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TABOR Refund Mechanisms Passed in 1999

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This is the second *Issue Brief* describing tax bills passed during the 1999 legislative session. The first *Issue Brief* examined the tax reduction measures. In this *Issue Brief*, we consider the five mechanisms for refunding excess revenues collected by the state under the provisions of Article X, Section 20 of the state constitution (TABOR). The General Assembly prioritized the mechanisms and dollar limits were established to determine when each one would be used. This *Issue Brief* describes each of the refund mechanisms, how and when they are used, and the estimated amount of TABOR revenues that will be refunded through each mechanism during the next two years.

Beginning with the FY 1998-99 excess to be refunded in FY 1999-00, three methods will be used to refund \$694.6 million. Two additional methods will begin to be used in FY 2000-01 to refund excess revenues from FY 1999-00. The five mechanisms will refund \$545.7 million that year.

Refund Mechanisms for the FY 1998-99 Excess

HB 99-1383, Earned Income Tax Credit. The Colorado credit "piggybacks" off of the federal earned income tax credit, and Colorado taxpayers receive 8.5 percent of the federal credit amount. The federal credit may be claimed by certain taxpayers with modified federal adjusted gross incomes up to approximately \$31,000. Colorado taxpayers who claim the federal credit may claim the state credit. There must be at least \$50 million of excess revenues for this method to be used and it is expected to refund \$29.5 million of the FY 1998-99 surplus in FY 1999-00.

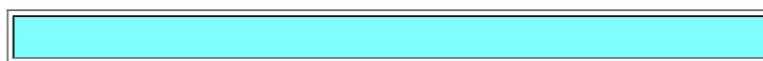
HB 99-1311, Business Personal Property Tax Refund. Businesses will receive a refund equal to 100 percent of personal property taxes paid up to \$500, plus 13.37 percent of personal property taxes paid in excess of \$500. All businesses that pay personal property tax may claim the credit. The refund for FY 1999-00 must be claimed between July 1 and August 31, 1999. There must be \$170 million of excess revenues for this method to be used, and it is expected to refund \$100 million of the FY 1998-99 surplus in FY 1999-00.

HB 99-1001, Sales Tax Refund. Individuals will receive a state sales tax refund based on six modified federal adjusted gross income tiers and the filing status of the taxpayer. The amount of excess revenues refunded through this mechanism is determined by subtracting the amount estimated for other refund methods from the total TABOR refund and multiplying the result by 105 percent. The legislature refunds 105 percent of the amount necessary through this mechanism to be assured of refunding the required amount. Any amount refunded in excess of what is required will reduce the following year's refund.

Currently, we estimate that the FY 1998-99 excess to be refunded in FY 1999-00 will be \$666.4 million. Since \$129.5 million will be refunded through the other two methods, \$565.1 million will be refunded through the sales tax refund. Table 1 shows the estimated sales tax refund that will be received per filer by tier. The portion of this mechanism's refund going to each tier is set in statute and approximates the percentage of non-income state taxes paid by taxpayers in the respective tiers. The Department of Revenue will actually set the dollar amount of the refund by tier based on the final amount of TABOR revenues available and the number of taxpayers in each tier. In the following year, when two additional refund mechanisms are in place, we estimate that \$332.5 million will be refunded by this mechanism.

Table 1

Estimated FY 1999-00 TABOR Refund through House Bill 99-1001



**Federal Adjusted
Gross Income**



**TABOR
Refund**

From	To	Single Joint	
\$0	\$25,000	\$138	\$276
\$25,001	\$50,000	\$198	\$396
\$50,001	\$75,000	\$238	\$476
\$75,001	\$100,000	\$271	\$542
\$100,001	\$125,000	\$295	\$590
\$125,001	and above	\$485	\$970

Additional Refund Mechanisms for the FY 1999-00 Excess

The following two refund mechanisms were passed into law during the 1999 session, but will not be used to refund excess revenues until FY 2000-01's refund of excess revenues from FY 1999-00.

HB 99-1137, Exclusion of Unearned Income. Individuals will be able to deduct the lesser of \$1,200 or their total amount of interest, dividend, and capital gains income on their state income tax return. Joint filers will be allowed to deduct up to \$2,400 of such income. All Colorado individual income taxpayers with any of the above types of income would qualify for the deduction. This method is expected to refund \$37.3 million of the FY 1999-00 excess revenues in FY 2000-01. There must be at least \$220 million in excess revenues, adjusted for Colorado personal income growth, for this refund method to be used.

HB 99-1237, Exclusion of Capital Gains on Colorado Assets. Individuals and businesses will receive a deduction for capital gains taken on Colorado assets purchased prior to May 9, 1994. The gains must be taken during the preceding tax year and the modification will appear on the state's income tax forms. The refund mechanism would return \$41.2 million of the FY 1999-00 excess to taxpayers during FY 2000-01. There must be at least \$260 million in excess revenues, adjusted for Colorado personal income growth, for this refund method to be used.

Refund Amounts

Table 2 displays the amount of excess TABOR revenues that will be refunded through each mechanism during FYs 1999-00 and 2000-01. Since HB 99-1001 refunds 105 percent of the required amount, more money should be refunded than is required. Any amount that is over-refunded in FY 1999-00 reduces the required refund in FY 2000-01.

Table 2
Amount Refunded per Mechanism
(Dollar amounts in millions)

Refund Mechanism:	FY 1999-00	FY 2000-01
HB 99-1383	\$29.5	\$31.2
HB 99-1311	\$100.0	\$103.5
HB 99-1137	\$0.0	\$37.3
HB 99-1237	\$0.0	\$41.2
HB 99-1001	\$565.1	\$332.5
Total Refund	\$694.6	\$545.7

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