Colorado
Legislative
Council
Staff

ISSUE BRIEF

Number 99-3

A Legislative Council
Publication

June 11, 1999

Tax Reduction Measures Passed in 1999

by Mike Mauer and Tom Dunn

This Issue Brief is the first of two papers describing tax bills passed during the 1999 legislative session. While this one examines tax reduction measures, the second will look at refund mechanisms for excess TABOR revenue. The legislature passed 16 bills in 1999 that permanently decrease tax and fee revenue to the state, and all of the bills have been signed by the Governor. These bills reduce state tax and fee revenues by a total of $237.8 million in FY 1999-00. This Issue Brief examines those bills and who will be affected by them.

Income Tax Reductions

Seven of the bills that reduce taxes affect income taxes. Taxpayers will see the impact of one of these bills, the income tax rate reduction, beginning July 1, 1999. Taxpayers will realize the savings from the other income tax reduction measures when they file their 2000 tax returns in 2001.

HB 99-1207 reduces the state income tax rate on individuals and corporations from the current rate of 5.0 percent to 4.75 percent. This bill will reduce state income tax collections by $91.6 million in FY 1998-99 and by $205.6 million in FY 1999-00. In FY 1998-99, approximately 92.3 percent of the savings will go to individuals and 7.7 percent will go to corporations. Individual taxpayers will begin to feel the impact of the tax change July 1, 1999, when the amount of taxes withheld from their paychecks is reduced. Individuals and corporations with an income tax liability will also see a benefit from this measure when they file their 1999 tax returns in 2000.

HB 99-1003 eliminates the state income tax marriage penalty beginning with tax returns filed in 2001. Currently, a married couple using the standard deduction on their federal tax return receives less benefit from the deduction than do two single persons with otherwise identical tax returns. Because Colorado's tax liability is based on federal taxable income, this situation is carried through to Colorado. HB 99-1003 remedies this situation at the state level by giving such married couples a deduction equal to the difference between an amount double the federal standard deduction for a single taxpayer and the federal standard deduction for married taxpayers. This difference is estimated to be $1,450 in the 2000 tax year. Married taxpayers who itemize deductions on their federal return that exceed the standard deduction for married taxpayers but are less than double the standard deduction for single taxpayers would also receive an additional deduction at the state level. State income tax revenue will be reduced by $9.6 million in FY 1999-00 and by $19.6 million in FY 2000-01 as a result of this law change.

HB 99-1151 increases the amount of pension income that persons 65 years of age or older can deduct from their Colorado taxable income from $20,000 to $24,000, effective for tax returns filed beginning January 1, 2001. This bill reduces state income tax receipts by $4.0 million in FY 1999-00 and by $8.4 million in FY 2000-01. This bill benefits individual income taxpayers age 65 and older with taxable pension income in excess of $20,000.

Beginning January 1, 2000, taxpayers will see the impact of four other bills that reduce income taxes:

- HB 99-1246 creates an income tax credit for persons purchasing long-term care insurance policies. This bill will reduce state revenues by $4.6 million in FY 2000-01;
- HB 99-1125 excludes a portion of foreign source income from taxation for corporations. Corporations will pay $2.9 million less in FY 2000-01;
- HB 99-1271 allows an income tax credit to businesses for alternative fuel vehicles and exempts such vehicles from the state sales tax. The affected businesses will pay $0.8 million less in FY 2000-01; and
- HB 99-1155 creates an income tax credit for land donated via conservation easements. The bill will reduce income tax revenues by $0.7 million in FY 2000-01.

Sales Tax Reductions

In addition to HB 99-1271, which is discussed in the income tax section but also includes a sales tax exemption, the legislature passed seven other bills during the 1999 session that reduce sales tax revenues. These bills have a combined impact of $8.0 million in FY 1999-00 and $11.3 million in FY 2000-01. The bills are described in more detail in the following paragraphs.

Three bills will benefit the state's farmers, ranchers, and agricultural-related retailers by $6.3 million in FY 1999-00 and $6.8 million in FY 2000-01. Purchases that will be exempt from the sales tax July 1, 1999 are:

- Farm equipment (such as tractors) costing over $1,000 (HB 99-1002);
- Agricultural compounds used for farming and ranching such as insecticides, fungicides, hormones, and vaccines (HB 99-1016); and
- Pesticides used for the production of agricultural and livestock products (HB 99-1381).

HB 99-1015 exempts most food sold in vending machines from the state sales tax. This exemption puts most food sold in vending machines on an equal tax footing with food purchased from a grocery/convenience store. The impact of the bill is $1.7 million in FY 1999-00 and $3.3 million in FY 2000-01. The beneficiaries of the bill will be the owners of vending machines and vending machine users.

Three other bills will reduce sales taxes beginning July 1, 1999:

- HB 99-1335 refunds sales and use taxes paid on personal property used in biotechnology. The affected businesses will receive refunds of $1.0 million per year;
- HB 99-1009 exempts purchases of coins and precious metals. The bill will reduce revenues by $0.2 million per year; and
- HB 99-1377 exempts purchases by veterans' organizations. The impact of this bill is unknown, but it will reduce state sales tax receipts.

Other Tax and Fee Reductions

HB 99-1249 reduces the severance taxes paid by mining companies by increasing the value of metallic minerals that are exempt from the tax, creating a tonnage exemption for molybdenum ore, and increasing the tonnage exemption for coal. Mining companies will benefit from this bill, which reduces severance tax receipts by $3.8 million each year. The bill also stops the accrual of interest earned on the severance tax cash funds from accruing to the general fund. Therefore, the General Fund absorbs most of the revenue reduction.

HB 99-1141 eliminates requirements that insurance companies pay a fee for each sales agent. Insurance companies will benefit from this bill which reduces state revenues by $2.3 million per year. The revenue reduction impacts the General Fund because the bill will reduce the amount of money in the insurance cash fund that spills into the General Fund.

Room 029, State Capitol, Denver, CO 80203-1784 (303) 866-3521 FAX: 866-3855 TDD

This page last updated on 08/08/2005 16:09:32