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**TAX REDUCTION MEASURES PASSED IN 2001**

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This *Issue Brief* examines four bills passed during the 2001 regular session that reduce Colorado taxes. Of the four bills, one reduces the insurance premiums tax, one creates an income tax credit, and two exempt certain sales from the state's sales and use taxes. The four bills will reduce General Fund revenue by approximately \$240,000 in FY 2001-02, \$6.7 million in FY 2002-03, and \$17.7 million in FY 2003-04. The remainder of this *Issue Brief* examines the bills and their impacts on state revenues. Table 1 provides the impacts of each of the bills on state revenue.

**Income Tax Reduction**

*House Bill 01-1090* increases the income tax credit available for the donation of perpetual conservation easements beginning in tax year 2003. Currently, only resident individuals and domestic or foreign corporations may receive the tax credit of up to \$100,000. House Bill 01-1090 allows partnerships, S corporations, or other pass-through entities, estates, or trusts to receive the credit. It also increases the amount of the credit to include the first \$100,000 of the value of donated land plus 40 percent of the next \$400,000 of value. Thus, the maximum credit is now \$260,000. The bill also increases the annual limit on the amount of the credit that can be collected as an income tax refund from \$20,000 to \$50,000. The bill is expected to reduce General Fund income tax revenue by \$1.5 million in FY 2002-03, \$4.5

million in FY 2003-04, and \$7.5 million in FY 2004-05.

**Sales and Use Tax Reductions**

Two bills reduce the amount of sales and use tax receipts. In addition to reducing General Fund revenue, these two bills reduce the amount of money diverted to the Highway Users Tax Fund (HUTF) through the mechanism created in Senate Bill 97-1. This mechanism provides that 10.355 percent of all sales and use tax collections be diverted from the General Fund to the HUTF. Therefore, when sales and use tax revenues are reduced without a corresponding increase in the percentage diversion to the HUTF, HUTF revenues are also reduced.

*House Bill 01-1223* exempts all sales of equipment to a bingo-affle licensee from the state's sales and use taxes. It is anticipated that sales taxes will be reduced by \$200,000 per year beginning in FY 2001-02. The General Fund will be reduced by \$180,000 per year and the HUTF diversion will be reduced by \$20,000 per year.

*House Bill 01-1256* expands the existing definition of "farm equipment" to include "dairy equipment" for the purposes of the state sales and use tax exclusion. Dairy equipment is defined as any item used at any farm dairy in the production of raw milk. It does not include items used in a

commercial dairy or a farm dairy to produce pasturized, separated milk products for retail sale. This exemption is expected to reduce the state's sales and use tax revenue by \$112,000 per year beginning in FY 2001-02. The General Fund will be reduced by \$100,400 and the HUTF will be reduced by \$11,600 per year.

### Insurance Premiums Tax Reduction

**House Bill 01-1097** provides a credit against the insurance premiums tax owed by insurance companies that make an investment of certified capital in a certified capital company. The Office of Economic Development will establish rules and procedures for becoming a certified capital company. Certified capital companies will provide capital to companies that create jobs in Colorado, with an incentive for investment in rural and distressed urban areas. The insurance companies that invest in the certified capital companies receive a vested credit against the company's state insurance premium tax liability, equal to 100 percent of their investment. The insurance companies will be allowed to take up to 10 percent of the credit each tax year, not to exceed the amount of their insurance premiums tax liability. The aggregate amount of certified capital for all certified capital companies for which a credit can be issued is \$10 million for tax years 2003 and 2004. The aggregate amount of certified capital increases to \$20 million per year from tax year 2005 through tax year 2012. The aggregate amount is reduced to \$10 million for tax years 2013 and 2014. The state would collect additional revenue from fees paid by certified capital companies. After accounting for differences

between the state's fiscal year and insurance companies' tax year and the small offsetting fee revenue, General Fund revenues will be reduced by \$4.9 million in FY 2002-03, \$9.9 million in FY 2003-04, and \$14.9 million in FY 2004-05.

### Impact of Tax Cuts on the TABOR Refund

The tax cuts in these four bills will reduce the refund that is required under the TABOR amendment to the state's constitution by an amount equal to the reduction in revenue. Therefore, the four measures do not result in a net decrease in taxes paid by all taxpayers over time. The bills do shift the tax burden in the state, however, as those who benefit specifically from the bills will see a reduction in their taxes while all taxpayers who receive the sales tax refund on their income tax form will see a reduction in their refunds.

**Table 1**  
**Impact of Tax Bills Passed During**  
**the 2001 Legislative Session**

<b>Bill Number and Description</b>	<b>2001-02 (in millions)</b>	<b>2002-03 (in millions)</b>	<b>2003-04 (in millions)</b>	<b>2004-05 (in millions)</b>
HB01-1090, Conservation Easements	NA	\$1.5	\$4.5	\$7.5
HB01-1223, Bingo Equipment	\$0.2	\$0.2	\$0.2	\$0.2
HB01-1256, Dairy Equipment	\$0.1	\$0.1	\$0.1	\$0.1
HB01-1097, Certified Capital Companies	NA	\$4.9	\$9.9	\$14.9
<b>Total</b>	<b>\$0.3</b>	<b>\$6.7</b>	<b>\$14.7</b>	<b>\$22.7</b>