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TABOR REFUND MECHANISMS

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This is the second *Issue Brief* describing tax bills and refund measures passed during the 2000 legislative session. The first *Issue Brief* examined the tax reduction measures. In this *Issue Brief*, we consider the mechanisms for refunding excess revenues collected by the state under the provisions of Article X, Section 20 of the state constitution (TABOR), with emphasis on the bills enacted in 2000. This *Issue Brief* reviews the five refund mechanisms passed in 1999 and describes each of the 13 new or expanded refund mechanisms, how and when they are used, and the estimated amount of TABOR revenues that will be refunded through each mechanism.

Based on our June 2000 revenue forecast adjusted for the new tax reductions passed during the 2000 legislative session, we estimate revenues that must be refunded will be \$832.0 million for FY 1999-00 and \$861.8 million for FY 2000-01.

Refund Mechanisms Effective for the FY 1999-00 TABOR Excess Revenues

Nine refund mechanisms will be used for the FY 1999-00 excess revenues that will be refunded next year. Five refund mechanisms were passed during the 1999 legislative session, while four new refund mechanisms were passed during the 2000 legislative session. Table 1 shows these refund methods, the amount estimated to be refunded for FY 1999-00, and the estimated threshold amounts for the refunds. A particular refund mechanism will be used only if the excess revenues are greater than the threshold amount. The final adjusted threshold amounts for these refund methods will be released by October 1.

Table 1
TABOR Refund Mechanisms for
the FY 1999-00 TABOR Excess
(millions of dollars)

BILL NUMBER AND DESCRIPTION	AMOUNT REFUNDED IN FY 2000-01	THRESHOLD TRIGGER
HBs 99-1383 and 00-1049, Earned Income Credit	\$36.6	\$54.0
HB 99-1311, Personal Property Credit	\$95.9	\$183.4
HB 99-1137, Interest, Dividends, Capital Gains	\$37.3	\$237.4
HB 99-1237, Capital Gains	\$41.2	\$280.5
HB 00-1063, Rural Health Care	\$0.3	\$285.0
HB 00-1351, Children's Issues	\$20.9	\$290.0
HB 00-1257, Pollution Equipment	\$2.7	\$350.0
HB 00-1104, Health Benefit Plans	\$22.1	\$400.0
HB 99-1001, Sales Tax Refund	\$604.0	NA
Total	\$861.0	

The five refunds passed in 1999 include the earned income tax credit, a refund of personal property taxes, a deduction for interest, dividend, and capital gains income, and a sales tax refund. The Colorado *earned income tax credit* "piggybacks" off of the federal earned income tax credit. Under 1999 legislation, eligible Colorado taxpayers receive 8.5 percent of the federal

credit amount when they file their income tax returns. The credit was expanded to 10 percent of the federal credit in 2000 legislation. Businesses are eligible for a *personal property tax refund* equal to 100 percent of personal property taxes paid up to \$500, plus 13.37 percent of the taxes paid in excess of \$500. The first \$1,200 of combined *interest, dividend, and capital gains* income will be exempt on the state income tax return for 2000 tax returns. Taxpayers filing a married joint tax return will be able to deduct \$2,400 of such income. This exemption was expanded to \$1,500 and \$3,000 during the 2000 legislative session and will affect the 2001 income tax return. Individuals and businesses will receive an income tax deduction for *capital gains* taken on Colorado assets purchased prior to May 9, 1994. Finally, most full-year residents will be eligible for a *sales tax refund* that is based on the amount of their federal adjusted gross income and the filing status of the taxpayer. After the other refund mechanisms are used, the remaining excess revenues are increased by 5 percent and returned through the six-tier sales tax refund. The amount of the refund in each income tier will be determined in October.

The following paragraphs describe the new refund mechanisms passed during the 2000 legislative session to refund FY 1999-00 excess revenue.

HB 00-1049, Increase the Earned Income Credit. This bill expands the earned income tax credit enacted in 1999 from 8.5 percent to 10 percent of the federal earned income tax credit. The federal credit may be claimed by certain taxpayers with modified federal adjusted gross income up to approximately \$31,300 in 2000. Colorado taxpayers who claim the federal credit may claim the state credit.

HB 00-1063, Tax Credit for Rural Health Care Providers. The TABOR refund offered through this income tax credit is available to health care professionals (a physician, physician assistant, or nurse who is licensed or certified) who have resided and practiced in a rural health care professional shortage area for at least 180 days of the income tax year and have committed to residing and practicing in the area for three to five years. The credit is equal to one-third of the amount of the student loan or one-third of the balance due and owing on the student loan, up to the amount of the taxpayer's actual income tax liability.

Unused portions of the credit may be carried forward up to ten years.

HB 00-1351, Child Care and Child Tax Credits. Colorado taxpayers already receive a child care tax credit and a child tax credit, though these credits are not TABOR refund mechanisms. House Bill 00-1351 broadens these tax credits as a TABOR refund mechanism. The existing child care tax credit is increased from 50 percent to 70 percent and the qualifying population is expanded to those with federal adjusted gross incomes greater than \$60,000 and less than \$64,001. The existing child tax credit for children under age 6 is increased from \$200 to \$300 and the income limitations are also expanded in the same manner as for the child care tax credit. The age limit is expanded to 12 for children who are cared for in their own family-operated child care home that is either licensed or legally exempt from licensing requirements. The credits will be effective for income tax years beginning on or after January 1, 2000.

HB 00-1257, Sales and Use Tax Exemption for Pollution Control Equipment. This refund mechanism is for a sales and use tax exemption for purchases of equipment installed or used to detect, eliminate, reduce, or prevent air, water, or other environmental pollution. The exemption is effective for purchases on or after October 1, 2000.

HB 00-1104, Income Tax Credit for Purchase of Private Health Benefit Plans. This refund mechanism allows Colorado residents to claim an income tax credit for amounts paid for health benefit plans. The tax credit is restricted to individuals, spouses, and dependents who obtain private medical/health insurance and who were *not* covered by an individual health benefit plan or an employee or group health benefit plan during any portion of the income tax year immediately preceding the income tax year for which the credit is being claimed. The credit is limited to residents whose federal adjusted gross income does not exceed \$25,000 for individuals with no dependents, \$30,000 for two individuals with no dependents filing a joint return or two married individuals with no dependents filing separate returns, and \$35,000 for resident individuals with dependents. The maximum credit is limited to \$500, is not refundable to the taxpayer, and cannot be carried forward.

Refund Mechanisms Effective for the FY 2000-01 Excess

The refund mechanisms discussed previously and eight new refund mechanisms will be used to refund the excess revenues for FY 2000-01 and later. Table 2 shows the new refund mechanisms, the estimated amounts of the refunds, and the threshold amounts for each to be utilized. Based on the Legislative Council revenue estimate, each of the new refund mechanisms will be effective for the FY 2000-01 excess.

**Table 2
TABOR Refund Mechanisms for
the FY 2000-01 TABOR Excess
(millions of dollars)**

BILL NUMBER AND DESCRIPTION	AMOUNT REFUNDED IN FY 2001-02	THRESHOLD TRIGGER
HB 00-1361, Individual Development Accounts	\$5.0	\$190.0
HB 00-1227, Vehicle Registration Fees	\$33.7	\$330.0
HB 00-1355, High Tech Scholarships	\$0.5	\$330.0
HB 00-1052, Telecommunication Education	\$0.3	\$350.0
HB 00-1053, Charitable Contributions	\$5.0	\$350.0
HB 00-1171, Interest, Dividends, and Capital Gains	\$7.6	\$350.0
HB 00-1259, Commercial Trucks	\$6.1	\$350.0
HB 00-1209, Capital Gains	\$27.3	\$430.0
HB 99-1001, Sales Tax Refund	\$533.5	NA
Total, All Refund Mechanisms	\$887.2	

HB 00-1361, Tax Credit for Individual Development Accounts. This bill establishes the Individual Development Account (IDA) program, creating a new type of deposit account in financial institutions. The program allows persons earning 200

percent or less of the federal poverty income level to save money for post-secondary education, or, for persons earning 80 percent or less of the area median income, to save for the purchase of a home. Moneys deposited in an IDA may be matched with philanthropic donations. The funds can be used for post-secondary education, including occupational training, first-time purchase of a home, or business capitalization.

The bill allows an income tax credit for donors who provide matching funds to an IDA. The maximum credit is 25 percent of the amount donated, but the total amount of the tax credits cannot exceed \$5 million annually and no donor can receive a credit in excess of \$100,000 annually.

HB 00-1227, Reduction of Motor Vehicle Registration Fees. This refund mechanism lowers annual registration fees for motor vehicles beginning July 1, 2001. The fee for registering a passenger vehicle is reduced to \$2.50; the fee for registering other vehicles is reduced by 25 percent.

HB 00-1355, Income Tax Credit for High Technology Scholarships. This refund mechanism provides for a 25 percent income tax credit for donations made to the Colorado High Technology Scholarship Program for income tax years beginning on or after January 1, 2001. The credit cannot exceed 15 percent of the amount of income taxes due. Partnerships, S corporations, and other pass-through entities that donate to the scholarship program can allocate the credit to the entity's partners or shareholders in proportion to the partners' or shareholders' distributive shares of income from the entity. The program provides scholarships to in-state students earning high-technology related certificates or degrees.

HB 00-1052, Income Tax Credit for Contributions to Telecommunication Education. This refund mechanism provides an income tax credit equal to 15 percent of a taxpayer's total monetary contribution made to the Colorado Institute for Telecommunication Education for the purpose of funding grants or scholarships for students enrolled at the institute. The credit cannot exceed the smaller of \$10,000 or the taxpayer's actual tax liability for the income tax year, and cannot be carried forward or refunded to the

taxpayer. Individual and corporate taxpayers are eligible for the tax credit for income tax years beginning on or after January 1, 2001.

The Colorado Institute for Telecommunication Education is an auxiliary unit at the University of Colorado to promote, support, enhance, and provide interdisciplinary education that relates to telecommunications and information technology.

HB 00-1053, Exemption for Certain Charitable Contributions. This refund mechanism allows individuals who claim the basic standard deduction on their federal income tax return to subtract charitable contributions in excess of \$500 from federal taxable income on their state income tax returns beginning with income tax years commencing on or after January 1, 2001.

HB 00-1259, Reduction of the Sales and Use Tax Rate on Commercial Trucks. This refund mechanism reduces the sales and use tax rate on the sale of a new or used commercial truck, truck tractor, tractor, semitrailer, or vehicle used in combination therewith that has a gross vehicle weight rating in excess of 26,000 pounds to 0.01 percent. The reduction will be effective on July 1, 2001.

HB 00-1171, Increase the Interest, Dividend, and Capital Gains Deduction. This refund mechanism increases the existing interest, dividend, and capital gains deduction established in House Bill 99-1137 from \$1,200 to \$1,500. A married couple will be able to deduct up to \$3,000. The deduction is effective for income tax years beginning on or after January 1, 2001. The additional deduction will be available only if the amount of excess revenues exceed \$350 million, while the existing deduction is available if excess revenues exceed \$238.5 million.

HB 00-1209, Capital Gains Deduction for Assets Held for One to Five Years. This bill modifies a refund provision passed in House Bill 99-1237 and establishes a new refund mechanism for other capital gains. House Bill 99-1237 established a deduction for certain Colorado assets that were held for a period of at least five years and purchased prior to May 9, 1994. While the original bill required the transaction to occur on or after January 1, 2000, House Bill 00-1209

amended it to allow transactions which occurred in 1999 to qualify for the deduction. Taxpayers who had qualifying gains in 1999 can obtain the deduction by filing an amended income tax return with the Colorado Department of Revenue.

The new refund mechanism of House Bill 00-1209 applies to the capital gain arising from the sale of certain Colorado assets on or after January 1, 2001, that were held by the taxpayer from one to five years. Both individuals and corporations are eligible for this deduction.