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**TAX REDUCTION MEASURES PASSED IN 2000**

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This is the first *Issue Brief* describing tax reduction and refund bills passed during the 2000 legislative session. This *Issue Brief* examines General Fund tax reduction measures, while the second will address TABOR refund mechanisms. Ten tax bills reduced General Fund revenues by \$51.6 million in FY 1999-00 and \$155.0 million in FY 2000-01. Two additional tax bills reduced cash fund revenues. This *Issue Brief* examines these bills and who will be affected by them.

**Income Tax Reductions**

Eight of the twelve bills reduce income taxes. Taxpayers will benefit retroactively from the impact of four of these bills: the income tax rate reduction, the credit for the donation of conservation easements, the credit for brownfield remediation, and the credit for monetary contributions to promote child care. These bills were made effective beginning on January 1, 2000. The remaining four income tax bills will reduce taxes when taxpayers file their 2001 tax returns in 2002.

***HB 00-1103, Reduction of the State Income Tax Rate.*** This bill reduces the state income tax rate on individuals and corporations from 4.75 percent to 4.63 percent. Taxpayers will benefit by \$50.4 million in FY 1999-00 and \$113.0 million in FY 2000-01. Approximately 92.6 percent of the tax savings will go to individuals. While the rate reduction is retroactive to January 1, 2000, the impact will not be felt by most taxpayers until they file their tax returns in 2001. The state will not adjust wage withholding rates until next year. The income tax rate was previously reduced during the 1999 legislative session from 5.00 percent to 4.75 percent.

***HB 00-1302, Credit for Low-Income Housing Developments.*** This bill allows the Colorado Housing and Finance Authority to allocate income tax credits to qualified low-income housing developments for a two-year period. During each of the two years, \$20 million worth of credits can be issued. Each \$20 million worth of credits is allocated as \$5 million per year for four years. Because the state operates on an accrual accounting basis, the impact of the credits on state revenue collections will be \$1.3 million in FY 2000-01, and \$6.3 million in FY 2001-02.

***HB 00-1306, Credit for the Cleanup of Brownfield Developments.*** Brownfields are contaminated areas that require environmental cleanup. The project for which the credit is claimed must take place within a community of at least 10,000 residents and must be certified by the Colorado Department of Health and Environment. A credit will be issued for 50 percent of the first \$100,000 of environmental remediation, 30 percent of the second \$100,000, and 20 percent of the third \$100,000 spent on the project. The bill will result in taxpayer savings of \$0.6 million in FY 1999-00 and \$2.3 million in FY 2000-01.

***HB 00-1348, Credit for Conservation Easements.*** A nonrefundable credit for conservation easements was passed by the General Assembly in 1999. The 2000 legislation makes the tax credit refundable if the state has excess revenues. However, it is not considered a TABOR refund method. The total amount of the tax credit and refund cannot exceed \$20,000. The bill also allows a taxpayer to transfer the credit to another taxpayer. Taxpayer savings will be \$0.3 million in FY 1999-00 and \$0.8 million in FY 2000-01.

**HB 00-1274, Deduction for Qualified State Tuition Program Contributions.** This bill allows individuals to deduct contributions to a qualified state tuition program for income tax years beginning on or after January 1, 2001. Interest income and other earnings from the contributions are already deductible. Taxpayers will benefit by \$0.6 million in FY 2000-01 and \$1.2 million in FY 2001-02.

**HB 00-1351, Increase the Tax Credit for Promotion of Child Care.** This bill increases the tax credit for monetary contributions to promote child care from 25 percent to 50 percent of the contribution. Corporate taxpayers will benefit by \$0.3 million in FY 1999-00 and \$1.2 million in FY 2000-01.

**HB 00-1134, Military Personnel.** Colorado residents who are in the military and stationed outside the United States for at least 305 days in the year do not have to pay Colorado income taxes under this bill. These individuals will save \$0.5 million in FY 2000-01 and \$1.0 million in FY 2001-02.

**HB 00-1067, Alternative Fuel Vehicles.** This bill extends the period for which the existing tax credit for the purchase of or conversion to an alternative vehicle applies. Taxes will be reduced by \$33,750 per year beginning in FY 2000-01.

### Sales Tax Reductions

Two bills passed during the 2000 legislative session reduce state sales taxes.

**HB 00-1259, Reduction of the State Sales and Use Tax Rate.** This bill reduces the state sales and use tax rate from 3.0 percent to 2.9 percent on January 1, 2001. Taxpayers will save \$32.7 million in FY 2000-01 and \$69.6 million in FY 2001-02. Colorado residents pay 55 percent of the state sales and use tax, businesses pay 35 percent, and nonresidents pay 10 percent.

**HB 00-1162, Exemption for Parts Used in Agricultural Production.** This bill exempts from the state's sales tax parts used in the repair or maintenance of farm equipment, aircraft used in agricultural operations, agricultural commodity handling equipment, and certain farm equipment used in a livestock production facility. The agriculture and livestock industry will have reduced taxes of \$2.6 million in FY 2000-01 and \$2.7 million in FY 2001-02.

### Other Tax Reductions

The General Assembly passed two bills that reduced taxes for the state's cash funds.

**HB 00-1310, Unemployment Insurance Tax Credit.** Colorado employers will receive a 20 percent tax credit against their unemployment insurance taxes in 2001 and 2002. Taxes will be reduced by \$51.9 million during this period.

**HB 00-1065, Severance Taxes.** Small oil and gas operators will have a larger amount of production that is exempt from severance taxes. The increased exemption will benefit the producers by \$0.2 million in FY 1999-00 and \$0.4 million in FY 2000-01.

Table 1 displays the value of the tax reductions for each bill.

**Table 1**  
**Value of Tax Reductions**  
**(millions of dollars)**

BILL NUMBER AND DESCRIPTION	FY 99-00	FY 00-01	FY 01-02
HB 00-1103, Income Tax Rate	\$50.4	\$113.0	\$121.6
HB 00-1302, Low-Income Housing	NA	\$1.3	\$6.3
HB 00-1306, Brownfield Developments	\$0.6	\$2.3	\$2.3
HB 00-1348, Conservation Easements	\$0.3	\$0.8	\$1.3
HB 00-1274, State Tuition	NA	\$0.6	\$1.2
HB 00-1351, Child Care	\$0.3	\$1.2	\$1.2
HB 00-1134, Military Personnel	NA	\$0.5	\$1.0
HB 00-1259, Sales and Use Tax Rate	NA	\$32.7	\$69.6
HB 00-1162, Agricultural Production	NA	\$2.6	\$2.7
HB 00-1310, Unemployment Insurance	NA	\$11.0	\$25.9
HB 00-1065, Severance Taxes	\$0.2	\$0.4	\$0.4
Total	\$51.8	\$166.4	233.5