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**TABOR REFUND MECHANISMS**

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This *Issue Brief* examines five bills passed during the 2001 regular legislative session that impact mechanisms used to refund surplus revenues as defined by TABOR. Two bills increase the amount of surplus TABOR revenue that will be refunded through current mechanisms and three bills create new TABOR refund mechanisms. All of the bills reduce the amount refunded through the state's six-tier sales tax refund.

State revenue growth is limited to the Denver-Boulder-Greeley inflation rate plus the annual growth in the state's population. Any revenue collected above this level must be refunded to taxpayers. Once all of the mechanisms take effect, the state will have 20 different methods of refunding the surplus. These mechanisms, the amounts they will refund in FY 2003-04, and their threshold levels are shown in Table 1. We are showing FY 2003-04 because it is the first year that every mechanism is in effect. However, we estimate that two of the mechanisms will not actually be used because surplus revenues will not be large enough to reach their threshold amount. For each refund mechanism, the threshold is the amount of surplus that is necessary for a particular mechanism to be used. Each mechanism's threshold is increased by personal income growth every year.

**Expanded Refund Mechanisms**

Two bills expand existing methods of refunding some of the surplus TABOR revenue generated by the state each year.

*House Bill 01-1287, Expansion of the Business Personal Property Tax Refund.* Prior to passage of this bill, businesses received a refund equal to 100 percent of personal property taxes paid up to \$500, plus 13.37 percent of personal property taxes paid in excess of \$500. This bill increases the refund to 100 percent of the first \$700 plus 16 percent of the tax paid over \$700. This change will increase the refund from \$84.4 million to \$100 million in FY 2001-02.

*House Bill 01-1257, Inclusion of Dentists and Dental Hygienists in Health Care Professional Shortage Areas.* This bill expands the definition of health care professionals who qualify for an income tax credit for working in health care shortage areas. The bill will increase the amount refunded through the existing mechanism by approximately \$36,000 in FY 2001-02 when only dentists are added, and by \$76,000 per year thereafter.

**New TABOR Refund Mechanisms**

Three new refund mechanisms were created during the 2001 legislative session.

*House Bill 01-1081, Research and Development.* This bill creates a refund of sales and use tax paid on purchases of tangible personal property used in Colorado predominantly for research and development. The amount refunded through this mechanism is estimated to be \$6.6 million in FY 2003-04 and \$13.5 million in FY 2004-05. The increase in the amount refunded is

related to the credit being allowed for 50 percent of taxes paid in the first year and 100 percent thereafter. The mechanism will only be used in FY 2003-04 if there is a FY 2002-03 surplus greater than \$415.3 million.

**House Bill 01-1086, Agriculture Value-Added Development Fund Program.** House Bill 01-1086 creates a board within the Department of Agriculture which can offer tax credits, loans, and equity investments to eligible agricultural value-added cooperatives and other eligible agricultural businesses. The bill also allows the board to assess a fee to applicants for financial assistance and other services. A new refund mechanism is created in the form of income tax credits that may be earned through value-added investments or purchased from the board. The board is allowed to certify \$4 million in tax credits each year. In FY 2001-02 there must be a surplus of \$400 million for the tax credits to be available. The state will collect just over \$2 million in additional cash fund revenue per year due to the sale of tax credits and the collection of fees by the board.

**House Bill 01-1313, Foster Care Tax Credit.** This bill allows an income tax credit to taxpayers who incur nonreimbursed expenses in connection with providing foster care to children under the age of 18. The credit will be available beginning in FY 2001-02 if the TABOR surplus to be refunded exceeds \$200 million. The mechanism will refund \$1.9 million that year.

**Table 1**  
**TABOR Refund Mechanisms for the FY 2002-03**  
**TABOR Surplus to be Refunded in FY 2003-04**  
*(Millions of Dollars)*

Bill Number and Description	Amount Refunded in FY 2003-04	Threshold Trigger
HB 99-1383 and HB 00-1049, Earned Income Credit	\$38.3	\$69.3
HB 00-1361, Individual Development Accounts	\$5.0	\$220.2
<b>HB 01-1313, Foster Care Issues</b>	<b>\$2.0</b>	<b>\$231.8</b>
<i>HB 99-1311 and HB 01-1287, Personal Property Credit</i>	\$105.6	\$235.7
HB 99-1137, Interest, Dividends, Capital Gains	\$39.3	\$305.0
HB 99-1237, Capital Gains	\$35.2	\$360.4
<i>HB 00-1063 and HB 01-1257, Rural Health Care</i>	\$0.4	\$365.9
HB 00-1351, Children's Issues	\$24.7	\$372.4
HB 00-1053, Charitable Contributions	\$5.5	\$405.6
HB 00-1052, Telecommunication Education	\$0.3	\$405.6
HB 00-1259, Large Truck Sales Tax Rate	\$6.8	\$405.6
<b>HB 01-1081, Research &amp; Development</b>	<b>\$6.6</b>	<b>\$415.3</b>
HB 00-1355, High Tech Scholarships	\$1.5	\$423.7
HB 00-1227, Lower Motor Vehicle Fees	\$35.9	\$423.7
HB 00-1257, Pollution Equipment	\$4.1	\$449.4
HB 00-1171, Increase IDCG	\$8.4	\$449.4
<b>HB 01-1086, Ag Coop Tax Credit</b>	<b>\$4.0</b>	<b>\$463.5</b>
HB 00-1104, Health Benefit Plans	\$0.0*	\$513.6
HB 00-1209, Capital Gains	\$0.0*	\$552.1
HB 99-1001, Sales Tax Refund	\$139.7	NA
<b>Total</b>	<b>\$463.3</b>	

\* If sufficient TABOR surplus revenue is collected in FY 2002-03 to fund these refund mechanisms in FY 2003-04, HB 00-1104 would refund \$23.0 million and HB 00-1209 would refund \$31.0 million.