

# Proposition 116: State Income Tax Rate Reduction

1 **Proposition 116 proposes amending the Colorado statutes to:**

- 2     • reduce the state income tax rate from 4.63 percent to 4.55 percent for tax year  
3         2020 and future years.

4 **What Your Vote Means**

**YES**     A “yes” vote on  
Proposition 116 reduces  
the state income tax rate  
to 4.55 percent for tax year 2020 and  
future years.

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**NO**     A “no” vote on  
Proposition 116 keeps the  
state income tax rate  
unchanged at 4.63 percent.

# Legislative Council Draft

## 1 **Summary and Analysis for Proposition 116**

2 Proposition 116 reduces the state income tax rate from 4.63 percent to 4.55 percent  
3 for tax year 2020 and future years. This analysis provides information on the current  
4 state income tax and the changes proposed in the measure.

### 5 **What is the state's current income tax rate?**

6 Since 2000, Colorado's income tax rate has been a flat 4.63 percent, which means  
7 that all taxpayers pay the same tax rate regardless of their taxable income. The  
8 income tax rate applies to the Colorado taxable income of both individuals and  
9 corporate taxpayers. Colorado taxable income is equal to federal taxable income,  
10 adjusted for any state additions and deductions.

### 11 **How are state income tax collections spent?**

12 State income tax collections are the main source of General Fund revenue, which is  
13 the primary resource for financing state government operations. In state budget  
14 year 2018-19, the state income tax generated \$9.2 billion and accounted for  
15 67 percent of General Fund revenue. Currently, most of the money in the General  
16 Fund is spent on health care, education, human services, and other state programs.

### 17 **How does Proposition 116 change the state's income tax rate?**

18 Proposition 116 reduces the state individual and corporate income tax rate from  
19 4.63 percent to 4.55 percent for tax year 2020 and future years. The measure is  
20 expected to reduce state income tax revenue by \$154 million in state budget  
21 year 2021-22, equal to 1.2 percent of expected state General Fund revenue for that  
22 year.

23 **Taxpayer impacts.** Table 1 shows the reduction in state income tax owed for  
24 taxpayers of different levels of Colorado taxable income, which is less than the total  
25 amount of income reported by the taxpayer.

26 **Table 1**  
27 **Income Taxes Under Current Law and Proposition 116**

<b>Taxable Income</b>	<b>Tax Owed at Current Rate of 4.63%</b>	<b>Tax Owed Under Proposition 116</b>	<b>Decrease in Tax Owed Under Proposition 116</b>
\$10,000	\$463	\$455	<b>\$8</b>
\$25,000	\$1,158	\$1,138	<b>\$20</b>
\$50,000	\$2,315	\$2,275	<b>\$40</b>
\$125,000	\$5,788	\$5,688	<b>\$100</b>
\$250,000	\$11,575	\$11,375	<b>\$200</b>
\$1,000,000	\$46,300	\$45,500	<b>\$800</b>

# Legislative Council Draft

For information on those issue committees that support or oppose the measures on the ballot at the November 3, 2020, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

## 1 Arguments For Proposition 116

- 2 1) At a time when households and businesses are struggling to make ends meet,  
3 Proposition 116 leaves more money in the pocket of every taxpayer. Allowing  
4 taxpayers to keep more of their earnings will promote spending, business  
5 investment, and employment.
- 6 2) After years of growth in the state's budget, the state government can handle a  
7 small tax decrease to provide relief to families and businesses. Even with the tax  
8 reduction under Proposition 116, state revenue is expected to increase in the  
9 next budget year; the measure only modestly slows the rate by which it will grow.  
10 Households that are struggling and foregoing basic purchases need their  
11 earnings more than the state government does.

## 12 Arguments Against Proposition 116

- 13 1) Reducing state revenue will compound the impact of significant budget cuts  
14 already being made to education, transportation, health care programs, and other  
15 state services as a result of the current economic crisis. Additional loss of state  
16 revenue will cause layoffs and reduce critical state services, further hurting  
17 Colorado's economy and quality of life. Now is not the time to reduce state  
18 revenue further.
- 19 2) Most of the measure's benefits will go to only a very small population of very  
20 wealthy taxpayers, including corporations. About 75 percent of taxpayers will  
21 receive a tax cut of less than \$50 per year. Comparatively, those with incomes  
22 over \$500,000, representing less than 2 percent of taxpayers, will receive over  
23 half of the total tax savings.

## 24 Estimate of Fiscal Impact for Proposition 116

25 **State revenue.** Proposition 116 reduces state General Fund revenue by an  
26 estimated \$203 million in state budget year 2020-21 and \$154 million in state budget  
27 year 2021-22. The first-year estimate includes the measure's full impact for tax year  
28 2020 and half of its impact for tax year 2021 due to the timing of the change in the  
29 tax rate.

30 **State spending.** The measure is expected to increase state spending by about  
31 \$15,000 to administer the tax rate change. By reducing tax revenue, Proposition 116  
32 reduces the amount available to be spent or saved beginning in state budget year  
33 2020-21.

34 **Taxpayer impacts.** All taxpayers will pay 1.7 percent less in state income tax,  
35 though the impact in dollar terms will vary by income. On average, individual income  
36 taxpayers will pay \$37 less in individual income taxes for tax year 2020.

# Proposition ? : State Income Tax Rate Reduction

1 **Proposition ? proposes amending the Colorado statutes to:**

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3         2020 and future years.

4 **What Your Vote Means**

**YES**     A “yes” vote on  
Proposition ? reduces the  
state income tax rate to  
4.55 percent for tax year 2020 and future  
years.

---

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Proposition ? keeps the  
state income tax rate  
unchanged at 4.63 percent.

# Last Draft as Mailed to Interested Parties

## 1 **Summary and Analysis for Proposition ?**

2 Proposition ? reduces the state income tax rate from 4.63 percent to 4.55 percent for  
3 tax year 2020 and future years. This analysis provides information on the current  
4 state income tax and the changes proposed in the measure.

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15 67 percent of General Fund revenue. Currently, most of the money in the General  
16 Fund is spent on health care, education, human services, and other state programs.

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3 Proposition ? leaves more money in the pocket of every taxpayer. Allowing  
4 taxpayers to keep more of their earnings will promote spending, business  
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- 6 2) After years of growth in the state's budget, the state government can handle a  
7 small tax decrease to provide relief to families and businesses. State revenue is  
8 still expected to increase in the next budget year if Proposition ? passes; the  
9 measure only modestly slows the rate by which it will grow. Households that are  
10 struggling and foregoing basic purchases need their earnings more than the state  
11 government does.

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35 though the impact in dollar terms will vary by income. On average, individual income  
36 taxpayers will pay \$37 less in individual income taxes for tax year 2020.

# Last Draft Comments from Interested Parties

## Proposition 116 State Income Tax Rate Reduction

### **Amie Baca-Oehlert, representing the Colorado Education Association:**

On behalf of the Colorado Education Association, I submit the following technical question and comments on the third draft of the Blue Book for Initiative 306, State Income Tax Rate Reduction.

#### TECHNICAL QUESTION

Page 3, lines 25-27, is stated "Proposition ? reduces state General Fund revenue by an estimated \$203 million in state budget year 2020-21 and \$154 million in state budget year 2021-22." This is incongruent with a previous statement on page 3, lines 7-8 that "State revenue is still expected to increase in the next budget year if Proposition ? passes..." Can you please clarify how it can be argued that state revenue is expected to increase when the fiscal impact for state revenue declares a reduction?

#### COMMENTS

Page 1, line 4, the YES box for What Your Vote Means, after "future years" add "and reduces revenue available for state government services." Voters deserve to know from the start that a YES vote directly impacts the "main source of General Fund revenue, which is the primary resource for financing state government operations" (page 2, lines 12-13). A tax rate cut does not occur in a vacuum, which is how the current "What Your Vote Means – YES" reads. There are related effects directly tied to revenue generated or reduced by taxes. Voters need to know this.

Page 3, line 20, add "including corporations." After "wealthy taxpayers". Voters have a right to know corporations stand to also benefit as taxpayers if Proposition ? were to pass. Currently in draft #3 there is no explicit language declaring this fact.

Page 3, line 24, add 3) Argument Against Proposition ? with "This tax cut disproportionately benefits a smaller percentage of wealthier households and corporations who will pay far less than most Coloradans. At the same time, lower-income earners will be hurt by fewer services from the reduction of state revenue."

Thank you for the opportunity to comment. Please contact me with any questions.

### **Richard Brown, representing himself:**

This draft seems objective and complete. I do not have any suggestions for edits.

# Last Draft Comments from Interested Parties

## **Douglas Bruce, representing himself:**

Including the very few people who have taxable income over \$1 million simply appeases the “soak the rich” mantra. If they can’t figure out that a flat tax rate charges those with 10x the income 10x the tax, you should not facilitate their demagoguery.

You should list Total State Spending for FYs 16-20 to put the very modest tax trim in perspective. In no year, including 2020, was there a CUT in the ordinary meaning of the word. The only issue was the size of the increase, which is billions of dollars yearly. Only under the Dome is an increase considered a cut. You should not print the claim that there were “cuts.”

## **Joshua Mantell, representing the Bell Policy Center:**

On page 2, under “Taxpayer Impacts” there is a table that lists the reduction of taxes in dollars for taxpayers at various income levels. There should be some context on how many taxpayers fall into the various ranges and the amount of tax benefits those taxpayers get in total.

- Suggestion: Include new columns in table on page 2:
  - A column with the # of taxpayers with income in that range
  - A column with a percent of total tax cut that will go to that group
- There can also be an addition of a median Colorado taxpayer to give voters a sense on where the middle is in the table.

In the “Arguments For” section, the second bullet has a misleading sentence. It currently reads, “State revenue is still expected to increase in the next budget year if Proposition ? passes; the measure only modestly slows the rate by which it will grow.”

This is misleading because, while there is a projected increase from last year, it will still be a significant decrease from the previous years. Looking at single year budget numbers do not tell a complete story. It would be more precise to say “State revenue would still be expected to recover some in the next budget year if Proposition ? passes; the measure only slows the rate by which it will recover.”



## Last Draft Comments from Interested Parties

### Jake Martin, representing himself:

Below are a few suggested edits for the analysis of Initiative 306:

1. Page 1, line 2: change to “reduce the state individual and corporate income tax rates.” Who is paying this reduced rate is as important as how much and when the rate will take effect.
2. Page 1, line 4: as important to the reduction in state revenue collection is the reduction in state spending. I recommend including “reduce state spending from the General Fund which funds health care, education, human services, and other state programs.”
3. Page 1, line 4, “what your vote means”: Also include “individual and corporate” in the “yes” section.
4. Page 3, line 7: I don’t think it’s accurate or fair to say “State revenue is still expected to increase in the next budget year if Proposition ? passes.” That’s only the case because of the massive decrease in revenue this and last fiscal year. And it appears, according to the June fiscal analysis, that 21-22 revenue will actually be slightly lower than 18-19.
5. Page 2, line 22: This should include some information about how the spending reduction would be identified.
6. Page 2, line 24: this should clarify that “taxable income” is less than gross income. Suggestion would be to say “...different levels of Colorado taxable income, which is less than gross income.”
7. Page 3, line 6: the state budget would have just experienced two fiscal years of revenue losses. It is no longer accurate to say “after years of growth.”
8. Page 3, line 36: Given the disparities in the amount of the tax cut based on income, it would be more accurate to include a the “median” amount of the cut instead of the average/mean.

## Last Draft Comments from Interested Parties

**Ben Murrey, representing proponents Jon Caldara and Senator Jerry Sonnenberg:**

To give voters a full and complete idea of the proposal, we restate our redraft of argument number 2) in the "Argument For"

On Page 3 starting at line 6, insert the following in place of the strikethrough:

Arguments For Proposition ?

~~2) After years of growth in the state's budget, the state government can handle a small tax decrease to provide relief to families and businesses. State revenue is still expected to increase in the next budget year if Proposition ? passes; the measure only modestly slows the rate by which it will grow. Households that are struggling and foregoing basic purchases need their earnings more than the state government does.~~

2) State revenue has risen every year for a decade. Legislative staff projects that this tax reduction would only decrease state revenues by one half of one percent of the total state budget for fiscal year 2020-21. The last time Colorado reduced its income tax rate, its economy expanded, and income tax revenues increased. Private enterprise, not more government spending, drives job creation and economic growth, which Coloradans need now more than ever in this time of crisis.

Arguments For Proposition ?

1) At a time when individuals and businesses are struggling to make ends meet, Proposition ? leaves more money in the pocket of every taxpayer, ~~which is especially important during this time of economic crisis.~~ Allowing taxpayers to keep more of their earnings will promote spending, business investment, employment, and broader economic recovery gains.

~~2) After years of growth in the state's budget, the state government can afford to cut back in order to provide relief to families and businesses. This measure is expected to reduce state revenue by just 1.2 percent of the \$12.3 billion the state General Fund is expected to collect in the next budget year. Households that are struggling and foregoing basic purchases need their earnings more than the state government does.~~

Starting at line 7, insert the following in place of the strikethrough:

2) State revenue has risen every year for a decade. Legislative staff projects that this tax reduction would only decrease state revenues by one half of one percent of the total state budget for fiscal year 2020-21. The last time Colorado reduced its income tax rate, its economy expanded, and income tax revenues increased. Private enterprise, not more government spending, drives job creation and economic growth, which Coloradans need now more than ever in this time of crisis.

**Initiative 116**  
**State Income Tax Rate Reduction**  
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**Proposition 116**  
**State Income Tax Rate Reduction**

1 **Ballot Title:**

2 Shall there be a change to the Colorado Revised Statutes reducing the state income tax rate from  
3 4.63% to 4.55%?

4 **Text of Measure:**

5 *Be it enacted by the People of the State of Colorado:*

6 **SECTION 1.** In Colorado Revised Statutes, 39-22-104, **amend** (1.7) as follows:

7 **39-22-104. Income tax imposed on individuals, estates, and trusts - single rate - legislative**  
8 **declaration - definitions - repeal.**

9 (1.7) (a) Except as otherwise provided in section 39-22-627, subject to subsection (2) of this  
10 section, with respect to taxable years commencing on or after January 1, 2000, BUT BEFORE  
11 JANUARY 1, 2020, a tax of four and sixty-three one-hundredths percent is imposed on the federal  
12 taxable income, as determined pursuant to section 63 of the internal revenue code, of every  
13 individual, estate, and trust.

14 (b) EXCEPT AS OTHERWISE PROVIDED IN SECTION 39-22-627, SUBJECT TO SUBSECTION (2) OF THIS  
15 SECTION, WITH RESPECT TO TAXABLE YEARS COMMENCING ON OR AFTER JANUARY 1, 2020, A TAX OF  
16 FOUR AND FIFTY-FIVE ONE-HUNDREDTHS PERCENT IS IMPOSED ON THE FEDERAL TAXABLE INCOME, AS  
17 DETERMINED PURSUANT TO SECTION 63 OF THE INTERNAL REVENUE CODE, OF EVERY INDIVIDUAL,  
18 ESTATE, AND TRUST.

19 **SECTION 2.** In Colorado Revised Statutes, 39-22-301, **amend** (1)(d)(I)(I); and **add** (1)(d)(I)(J) as  
20 follows:

21 **39-22-301. Corporate tax imposed.** (1) (d) (I) A tax is imposed upon each domestic  
22 C corporation and foreign C corporation doing business in Colorado annually in an amount of the  
23 net income of such C corporation during the year derived from sources within Colorado as set  
24 forth in the following schedule of rates:

25 (I) Except as otherwise provided in section 39-22-627, for income tax years commencing on or  
26 after January 1, 2000, BUT BEFORE JANUARY 1, 2020, four and sixty-three one-hundredths percent  
27 of the Colorado net income;

28 (J) EXCEPT AS OTHERWISE PROVIDED IN SECTION 39-22-627, FOR INCOME TAX YEARS COMMENCING  
29 ON OR AFTER JANUARY 1, 2020, FOUR AND FIFTY-FIVE ONE-HUNDREDTHS PERCENT OF THE  
30 COLORADO NET INCOME.

31 **SECTION 3** In Colorado Revised Statutes, 39-22-604, **amend** (18)(a) introductory portion and  
32 (18)(b) as follows:

33 **39-22-604. Withholding tax - requirement to withhold – tax lien - exemption from lien -**  
34 **definitions.** (18) (a) Any person who makes a payment for services to any natural person that is  
35 not otherwise subject to state income tax withholding but that requires an information return,  
36 including but not limited to any payment for which internal revenue service form 1099-B,  
37 1099-DIV, 1099-INT, 1099-MISC, 1099-OID, or 1099-PATR, the issuance of any of which allows

1 taxpayer identification number verification through the taxpayer identification number matching  
2 program administered by the internal revenue service, or any other version of form 1099 is  
3 required, shall deduct and withhold state income tax at the rate of ~~four and sixty-three one-~~  
4 ~~hundredths percent~~ SET FORTH IN SECTION 39-22-104 OR 39-22-301 if the person who performed  
5 the services:

6 (b) Any person other than a natural person and any natural person who in the course of conducting  
7 a trade or business as a sole proprietor makes any payment for services to a natural person that  
8 is not reported on any information return shall deduct and withhold state income tax at the rate of  
9 ~~four and sixty-three one-hundredths percent~~ SET FORTH IN SECTION 39-22-104, unless the  
10 employer making payment has a validated taxpayer identification number from the person to  
11 whom payment is made.

12 **SECTION 4. Effective date.** THIS ACT SHALL TAKE EFFECT UPON PROCLAMATION BY THE GOVERNOR.