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How New 2024 Tax Expenditures Undermine TABOR

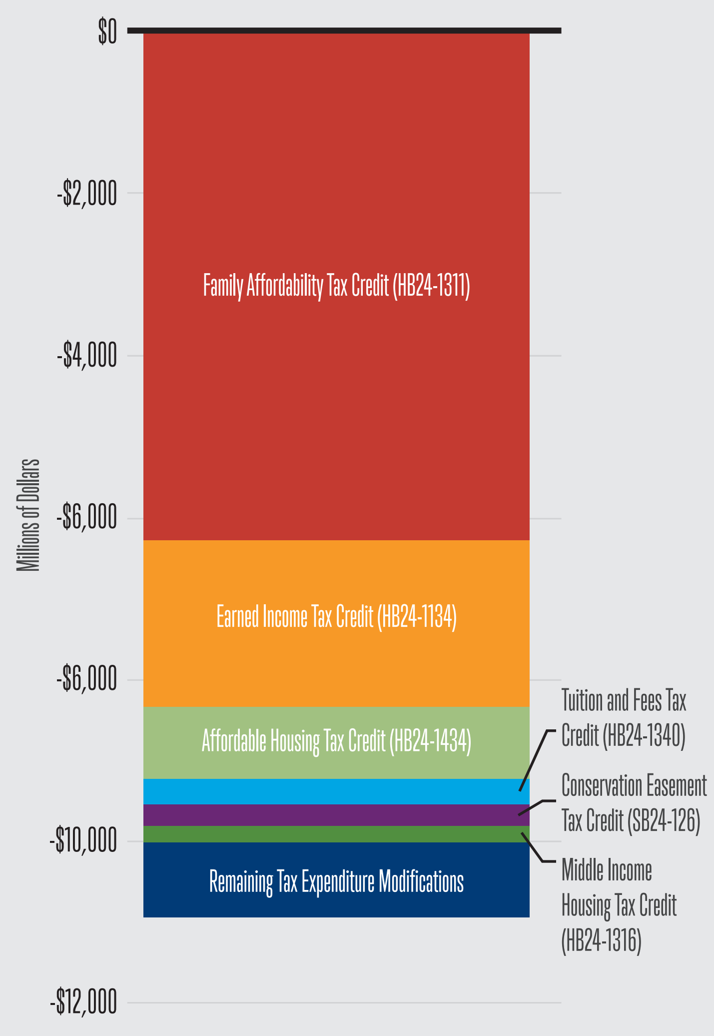
By Nash Herman and Mark Berndt

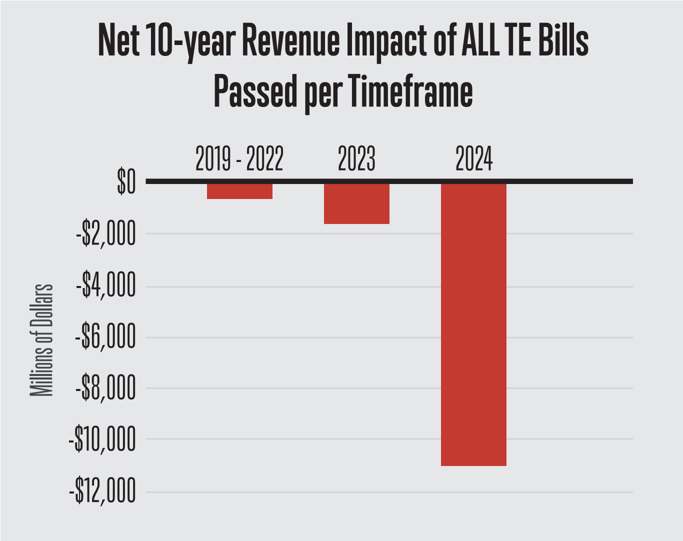
Governor Jared Polis has been a consistent advocate for eliminating the state income tax, or at least "buying it down" through the Taxpayer's Bill of Rights (TABOR) surplus.

This year, Polis claimed that legislation passed in 2024 did "deliver on that promise" to reduce the income tax rate, but Independence Institute's research finds that legislation passed in 2024 completely undermines his campaign promise:

- » The bills signed into law during the 2024 legislative session reduce state revenue $10.9 billion over the next 10 years. To put that into perspective, the $10.9 billion impact from 2024 is over 4.5 times larger than the 10-year impact of the previous 5 sessions combined (2019-2023).
  - In other words, tax expenditure modifications passed in the 2024 session alone amount to a $3000 tax increase per tax filer over the next 10 years, as this revenue would otherwise be returned through TABOR refunds.
- » The lion's share of the increase in tax benefits come from the following tax expenditures: the Family Affordability Tax Credit HB24-1311 ($6.3 billion), the Earned Income Tax Credit HB24-1134 ($2.05 billion) and the Affordable Housing Tax Credit HB24-1434 ($0.9 billion).
- » Polis and some Democrats in the legislature will declare victory on tax cuts because of a one-year rate reduction from 4.40% to 4.25% brought about by SB24-228. However, that level of income tax cut is only triggered when the TABOR surplus is greater than $1.5 billion, and tax cuts will not happen at all if the surplus is under $300 million after tax credits and state reimbursement programs. Therefore, the TABOR surplus revenue diverted to fund new 2024 tax credits will likely nullify potential future broad-based income tax cuts proposed by SB24-228 in subsequent years.
  - The sheer magnitude and flexibility of the recent EITC and FATC expansion bills alone will keep TABOR surpluses small for the foreseeable future, making it impossible to buy down the income tax rate further barring new legislation. (The EITC now can grow up to 100% of the federal credit depending on state revenue growth forecasts, keeping TABOR surpluses small).

Revenue Impact of Largest 2024 TEs by Credit





Research Summary and Figures

- All bills signed into law during the 2024 legislative session have a cumulative impact of expanding tax benefits for specific groups by $10.9 billion over 10 years. About $6.3 billion of this total stems from HB24-1311 (Family Affordability Tax Credit), $2.05 billion from HB24-1134 (EITC), and $0.9 billion from HB24-1434 (affordable housing tax credit).
- This $10.9 billion net total is significantly larger (more than 4x) than the total for the previous 5 years combined .
- Bills signed during Polis's first term (2019-2022) increased tax benefits and decreased state revenue by $640 million over 10 years. Bills signed during the first year of his second term (2023) increased tax expenditures and reduced revenue by $1.64 billion over 10 years.
- Tax expenditures are increasing exponentially yearly.
- The legislature passed 22 bills that impacted tax expenditures last session, up from 13 in 2023. These 22 bills created or expanded 28 tax expenditures. 15 were created and 13 were expanded.
- HB24-1036 repealed 13 tax expenditures: 12 of which have no fiscal impact, and 1 that results in a state revenue increase of just $150,000 over two years.

Over 10 years, this year's TE bills will reduce everyone's TABOR refunds by about $3,000 per filer cumulatively.

Years	2019-2022	2023	2024
Net 10-year revenue impact of TE bills on state revenue (millions)	-$639.6	-$1,636.4	-$10,933.98
Total increases (millions)	-$4,504.2	-$1,806.5	-$10,933.995
Total decreases (millions)	$3,864.6	$170.1	$0.15
# of TE bills passed	50 (12.5 yearly avg)	13	22
# of TE significantly modified	76 (19 yearly avg)	23	29

See Independence Institute's previous reports on Colorado tax expenditures:

- Colorado Tax Expenditure Modification, 2023: Special Interest Tax Benefits vs. Broad-based Tax Relief.

- Tax Expenditure Modifications, 2019-2022: Governor Polis's Record on Special Interest Tax Benefits.

Independence Institute will be publishing a full analysis later this year, so stay connected at i2i.org/fiscal.

Nash Herman is a policy analyst at Independence Institute. Mark Berndt is an alumnus of Independence Institute's Future Leaders Program.