a rate of \$35 per hour. Costs for testing at the department include \$2,656 for 83 hours of user acceptance testing at a rate of \$32 per hour. Expenditures in the Office of Research and Analysis (ORA) are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$8,778 in FY 2025-26, representing 231 hours for data management and reporting at \$38 per hour. ORA costs are ongoing. The department will require programming and testing expenditures to implement the elimination of the income tax starting in FY2035-36. These costs have not been estimated.

Future Expenditures Reductions

From the current FY 2024-25 through FY 2033-34, the bill potentially reduces the amount of General Fund available to spend or save in the state budget. The exact reduction, if any, will depend on the state's overall revenue and TABOR refund situation, discussed below in more detail. Starting in FY 2034-35, when the repeal of the income tax takes effect, significant reductions to state spending would be required. These reductions have not been estimated.

TABOR Refunds

The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate assumes the December 2024 LCS revenue forecast, which anticipates TABOR refund obligations of \$356.3 million for FY 2024-25, \$844.1 million for FY 2025-26, and \$1.2 billion for FY 2026-27. A forecast of state revenue subject to TABOR is not available beyond FY 2026-27. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save. If state revenue is less than forecast, the bill could decrease General Fund revenue available for the state budget.

The bill is expected to impact the mechanisms used to refund the state TABOR surplus. Under current state law, a temporary income tax rate reduction is used to refund the TABOR surplus from tax year 2024 through tax year 2034. For tax years 2025 through 2034, if the permanent income tax rate in effect is 4.25 percent or less, the temporary income tax rate reduction is not triggered unless the TABOR surplus is at least \$2 billion. Under the bill, the TABOR surplus is expected to be refunded via property tax exemptions for seniors, veterans with a disability, and Gold Star Spouses as well as the six-tier sales tax refund mechanism.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2025-26, the bill requires a General Fund appropriation of \$18,478 to the Department of Revenue.

State and Local Government Contacts

Law

Revenue

Personnel

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).