Comparing 2022 Gubernatorial Nominees' Plans to Eliminate Colorado's Income Tax

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

The Democrat and Republican nominees for governor of Colorado in 2022's gubernatorial election—Jared Polis and Heidi Ganahl—have both taken a public position of eliminating Colorado's income tax. In 2021, Independence Institute, through its issue committee, also proposed a "Path to Zero" plan to reduce Colorado's income tax rate incrementally until it reaches zero.[1] Eight states currently have no income tax. These include so-called "blue" states like Washington, "red" states like Texas, and "purple" states like New Hampshire. Abolishing the state income tax would make Colorado the 10th state on the list.

This policy report examines possibilities for eliminating Colorado's income tax through the lens of each 2022 gubernatorial candidate's stated plan for executing such a tax policy change. It begins with a brief explanation of several state budgeting and spending concepts as background. It then describes each candidate's plan for eliminating the state income tax—to the extent each has offered one—and examines whether and how each candidate's plan might effect that change. Naturally, the level of detail provided by each candidate under his or her plan constrains the ability to conduct such an examination. Before concluding, the report briefly describes Independence Institute's plan for eliminating the income tax.

> This policy report examines possibilities for eliminating Colorado's income tax through the lens of each 2022 gubernatorial candidate's stated plan for executing such a tax policy change.

Table 1. Summary Comparison of Polis and Ganahl Plans for Eliminating the State Income Tax

Policy Position	Polis	Ganahl
Supports eliminating Colorado's income tax	✓	✓
Supports eliminating the tax gradually instead of all at once	✓	✓
Supports replacing all lost income tax revenue with new taxes, making elimination of the income tax revenue neutral for state government	✓	
Supports limiting government growth and reducing state government expenditures to make zero income tax possible		✓
Supports reducing special interest tax loopholes and exemptions to replace a portion of lost income tax revenue	✓	✓
Supports increasing sales or property tax to replace lost income tax revenue		
Supports a carbon or pollution tax to replace lost income tax revenue	✓	
Supports replacing lost general fund revenue with cash fund revenue, contingent upon voter approval		✓

The report finds:

- **Both the Democrat and Republican nominees for governor of Colorado in 2022, Jared Polis and Heidi Ganahl, support eliminating the state income tax**; both agree it should be done gradually.
- Any plan to eliminate Colorado's income tax plan would have to contend with the balanced budget requirement in Colorado's constitution. That means **any feasible**

plan would have to reduce state spending, increase revenue from other sources, or a combination of these.

- **Polis proposes making the elimination of the income tax revenue neutral** by replacing all $11.86 billion in income tax revenue with a tax on "something we don't like." **He specifically named only a tax on carbon emissions or pollution** but has provided no further details. He pledged not to increase sales or property taxes.
- **A carbon tax of $42.33 per gallon on gasoline at the pump could replace all income tax revenue**. That would increase gas prices to over $46 per gallon.
- **Polis also suggested cutting "special interest tax loopholes and deductions."** He does not explain how he would do this without an income tax and without increasing sales or property taxes. Also, he increased such tax giveaways during his first term after promising to reduce them, putting into question his sincerity and resolve to do this.
- **Ganahl proposes both reducing the size of government and increasing state revenue**, including by boosting economic output and consequently increasing revenue from other taxes without increasing tax rates.
- **Ganahl pledged not to increase any other taxes or create new taxes to achieve zero income tax**. Instead, she proposes other ways to increase general fund revenue. As with Polis, her proposal to reduce tax exemptions arguably contradicts this pledge.
- **The first part of Ganahl's plan calls for reducing state government by 10 percent per year while in office**. While such cuts may prove politically challenging to achieve, the report finds that they would allow for a balanced budget without an income tax.
- Ganahl has proposed six concrete policy ideas for balancing the state budget without income tax revenue and has provided enough detail on each for useful quantitative analysis. **The report finds that these specific proposals could offset as much as $10.29 billion out of $11.86 billion in lost income tax revenue**.
- **To get to zero income tax, Ganahl would need to find an additional $1.57 billion in cuts or offsets** beyond what she specifically proposed in her plan. Factoring in her proposed gas tax cut, she would need an additional $1.82 billion dollars in offsets.

Polis has proposed eliminating the income tax without reducing state revenue but has provided almost no concrete policy proposals.

Polis has proposed eliminating the income tax without reducing state revenue but has provided almost no concrete policy proposals. His plan would require an exorbitantly high carbon tax on energy such as gasoline. It remains difficult to see how Polis's plan would get Colorado to zero income tax or how—if he imposed his carbon tax—it would produce any significant amount of economic growth as he claims. Ultimately, his plan lacks the detail and specificity necessary for serious analysis. This report finds that of the two candidates only Ganahl has outlined a plan sufficiently detailed for useful analysis. Her plan, though it would likely prove politically challenging to implement, provides a practicable path to zero income tax.

BACKGROUND

Any proposal to eliminate the income tax requires a general understanding of state revenue and spending and certain state constitutional precepts. Colorado's constitution requires a balanced budget.[2] Put briefly, that means the state may not spend more money than it collects in revenue.[3] Simply eliminating the state income tax could put the state in violation of the state constitution if eliminating the state income tax were to reduce state revenue below spending levels. A policymaker aiming to eliminate the state income tax would have several options for contending with this, depending on factors such as the amount of revenue collected from other sources and current state spending.

If policymakers—or voters through the citizen's initiative process—were to eliminate the income tax from one year to the next while the legislature held spending at current levels or higher, the elimination of the tax would put the state in jeopardy of violating the constitution's balanced budget requirement. Under such a scenario, the legislature could cut spending to balance the budget. Alternatively, the legislature or citizens could increase revenue from other sources to replace enough of the lost income tax revenue to maintain a balanced budget. If the state were experiencing surpluses above the Referendum C revenue limit—often called the "TABOR limit"— new revenue likely would not need to replace the whole of lost income tax revenue to meet the balanced budget requirement. A combination of reducing spending and raising revenue from other sources could also allow for the elimination of the state income tax while maintaining a balanced budget.

When policymakers say cutting taxes would require reducing government spending, they often mean that it would require cutting the *growth* in government spending. Given enough time, it is possible to eliminate the income tax without cutting government spending, increasing existing tax rates, or imposing new taxes.

Raising revenue from other sources does not necessarily equate to raising taxes or creating new taxes. For example, as the state economy naturally expands over time, revenues from sales tax and other taxes would grow without increasing tax rates. If policymakers were to hold the state budget at current levels rather than growing government spending year after year, revenue from other sources would eventually provide for full funding of the state budget even without an income tax. Eliminating the income tax could further boost economic growth and thus increase revenue from other sources by attracting more people and business activity to the state. If policymakers gradually reduced the income tax rate as higher tax receipts from other sources made less income tax revenue necessary to maintain current levels of government spending, the reduction in the income tax burden would likely attract more people and business activity to the state. This would in turn push up state revenue from other sources without increasing tax rates. When policymakers say cutting taxes would require reducing government spending, they often mean that it would require cutting the *growth* in government spending. Given enough time, it is possible to eliminate the income tax without cutting government spending, increasing existing tax rates, or imposing new taxes.

Dollars from three major buckets provide revenue for Colorado: general funds, cash funds, and federal funds. These generate revenue in various ways. The general fund constituted the smallest of these buckets in FY2020-21, providing about a quarter of total state revenue.[4] The first and second largest sources of general fund revenue for Colorado are income taxes and sales taxes, respectively. Cash funds provided just under

a third of total state revenue in FY2020-21. Government fees provide revenue for cash funds. The Taxpayer's Bill of Rights (TABOR) in Colorado's constitution requires voter approval for all new taxes or tax increases.[5] The Colorado Supreme Court, however, has ruled that new fees or fee increases do not require voter approval under TABOR.[6] Federal funds made up about 44 percent of state revenue in FY2020-21. The legislature does not directly control all $56 billion in state revenue. For example, while revenue from federal funds goes to pay for government services and benefits enjoyed by Coloradans, state lawmakers have little or no discretion over how some of it gets spent. Instead, federal law largely prescribes its use.

Each year the legislature provides for payment of state expenses by passing a budget, known as the "long bill." The legislature can limit or expand state spending on different priorities through their allocations to state offices and agencies in the long bill. Colorado's 2022 long bill funded the state operating budget at $35.38 billion.[7] Income tax collections for 2021 totaled $11.83 billion—or about one-third of the 2022 state budget.[8] If the state were to eliminate its income tax immediately, the state would not be able to maintain a balanced budget without either significantly cutting spending or increasing other taxes.

Both Jared Polis and Heidi Ganahl have stated publicly that they would like to see Colorado's income tax eliminated. They disagree, however, on many of the details of how to achieve that.

COMPARING CANDIDATES' PLANS

Both Jared Polis and Heidi Ganahl have stated publicly that they would like to see Colorado's income tax eliminated. They disagree, however, on many of the details of how to achieve that. While Governor Polis has publicly articulated support for eliminating the tax, he has not published an official plan for achieving this end. For that reason, this report looks to statements he has made on the subject since campaigning for governor in 2018. In contrast, Ganahl has released an official plan with specific policy prescriptions for eliminating the state income tax.[9] To describe and examine her plan, this report can rely on both her statements and the official plan published on her campaign website. Table 2 compares each candidate's position using their words.

Table 2. Comparison of Polis and Ganahl Plans for Eliminating the State Income Tax

Policy Position	Polis	Ganahl
Both candidates support eliminating the state income tax.	During an interview at the annual Steamboat Institute Freedom Conference on August 27, 2021, an interviewer asked Polis, "What do you think the state income tax should be." He answered, "It should be zero."[10]	During an April 2022 candidate forum, Heidi Ganahl said, "I will take us to zero income tax."[11] She told local talk radio host Leland Conway on April 4, 2022, "I'm happy to go to zero income tax."[12]

Policy Position	Polis	Ganahl
Both candidates support eliminating the income tax gradually rather than all at once.	During the same interview in which Polis said he supports zero income tax, he also said, "It's not all or nothing. Progress in that direction is also good…We celebrate every step of progress along the way. It's not zero or nothing."[13]	When asked about her proposal to eliminate the income tax during a June 2022 interview, Ganahl said, "It's not going to happen overnight," referring to elimination of the state income tax. She has verbally stated her intention to do it in one term; her campaign website lays out a plan for accomplishing it over two terms.[14]
Polis supports replacing all lost revenue from elimination of the income tax with new taxes. Conversely, Ganahl proposed a combination of freezing government growth, reducing government expenditures, and increasing revenue from other sources.	"We would be very interested in finding out in a revenue neutral way how to go from taxing income to taxing something we don't like, and I usually put the word 'pollution' or 'carbon emissions' in there." This is the only tax Polis has proposed to replace 100% of income tax revenue. In the same interview he said, "There are other ways you could go, too," but he does not provide specifics.[15] In a 2018 gubernatorial debate, he said, "I want to be clear; this would be revenue neutral. We're not talking about increasing or decreasing the size of government. We're talking about how we pay for government."[16]	Ganahl's plan calls for "a hiring freeze across the state government" and shrinking the size of government, including through removing "waste and fraud." In addition to shrinking government bloat, her plan proposes increasing state revenue from other sources by "cut[ting] all vacancy and slush funds and remov[ing] special interest tax exemptions." Notably, she has not proposed new taxes or higher tax rates to raise revenue and has explicitly committed not to do so. Instead, her proposals would capture more money from existing revenue sources.[17]
Both candidates have suggested using revenue from removing special interest tax loopholes and exemptions—known as "tax expenditures"—to offset lost revenue from reducing the income tax.	During the 9News gubernatorial candidates debate in October 2018, Polis said, "[W]e've looked at going after special interest tax giveaways—about 1.6 billion dollars a year—reigning them in and using the proceeds to reduce people's income tax by 3 to 5 percent, so families aren't paying 4.63 percent. We'd love to get that to 4.3 or 4.2…I'd rather that we have a broader tax base and bring down tax rates for Colorado residents."[18]	The official plan to abolish the income tax published on Ganahl's website says, "I will also cut all vacancy and slush funds and remove special interest tax exemptions, something that Jared Polis said he would do and has not."[19]
Both candidates oppose increasing sales or property tax rates to offset lost income tax revenue.	During the August 2021 Steamboat conference interview, after saying that Colorado should tax carbon emission or pollution rather than income and suggesting "there are other ways to go, too," he specifically said, "I don't think you should put more onto sales or property."[20]	During a candidate forum on September 30, 2022, Ganahl said, "No, we're not going to increase other taxes to [eliminate the income tax.]"[21]

Policy Position	Polis	Ganahl
Ganahl suggests, contingent upon voter approval, moving fee revenue from cash funds to the general fund to replace lost income tax revenue to the general fund.	Governor Polis has signed legislation increasing fees by several billions of dollars without voter consent.[22] He has not suggested using this revenue to replace lost general fund revenue after eliminating the income tax.	The plan posted on Ganahl's campaign website says, "I will ask for voters' permission to take fee revenue created without voter consent that is not subject to TABOR and move it under TABOR, so that it is subject to the Referendum C limit that was approved by voters in 2005."[23]

ANALYSIS OF POLIS'S PLAN

Governor Polis first told the public that he supports zero income tax during an interview at the annual Steamboat Institute Freedom Conference on August 27, 2021. Unfortunately, he has provided only sparse details for how he hopes to accomplish this tax policy change, and the media has not pressed him for a more thorough plan. The previous section identifies what he has said. The following list summarizes his positions:

1. He supports zero income tax for Colorado.
2. He supports a gradual and incremental approach to eliminating the income tax.
3. He wants to make the elimination of the income tax revenue neutral.
4. To make the tax policy change revenue neutral, he has proposed taxing "something we don't like." He specifically named only carbon emissions and pollution.
5. He opposes increasing sales or property tax to replace income tax revenue.
6. On multiple occasions, he has suggested eliminating special interest tax loopholes and deductions to help offset a loss in revenue from cutting income taxes.

Polis most recently articulated the breadth of his plan in an interview with Ryan Warner on CPR news on October 4, 2022:

> The big sort of audacious idea that I like to talk about, it will be a matter for the people of Colorado to vote on, to be clear. But I would look at replacing income tax, I consider (income) positive, we shouldn't penalize it, with taxing something that's negative, like pollution, emissions and carbon.
>
> So if we can move to revenue neutral, not making the government bigger, not making government smaller, just funding what we need in a way that supports the growth of business, supports individuals earning income, and instead penalizes things that we all agree are negative like pollution and carbon emissions. I think that would be a better way to go for our state.[24]

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The gross lack of specificity in his plan to eliminate the state income tax makes analysis difficult from the outset. For this reason, gaining an understanding of what his plan might mean for Coloradans will require certain assumptions. It further

complicates the analysis that actions Polis has taken as governor during his first term contradict statements he has made on this topic. Does a proper analysis rely on his statements or his actions? This report must navigate these challenges while analyzing Polis's plan to reduce and eliminate the state income tax.

To begin, while Polis has repeatedly stated support for reducing and eliminating the state income tax, he has taken no concrete action as governor to advance that objective. During his first term, he remained silent while his party killed five separate bills in the legislature that would have reduced income tax rates. To the public's knowledge, he has not pushed the legislature to move the income tax rate closer to zero. When given the opportunity to advance his zero-income-tax agenda he has provided only sparse rhetorical support and only when pressed . For example, when citizens put an income tax cut on the ballot with Proposition 116 in 2020—one that voters also approved—Polis remained silent on the measure until the Colorado Springs Gazette asked if he would support it. He replied via text message: "Sure! [A]n income tax cut is broad-based relief and not only helps families get by in a challenging time but also helps our economy grow."[25] While his record as governor does not demonstrate serious resolve to follow through on his rhetoric regarding income tax reductions, this report takes Polis at his word and assumes he supports reducing and eventually eliminating the income tax.

> ...Polis clarified that he would want it to be revenue neutral. ...he suggested two specific ways to replace the lost income tax revenue: 1) eliminating special interest tax loopholes and deductions and 2) imposing a new tax on carbon emissions or pollution.

When explaining his position on income tax, Polis clarified that he would want it to be revenue neutral. In other words, he does not want the abolition of the income tax to reduce state revenue. To achieve this, he would need to replace all income tax revenue by increasing other existing taxes or creating new taxes. Income tax revenue is the largest single source of general fund revenue for the state, expected to be approximately $11.9 billion in 2021.[26] The state general fund equaled about a quarter of total state revenue in FY2020-21.[27] The next largest source of general fund revenue is the sales tax, which will total about $5.1 billion in 2021.[28] Tripling the sales tax would replace the income tax and make its elimination revenue neutral; however, Polis has said he would not increase the sales tax to replace income tax revenue. He also said he would not want to increase property taxes. Instead, he suggested two specific ways to replace the lost income tax revenue: 1) eliminating special interest tax loopholes and deductions and 2) imposing a new tax on carbon emissions or pollution .

Eliminating Special Interest Tax Giveaways

When campaigning for governor in 2018, Polis told voters he wanted to reduce special interest tax benefits in Colorado's tax code. He explained that he wanted to make these reforms revenue neutral by using new revenues from reduced tax expenditures "to cut taxes for all," specifically by lowering income tax rates.[29] Eliminating special interest tax benefits—or what state budgeters call "tax expenditures"—would increase state revenues from tax receipts. Current law awards most of such tax benefits through deductions or credits against income tax. Reductions in income tax credits and deductions could help to raise revenue for income tax rate cuts, but they would no longer provide offsetting revenue if policymakers eliminated the income tax entirely.

After eliminating the income tax, most of the tax expenditures still available to reduce or repeal to raise revenue come in the form of tax exemptions, primarily from sales and use tax. Colorado law currently has at least 85 different tax exemptions that together

reduce state revenue by about $2.17 billion per year.[30] Polis said, however, that he would not increase sales taxes to offset lost income tax revenue. If he meant that he would not increase sales tax rates, that would require clarification. Without the option to reduce or eliminate any income or sales tax benefits or loopholes, few tax expenditures remain whose reduction or elimination would raise significant revenue.

In addition, Polis's record on eliminating special interest tax benefits during his first term contradicts his promise to increase state revenue by eliminating such benefits. An Independence Institute report from September 2022 shows that while Polis told voters he wanted to reduce special interest tax benefits, he greatly increased them during his first term. In addition to this policy proposal not providing a workable replacement for income tax revenue for the reasons previously explained, Polis's record puts into question whether he supports eliminating these tax benefits in practice. Without the ability or will to raise revenue in this manner, a tax on carbon emissions or pollution remains the only effectual method through which Polis has suggested replacing income tax revenue.

> Polis's plan would make the sustainability of Colorado's budget dependent on the continuation of emissions, making this approach highly polemical and at odds with his zero emissions goal.

Carbon Taxes

On multiple occasions, Polis has suggested reducing or eliminating the state income tax and replacing the revenue with a tax on carbon emissions or pollution. During the 9News gubernatorial debate in October 2018, for example, Polis said, "I have supported reducing people's income taxes and using revenue from carbon to offset that."[31] Shortly before saying he supports zero income tax at the 2021 Steamboat conference, he said, "We would be very interested in finding out in a revenue-neutral way how to go from taxing income to taxing something we don't like, and I usually put the word 'pollution' or 'carbon emissions' in there."[32] Unfortunately, Polis has not explained how he would administer such taxes or upon whom or what he would impose them.

Taxing carbon can prove extremely difficult, as it requires determining what activities produce emissions, how much they emit, and how to tax those emissions. More than anything, a tax on carbon emissions constitutes a tax on energy and food production or use. It could mean taxing Colorado's ranchers whose cows emit methane when they pass gas or taxing the state's farmers who use carbon-emitting fertilizer to grow food. Perhaps most obviously, policymakers could tax carbon by taxing energy production or use. They could tax oil and gas producers who flare or leak natural gases in the extraction of fossil fuels. As for carbon emissions and pollution from the use of fossil fuels, the question arises of whether to tax the producer or consumer. For example, when imposing a tax on carbon emitted through electric power generation, policymakers could tax the producer of the electricity—a coal power plant, for example—or the consumer of the electricity—like a household. Raising revenue from a carbon or pollution tax, however, contradicts another major campaign platform of the governor.

The purpose of a tax on carbon or pollution is, in part, to discourage emissions in the state. Polis affirmed this intent at the Steamboat conference in 2021 when he said that a tax on carbon emissions or pollution "would make a difference on some of the things we all experience in Colorado like poor air quality."[33] This makes sense. Generally, making a certain activity—like emitting carbon or pollutants—more expensive by taxing it reduces that activity. If the tax succeeds at this goal entirely, then no emissions

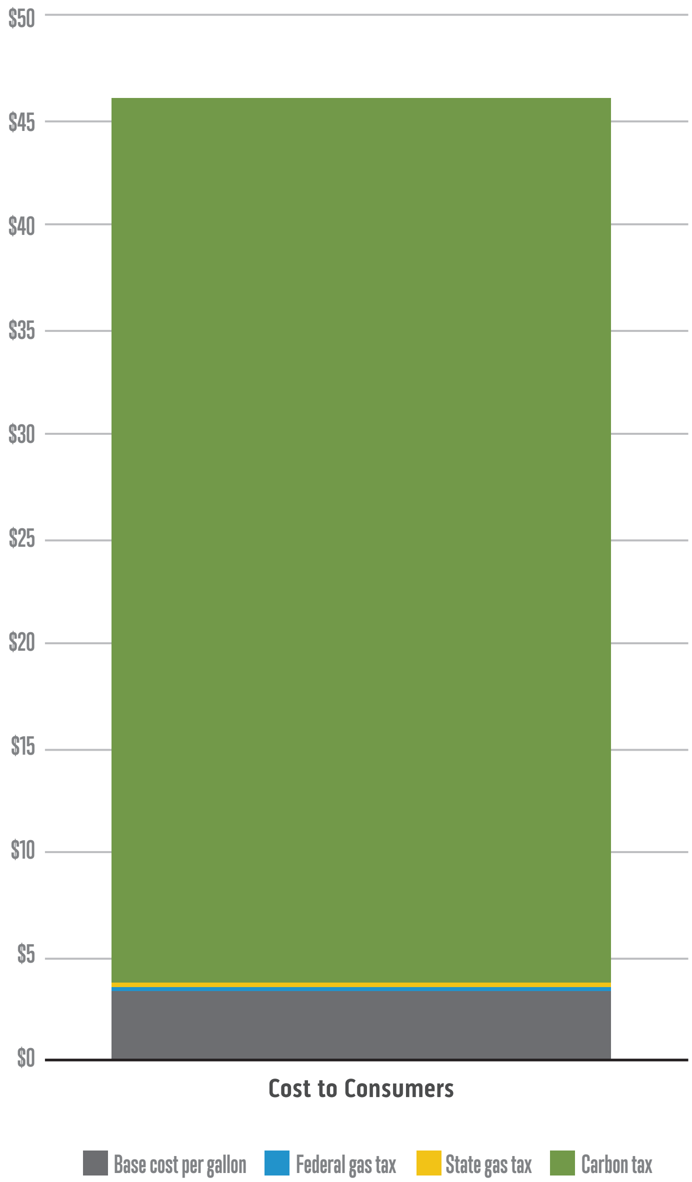
would be left to tax, and the elimination of the income tax would no longer be revenue neutral. This presents a glaring problem with Polis's plan to eliminate the income tax in a revenue-neutral manner.

Furthermore, in 2018 Polis called for 100 percent renewable energy in the state by 2040.[34] While renewable energy such as wind and solar has a carbon footprint, most of the emissions are frontloaded during the production of wind turbines and solar panels and happen outside of Colorado. Achieving the goal of 100 percent renewables would reduce or eliminate a major potential source of carbon tax revenue, limiting the state's ability to raise $12 billion from taxes on carbon emissions and pollution to replace current income tax revenues. The same logic holds for all reductions in carbon emissions or pollution within Colorado's taxing jurisdiction. As the state makes progress on reducing emissions, state revenue would drop. Polis's plan would make the sustainability of Colorado's budget dependent on the continuation of emissions, making this approach highly polemical and at odds with his zero emissions goal.

Because gasoline consumption is inelastic, imposing a carbon tax on gas at the pump may largely resolve this issue. The public broadly understands that burning gasoline in engines emits both carbon and air pollutants. Most Coloradans either consume gasoline on a regular basis in their vehicles or benefit indirectly from products and services connected to the consumption of gasoline in the state. For that reason, a carbon tax on gasoline would serve as a relatively broad-based carbon tax. In addition, most gasoline consumption cannot be exported to other states, which lie outside of Colorado's taxing jurisdiction. Ranchers can raise cattle in other states; farmers can raise crops in other states. At least to some extent Colorado can export carbon emissions from energy production by importing baseload power from fossil fuel power plants originating in other states and producing only renewables in Colorado—or switching to nuclear. Conversely, a commuter or a delivery driver cannot export their consumption of gasoline to another state; most people who consume gasoline are limited in their ability to reduce their consumption. According to the U.S. Energy Information Administration, the price of gasoline tends to have little effect on demand for gasoline.[35] For that reason, imposing a hefty carbon tax on gasoline may not beget a substantial decrease in gasoline consumption—or carbon tax revenue. While Polis did not spell out how he would impose or administer a carbon tax on Coloradans, a carbon tax on gas at the pump may best provide a reliable source of carbon tax revenue feasible for replacing the whole of Colorado's current income tax revenue. For the sake of analysis—and for lack of a more detailed carbon tax plan from Polis—considering a carbon tax on gasoline provides a useful picture of the effect Polis's plan might have on Colorado's economy. In 2021, 280 million gallons of gasoline were subject to tax at the full rate.[36] Assuming gasoline currently exempt from the state gas tax would also receive an exemption from the state carbon gas tax, the state would need to impose a $42.33 per gallon carbon tax on gasoline to make Polis's income tax elimination proposal revenue neutral to the state. Assuming an average cost of $3.70 for a gallon of gas in September 2022, gasoline at the pump would cost $46.03 per gallon under such a plan.

...the state would need to impose a $42.33 per gallon carbon tax on gasoline to make Polis's income tax elimination proposal revenue neutral to the state. Assuming an average cost of $3.70 for a gallon of gas in September 2022, gasoline at the pump would cost $46.03 per gallon under such a plan.

Figure 1: Cost of a Gallon of Gas with Carbon Tax



Because economic activity and energy are so closely linked—an obvious point when one considers the prospect of a $42.33 carbon tax on gas—it is hard to imagine how a carbon tax would generate revenue without discouraging productivity and growth.

During the 2021 Steamboat conference, after suggesting Colorado eliminate its income tax, Polis said, "We can find another way to generate the revenue that doesn't discourage productivity and growth."[37] Even if imposed on something other than gas, a carbon tax will ultimately constitute a substantial tax on energy, food production, or both. Because economic activity and energy are so closely linked—an obvious point when one considers the prospect of a $42.33 carbon tax on gas—it is hard to imagine how a carbon tax would generate revenue without discouraging productivity and growth.

ANALYIS OF GANAHL'S PLAN

Heidi Ganahl first announced her support for zero income tax during a radio interview with Leland Conway on April 4, 2022. From April through September, she verbally proposed ideas for accomplishing this policy change. Over the summer, in response to continuous pressure from the media to provide a detailed plan, she convened a group of state tax and budget experts to help develop a comprehensive plan for eliminating the income tax. She released that plan on October 1 on her campaign website.[38] Through this plan and other public statements, Ganahl has outlined her position:

1. She supports zero income tax for Colorado.
2. She supports a gradual and incremental approach to eliminating the income tax.
3. If elected, she has pledged not to increase other taxes to accomplish the policy change.
4. She has pledged that she will implement a state government hiring freeze, pausing the growth of state government.
5. She proposes shrinking the size of the state government by 10% each year to offset lost income tax revenue.
6. She proposes issuing TABOR refunds through income tax rate reductions and making the new rate permanent.
7. She has pledged that she will ensure an independent audit of the state's budget to find waste and fraud, which she would cut to reduce government spending.
8. Without creating new fees, she supports replacing reduced general fund revenue with existing fee revenue, contingent upon voter approval.
9. She proposes eliminating special interest tax exemptions to help offset a loss in revenue from cutting income taxes.
10. Freezing state hiring will free up hiring vacancy funds, which she will use to backfill lost income tax revenue.
11. She plans to eliminate state agency slush funds, also known as "custodial funds," moving that money back into the general fund for elected legislators to spend in place of lost income tax revenue.
12. She maintains that by eliminating the income tax and reducing government red tape, she will be able to attract more businesses to the state, boosting state revenue from other sources.

In contrast to Governor Polis, Ganahl has mapped out a plan with enough detail and specificity to light a traversable path to zero income tax. ...Ganahl has proposed accomplishing the tax policy change through a combination of reducing the size of government and backfilling lost income tax revenue with funding sources that do not require new taxes.

In contrast to Governor Polis, Ganahl has mapped out a plan with enough detail and specificity to light a traversable path to zero income tax. While, like Polis, her plan does not include concrete numbers, she provides enough detail for a proper analysis. Piecing together each part of her plan, this report demonstrates whether her plan adds up or falls short of getting Colorado to zero income tax. Ganahl has proposed accomplishing the tax policy change through a combination of reducing the size of government and backfilling lost income tax revenue with funding sources that do not require new taxes. This diverges sharply from Polis's plan to offset all lost income tax revenue with new taxes without shrinking government.[39]

First, Ganahl has acknowledged that eliminating the income tax will require several years. Specifically, she has pledged to get it done in two terms if voters give her that opportunity. Indeed, several of the actions she has suggested for making zero income tax possible would take multiple years to execute. Cutting state government, for example, begins with state agencies at the beginning of the annual budget process a year or more before the legislature passes the annual long bill. If she were to work with the legislature to eliminate the income tax entirely at the beginning of her first term, that would make it difficult for budgeters to cope with the sudden drop in revenues. She suggests a gradual reduction in state spending while completing the necessary work to identify where to generate extra revenue and where to cut.

Because Ganahl has never served as governor, this analysis must rely solely on Ganahl's policy platform, assuming she will do what she says if elected. The previous section of this report analyses Polis's record considering both what he has said and what he has done as governor.

Do the numbers add up?

Starting with the raw numbers, Ganahl's plan begins with a hiring freeze—in large part putting a freeze on the growth in the state budget—and then cutting government by 10 percent annually. The state budget for FY2022-23 equaled $35.38 billion, not including reappropriated funds.[40] After one term in office—four budget years—10 percent annual cuts to the state budget would bring the budget down to $23.21 billion in FY26-27, a $12.17 billion reduction. Income tax revenue for 2021 was $11.86 billion.[41] Assuming a freeze in government growth, a 10 percent reduction in the state budget each year of her first term would balance the state budget and leave a budget surplus of just over $300 million. With two terms in office, she could instead reduce the state budget by just five percent each year and achieve a balanced budget with no income tax. Assuming again a freeze in government growth, five percent annual budget cuts over eight years would reduce the budget by $11.91 billion, or $45 million more than needed to balance the budget with no income tax revenue. Figures 2 and 3 show the revenue change over time under each scenario.

Assuming a freeze in government growth, a 10 percent reduction in the state budget each year of her first term would balance the state budget and leave a budget surplus of just over $300 million.

Figure 2: State Budget with 10% Annual Reduction over One Term

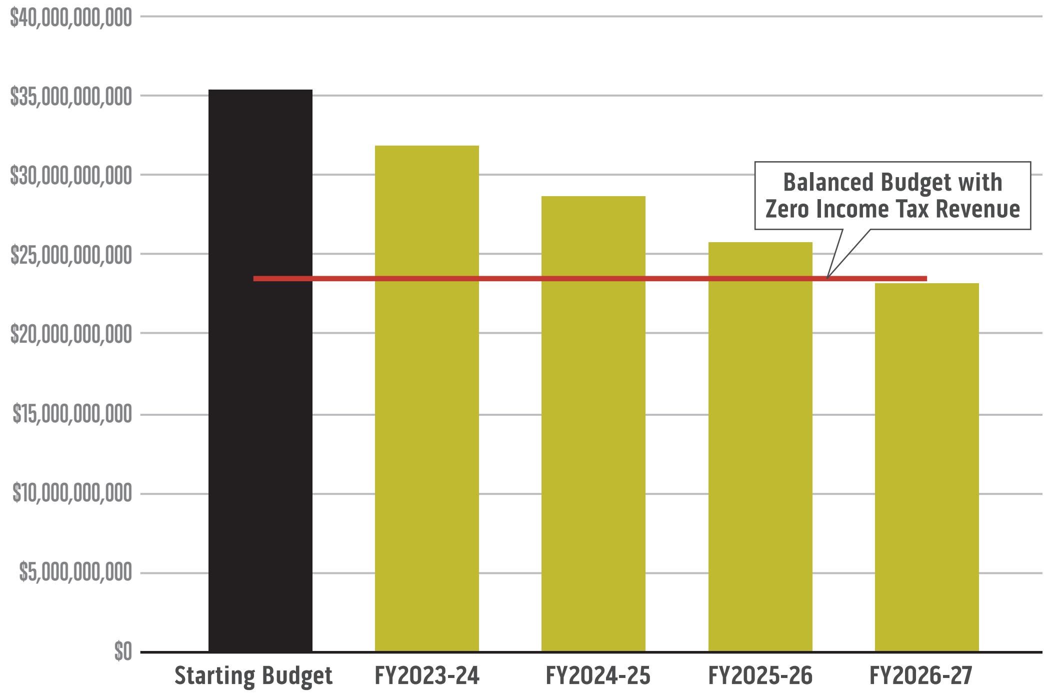
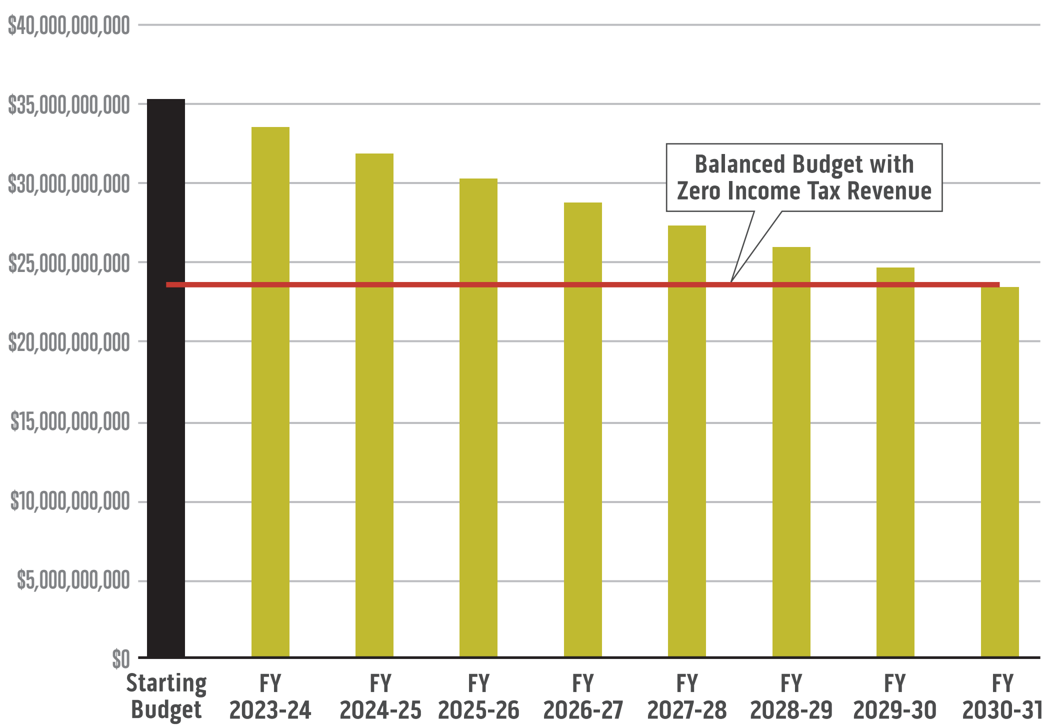


Figure 3: State Budget with 5% Annual Reduction over Two Terms



Ganahl has gotten the most flak from the media and critics of her plan who say that she cannot reasonably achieve the level of reduction in state spending required to execute her plan—a reasonable criticism. Assuming she can accomplish these reductions in state spending, her plan adds up mathematically; however, such large cuts may not be necessary under the specific policy proposals she has put forth. After freezing the growth in state employment—reducing pressure from the rising cost of government—she has proposed several ways to shrink government and increase revenue available for state budgeters. This report describes these in the next several subsections.

Leveraging TABOR Surpluses

The first proposal Ganahl lists on her campaign website for incrementally reducing the state income tax rate toward zero is to issue TABOR refunds through permanent income tax reductions. By starting here, her plan effectively begins the move toward zero income tax by asking, "How much revenue could government lose today without that loss of revenue impacting the state budget?" State economists currently project an average of $2.08 billion per year in TABOR refunds—or state government surpluses—over the next two years based on current revenue estimates and the upward adjustments to the Referendum C cap.[42] Based on 2021 income tax revenue estimates, each 0.01 percent reduction in the state income tax rate reduces state revenue by approximately $26.07 million. That means Colorado could cut its income tax rate from the current 4.55 percent down to 3.75 percent without requiring any cuts to the state budget. That leaves only $9.78 billion in lost income tax revenue the state would need either to replace or to cut from the budget to achieve zero income tax.

Were the state not experiencing two-billion-dollar surpluses from income tax and other revenues, the state budget would need to come down from $35.38 billion to $23.5 billion to make up for lost income tax revenue through shrinking government alone, as shown in figures 1 and 2. Because of these surpluses, however, budgeters would only need to reduce the state budget to $25.6 billion, a reduction of $9.78 billion. Replacing some lost income tax revenue with other revenue would require even less of a reduction in spending and allow for a budget exceeding $25.6 billion. Critics may not like the idea of reducing the size of the state government, but the math in Heidi's plan adds up. The next question becomes, "How does Ganahl plan to make up for $9.78 billion in lost income tax revenue?"

Because of these surpluses, however, budgeters would only need to reduce the state budget to $25.6 billion, a reduction of $9.78 billion. Replacing some lost income tax revenue with other revenue would require even less of a reduction in spending and allow for a budget exceeding $25.6 billion.

Cutting Waste and Fraud

Ganahl said in a candidate forum on September 30, 2022, that she believes an independent audit of the state budget would find five percent waste and fraud.[43] She pledged to cut that once identified. She reiterated that pledge in the official plan on her campaign website. Cutting five percent of the state budget by eliminating waste and fraud would reduce the state budget by $1.77 billion to 33.6 billion. That leaves $8.01 billion to cut or replace.

Had Governor Polis or his predecessor John Hickenlooper run an independent audit of waste and fraud within the state government and made its findings public, Ganahl may now have a better idea of what she would cut and could provide more specificity in this part of her proposal. Since she has never held the power to require an audit of state

government, she would not be in a position to identify “waste and fraud” to cut unless voters elected her this November. For the sake of analysis, this report will assume that an audit indeed identifies places to cut five percent of the budget. Such cuts would by nature not impact state services, as waste and fraud do not serve Coloradans. That means, together with the rate reduction from eliminating TABOR surpluses, reducing the budget by five percent through eliminating waste and fraud would allow the income tax rate to come down to 3.07 percent without any impact on state services.

Reallocating Fee Revenue

The plan on Ganahl’s website proposes moving fee revenue not subject to TABOR and not previously approved by voters to the general fund, contingent upon voter approval. TABOR, approved by voters as an amendment to Colorado’s constitution in 1992, requires voter approval for all new taxes. The state Supreme Court, however, ruled in effect that if the state legislature wants to raise revenues, they may do so without voter approval if they call the revenue-raising measures “fees” instead of “taxes.”[44] This loophole to TABOR’s democratic safeguards has raised considerable criticism, including from Ganahl.[45] In 2020, voters approved Proposition 117, which required voter approval for large new fees. The next year the legislature used legal loopholes and gimmicks to circumvent the will of Coloradans and create billions of dollars in new fees without voter approval.[46]

> By asking for voter approval of previously unapproved state fees, Ganahl would effectively put decisions about cutting government into voters’ hands. It would return to them the right to have a say in how much government grows; this comports with the spirit of TABOR.

By asking for voter approval of previously unapproved state fees, Ganahl would effectively put decisions about cutting government into voters’ hands. It would return to them the right to have a say in how much government grows; this comports with the spirit of TABOR. Much of the fee revenues not approved by voters go into state-run enterprises. A smaller amount of fee revenues goes into cash funds that are subject to the TABOR revenue limit and do not fall under enterprises. A report published by the Common Sense Institute in July 2022 found that enterprise revenue grew from $742 million in FY1993-29 to $27.1 billion in FY21-22—a 3,652% increase since the passage of TABOR.[47] These astonishing numbers make it clear that the legislature has used fees and enterprises to circumvent at least the spirit of TABOR and thus the will of the people.

Voters would have a number of options for trimming previously unapproved government growth under Ganahl’s plan. When voters were given the opportunity in 2018 to vote on $15 million in new taxes over 20 years to fund transportation, they turned it down. Three years later, Governor Polis and the legislature passed a transportation fund bill, SB21-260, which created $5.4 billion in new fees over 10 years, an amount which will increase indefinitely in subsequent decades under the law; they did this without voter approval[48]. One could reasonably assume that if given the opportunity voters would make the same decision again that they made in 2018 and reject these fees. According to the bill’s fiscal note, the bill created $95.2 million in TABOR-exempt revenue that would be subject to voter approval under Ganahl’s plan. In 2009, the legislature passed the Health Care Affordability and Sustainability Fee—commonly known as the “Hospital Provider Fee”—without voter consent. Because they set it up as an enterprise, the fee revenue falls outside of the TABOR limit.[49]

The Common Sense Institute report on enterprise revenue sheds light on how much enterprise revenue the state collects annually, but it does not indicate how much enterprise revenue would be subject to Ganahl's plan.[50] All enterprise revenue falls outside of the TABOR limit, however, voters approved some of this revenue. For example, in 2020 Colorado voters approved Proposition 118, which created a new enterprise funded by fees to pay for a mandatory paid family and medical leave program. The report notes that it could raise over $2 billion per year in the long run. Under Ganahl's plan, voters would not have the opportunity to transfer these funds to the general fund, as they previously approved it. Other revenues comes from federal or other sources; Ganahl's plan only subjects fees to voter approval. Some of the nearly $12 billion in revenue under higher education enterprises and CollegeInvest would fall under the plan, but exactly how much is unknown. If elected governor, Ganahl's experience as a regent at the University of Colorado could prove useful in determining which if any of these funds could backfill the general fund. Again, her plan would require voter consent for such a transfer.

This analysis cannot predict how much revenue voters would choose to move from enterprises into the general fund if given the opportunity to vote on it. It also does not determine exactly how much revenue would be available to backfill the general fund under this part of Ganah's plan, as that would require additional research and a separate report. Just the enterprise revenue from the Hospital Provider Fee and SB21-260 alone could put $1.17 billion back into the general fund to replace lost income tax revenue. This comports with what Ganahl said during the September Colorado Concern governor's forum: "If we move fees to taxes, which they actually are, there's a billion dollars there."[51]

If moving fees revenue to the general fund were to generate another $1.17 billion for the general fund, that would allow the income tax rate to come down an additional 0.45 percent. Tallying the numbers up to this point in the analysis, that allows for an income tax rate of 2.62 percent and leaves $6.84 billion to cut from the state budget or replace with other revenue.

Cutting Special Interest Tax Exemptions

In contrast to Polis's broad call for eliminating "special interest tax loopholes and deductions," Ganahl's plan demonstrates an understanding that eliminating income tax deductions cannot increase revenue if the state has no income tax. Her plan calls specifically for "remov[ing] special interest tax exemptions."[52] At the state level, exemptions can apply to sales and use tax, severance tax, and fees. Based on the 2018 through 2022 tax expenditures reports by the Colorado Office of the State Auditor and changes made to law not included in these reports, Colorado law currently includes at least 85 special interest tax exemptions that Ganahl could cut to increase state revenue.[53]

In contrast to Polis's broad call for eliminating "special interest tax loopholes and deductions," Ganahl's plan demonstrates an understanding that eliminating income tax deductions cannot increase revenue if the state has no income tax. Her plan calls specifically for "remov[ing] special interest tax exemptions."

These exemptions reduce state revenue by $2.17 billion per year.[*] Eliminating all of them would allow the income tax rate to come down an additional 0.83 percent, though like Polis, Ganahl has not specifically named which ones she would eliminate. Tallying the numbers up to this point in the analysis, eliminating all of them would

* This does not include the wholesale tax exemption.

allow for an income tax rate of 1.79 percent and leave approximately $4.67 billion to cut from the state budget or replace with other revenue.

...various parts of Ganahl's income tax elimination plan complement the broader goal of boosting the state's economy. Eliminating the state's income tax would create a more attractive tax environment and bring more businesses into the state. It would also require shrinking the size of government by eliminating waste and fraud and cutting bureaucratic red tape. These reforms would make it easier to start and run a business in Colorado, further boosting economic output. Growth in the state's economy would in turn increase revenue from sources such as sales and severance taxes.

Attracting Business to the State

Ganahl's plan assumes that eliminating the income tax would increase economic activity in the state, increasing state revenue from sources other than the income tax. The plan on her website says, "[W]e will increase revenue by attracting new business to Colorado."[54] In the September Colorado Concern governor's forum, Ganahl elaborated on her position: "The size of government is too big. Taxes are too high. The regulations are too burdensome. We've got to unleash our economy. And in order to do that, I have a big bold idea to take us to zero income tax."[55] This quote clearly articulates Ganahl's understanding of how her plan would attract economic activity to the state.

Indeed, various parts of Ganahl's income tax elimination plan complement the broader goal of boosting the state's economy. Eliminating the state's income tax would create a more attractive tax environment and bring more businesses into the state. It would also require shrinking the size of government by eliminating waste and fraud and cutting bureaucratic red tape. These reforms would make it easier to start and run a business in Colorado, further boosting economic output. Growth in the state's economy would in turn increase revenue from sources such as sales and severance taxes.

Ganahl specifically named reducing regulation on oil and gas to attract oil and gas producers back to the state—and retain the ones that still operate here. In 2018, voters rejected a ballot measure that would have mandated minimum setbacks for new oil and gas development projects.[56] After failing to get the democratic approval of voters, Governor Polis and legislators passed SB19-181 in 2019, which imposed the same regulations without voter approval. According to a 2019 study, the regulations will reduce state and local severance tax revenue by as much as $13.5 billion because of reduced economic activity from the industry.[57] This amount comes from a combination of severance tax and income tax collections, which go to both state and local governments. Net severance tax collections from oil and gas amounted to $212 million in 2019, the year the new regulations took effect. In addition, because much of the severance tax to local governments funds education, increasing local revenue reduces the amount of money the state must expend on education funding, thus freeing up general fund money.[58]

While Polis did not suggest that eliminating the income tax would increase revenue from other sources by bringing businesses to the state, he implied the same. He said that after eliminating the income tax, "We can find another way to generate the revenue that doesn't discourage productivity and growth."[59] If his plan can encourage productivity and growth, it would also boost state revenue from other sources. It remains questionable how much replacing income tax—a tax on work and productivity—with a carbon tax—a tax on energy—would boost economic growth. Because it would not reduce the overall tax burden, it would certainly do less to grow the private economy than a real tax reduction paired with cutting government and bureaucratic red tape.

During the September Colorado Concern forum, Ganahl said her campaign team has calculated that her plan would increase economic growth by enough to generate as much as $3 billion in revenue from sources other than income tax.[60] Research shows that reducing or eliminating state income tax indeed increases a state's economic growth. A 2015 report by the Heritage Foundation found, "states with no or low income taxes have a much better economic record than high-income-tax states."[61] The evidence bears this out. A study by Stanford University's Hoover Institution investigated the large exodus of businesses from the high-income-tax state of California. It finds that of the 352 corporate headquarters that left the Golden State between 2018 and 2021, nearly half have gone to just two states: Texas and Tennessee, neither of which levies any income tax. In fact, the top four destinations for California companies all have zero income tax.[62] Colorado is currently fifth on the list, indicating that businesses find Colorado the most attractive destination out of states with an income tax. Joining the ranks of zero-income-tax states could give Colorado an enormous tailwind . Considering these findings and the potential revenue increase from reducing regulations on oil and gas producers, Ganahl's estimate is conceivable.

Research shows that reducing or eliminating state income tax indeed increases a state's economic growth. ...businesses find Colorado the most attractive destination out of states with an income tax. Joining the ranks of zero-income-tax states could give Colorado an enormous tailwind.

An additional $3 billion in state revenue would allow for another 1.15 percent reduction in the state income tax. Tallying the numbers up to this point in the analysis, this would allow for an income tax rate of 0.64 percent and leave approximately $1.67 billion to cut from the state budget or replace with other revenue.

Reallocating Revenue from Other Funds

Ganahl's plan also calls for a hiring freeze across state government. This would free up money previously allocated to state agencies to hire new staff, known in state budgeting as full-time equivalents or FTEs. Even without a hiring freeze, state agencies can accumulate unspent dollars allocated to their agency for FTEs if positions go unfilled. Determining how much revenue this might produce for reallocation back into the general fund would likely require an internal audit by individual state agencies or by the Colorado Office of the State Auditor. In the 2022 legislative session alone, the legislature authorized 770 new FTEs, according to fiscal notes from enacted legislation. Assuming Colorado's median income of $70,952 for individual earners, these hires will cost the state approximately $55 million.[63]

The Ganahl plan also calls for eliminating state agency slush funds. This analysis assumes that refers to what the state calls "custodial funds." Her plan would move such money into the general fund to replace some income tax revenue. This policy proposal mirrors Amendment 78, a ballot measure that voters rejected in 2021. Under current law, state officials spend these funds without legislative appropriation, and the funds are not subject to the TABOR limit.

Amendment 78 would have served as a blunt instrument, moving all custodial funds under direct legislative control. This approach may have led to its rejection by voters. Custodial funds come from a wide range of sources including federal emergency relief funds and other federal money, legal settlements, transportation funding, and donations to state agencies or other state entities. For example, a legal settlement related to the opioid epidemic generated $400 million in custodial funds.[64] Voters may favor a more surgical approach to addressing these slush funds. As governor, Ganahl

could decide which monies to move under the general fund and which should remain in custodial funds.

The 2021 State Ballot Information Booklet for Amendment 78 failed to indicate how much custodial money exists throughout the state government.[65] The change proposed by Ganahl would put more money under the general fund and thus under direct control by the state legislature, shoring up some of the general fund's lost revenue from the elimination of the income tax. The amount could vary dramatically each year and would be difficult to determine in advance. The analysis therefore cannot determine a concrete estimate for the revenue this part of Ganahl's plan would transfer to the general fund.

For the sake of analysis, a conservative estimate of $100 million from reallocating revenue from vacancy and custodial funds would allow for another 0.04 percent reduction in the income tax rate. Tallying the numbers up to this point in the analysis, this would allow for an income tax rate of 0.6 percent and leave approximately $1.57 billion to cut from the state budget or replace with other revenue.

INDEPENDENCE INSTITUTE'S PATH TO ZERO

Under the plan prescribed by the Independence Institute, the state would not eliminate the income tax immediately. The plan instead suggests a mechanism to reduce the income tax rate automatically but gradually over time when a trigger is met. Under the plan, the income tax rate would go down any time the state experiences a revenue surplus above the revenue limit set by voters with Referendum C.[66] The state constitution requires that any time state revenue exceeds the revenue limit, the state must refund the surplus to taxpayers. Under current law, the legislature decides how to issue that refund. The Independence Institute plan would remove that discretion from the legislature and dictate that all refunds be issued through an income tax rate reduction. Under the plan, that new rate would become the permanent rate for each subsequent tax year until another revenue surplus triggers another rate reduction.

The state constitution requires that any time state revenue exceeds the revenue limit, the state must refund the surplus to taxpayers. Under current law, the legislature decides how to issue that refund. The Independence Institute plan would remove that discretion from the legislature and dictate that all refunds be issued through an income tax rate reduction.

If implemented, the plan would trigger a reduction in the income tax rate only when the state experiences a revenue surplus. After enough years of surpluses triggering rate reductions, the rate would reach zero. The plan would work gradually and never require cuts to state spending or other tax increases to accommodate a rate reduction. It would, however, limit the growth of government.

CONCLUSION

Both the Democrat and Republican 2022 nominees for the office of Colorado governor support eliminating the state income tax. Each has a very different vision of how to get there. Polis's plan depends on replacing all income tax revenue with other revenue, namely a tax on carbon or something else the state might want to discourage. The plan, however, is grossly deficient in specificity and ultimately self-defeating. If it works, it fails—for reasons described in the next subsection. Ganahl has mapped out a plan that combines shrinking the size of government and offsetting lost income tax revenue with revenue from other sources without raising taxes. While ambitious, the numbers

add up , and the plan could work with buy-in from legislators and the public. Her main obstacle to eliminating the income tax is not an inadequate plan but rather politicians and other political interests who want to continue growing state government.

Polis's Plan

Examining the limited information Polis has provided on his plan to eliminate the state income tax, it remains difficult to see how he would accomplish it. He has told the public only that he supports gradually eliminating the income tax over time and replacing it with new taxes so that doing so does not reduce the state budget. To accomplish this revenue-neutral tax reform proposal, he has put forth only two policy proposals: 1) cutting special interest loopholes and deductions and 2) imposing a new state tax on carbon or pollution. The governor's record puts into question the sincerity of the first proposal, as he increased such tax benefits during his first term as governor after promising during the 2018 campaign to reduce them.[67] In terms of the second proposal, it is difficult to see how he could replace $12 billion in income tax revenue with carbon taxes. For example, imposing the entire carbon tax on gas at the pump would require $46 per gallon of gasoline. Unfortunately, Polis has provided no details on his carbon tax proposal. In addition, replacing the income tax with a carbon tax stands in direct conflict with his commitment as governor to reduce emissions. If the state had a $12 billion per year tax on carbon, reducing emissions would reduce state revenue, making the elimination of the income tax no longer revenue neutral. Because the plan relies entirely on a carbon tax, this would make the entire plan unviable.

Rather than outlining serious and thorough policy plans for voters to evaluate, Polis's rhetoric on zero income tax—and carbon taxes—appears only to serve the purpose of courting political audiences. By suggesting an elimination of the state income tax, Polis appeals to voters concerned about job creation and economic growth—particularly voters with right-leaning political views. By suggesting a tax to discourage carbon emissions and pollution, he appeals to voters concerned about climate change and the environment—particularly those on the left politically. He does not, however, provide a practicable plan for accomplish either goal. The actions he has taken as governor put into question the sincerity of his desire to accomplish either policy objective. Polis could ease these concerns by providing Coloradans with more details on how he intends to replace income tax revenue after eliminating the tax—particularly how exactly he hopes to impose a carbon tax .

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Ganahl's Plan

Ganahl's plan lacks some specificity, such as exactly which tax exemptions she would cut, but it provides enough detail for a general feasibility analysis. Over two terms as governor, the 10 percent annual reduction in state spending she proposes would more than compensate for a loss of nearly $12 billion in income tax revenue. The specific ideas she lists in the income tax elimination plan on her campaign website, however, would only bring the income tax rate down to about 0.6 percent, leaving about $1.57 billion she would still need to cut from the state budget or replace with other revenue. This does not mean the plan fails to achieve zero income tax, as the 10 percent annual cuts to government would suffice. It means the specific policy measures she proposes fall short of identifying where she would find the remaining cuts or revenue. The blue shading in figures 4 and 5 shows income tax revenue offsets and rate reductions

possible under the specific policy proposals outlined in Ganahl's plan. The red shading at the top of the bar shows the amount she would still need to cut or offset as part of her pledge to shrink government after implementing her specific stated policy reforms. Her specific policy proposals could get her about 87% of the way there.

Figure 4: Possible Income Tax Revenue Offsets from Ganahl Policy Proposals

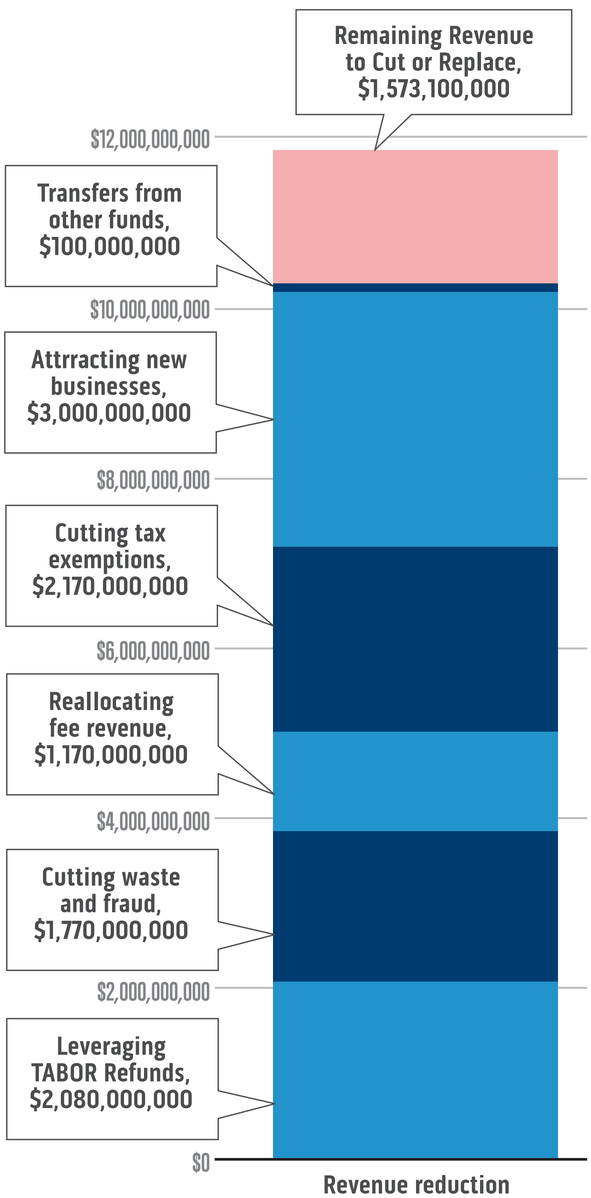
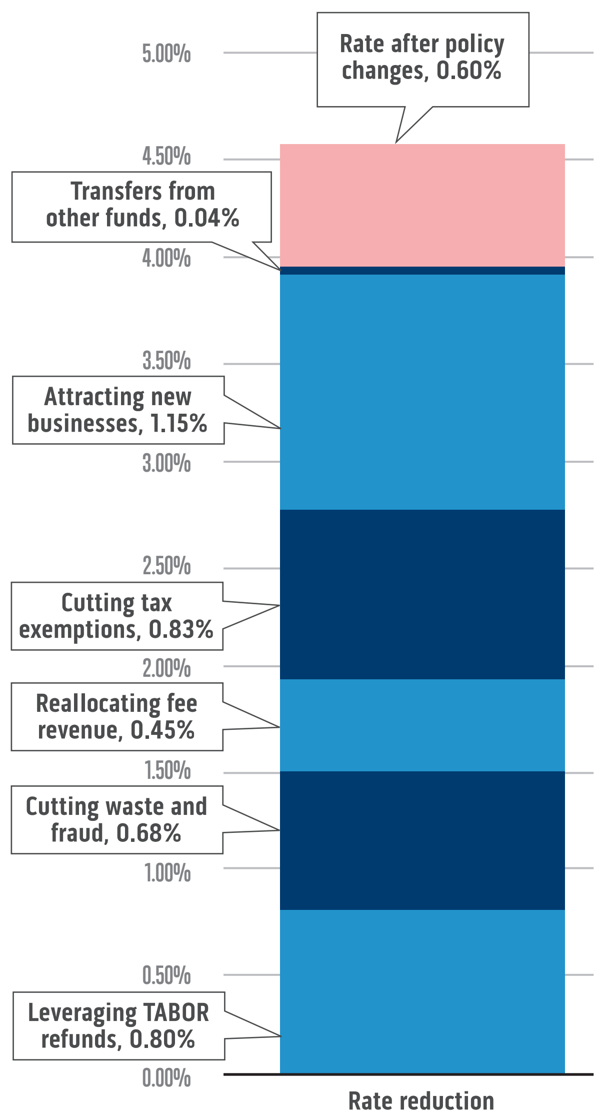


Figure 5: Possible Income Tax Rate Reductions after Ganahl Policy Proposals



In addition, Ganahl proposes cutting the state gas tax in half. Based on Colorado Department of Revenue Data, the state generated $488.77 million in gasoline tax revenue in 2021.[68] Because this revenue is subject to TABOR, this would also require replacing approximately $244.37 million in revenue or reducing that much more spending.

Her rhetoric on the campaign trail suggests where she might find the additional $1.82 billion dollars necessary to eliminate the income tax. At the Colorado Concern forum in September, Ganahl said, "How about we reduce the size of government by 10 percent a year?", a reference to the same proposal on her campaign website. She immediately followed that rhetorical question, saying, "Governor Polis has grown the size of government by over 20 percent since he got into office."[69] The last state budget before Polis took office totaled $28.77 billion, not including reappropriated funds. The current state budget totals $35.38 billion—a 23% increase. This statement suggests that additional cuts to get to zero income tax could come from new spending created by Polis over the last four years. In the 2022 legislative session alone, Governor Polis signed over 250 bills into law that increased state spending and created 770 new FTEs. Identifying exactly which new spending to cut will take time and staff; it will require the kind of resources governors have at their disposal, not gubernatorial candidates.

Even with the gas tax cut, the concrete steps proposed in Ganahl's plan put her within about $1.82 billion dollars of eliminating the state income tax—well within striking distance. The assumptions made in this analysis, however, do not necessarily reflect all the actions Ganahl would take. For example, the numbers in this analysis reflect the assumption that she would eliminate all tax exemptions; however, she did not specify which ones she would cut. It also depends on voters approving the transfer of previously unapproved fees into the general fund; they could say "no." Nonetheless, if elected governor, holding that office will put at her disposal the staff and resources necessary to identify additional cuts or revenue to achieve zero income tax. While variables remain, Ganahl has outlined a feasible plan, which—as with any governor's agenda—depends in large part on whether she can gain the support of the legislature and the public .

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Comparing Plans with Independence Institute's Recommendations

Undoubtedly, eliminating the state income tax comes with challenges. The Independence Institute recommends taking on these challenges by reducing income tax rates only in years when the state experiences a surplus. That will ensure that a rate cut does not blindside state budgeters by require last-minute cuts to the state budget. In addition, the politics of eliminating the income tax could make political buy-in from the legislature difficult. Legislators hold the power of the purse. Reducing state revenue reduces the power politicians have over Coloradans' money and increases the power individual Coloradans have over their own money. Consequently, eliminating the income tax via legislation requires politicians voting to give up some of their own power to empower the people of Colorado—an understandably difficult ask for politicians of any political party. To avoid this conflict of interest, Independence Institute recommends employing the democratic process by asking voters if they want to put the state on a path to zero income tax. If they approve, a mechanism would

automatically reduce the income tax rate each time the state receives more revenue than what Colorado's constitution allows it to retain.

Polis and Ganahl have expressed agreement with Independence Institute's position that Colorado should eliminate its income tax and that it should do so gradually over time. Apart from those agreements, Polis diverges sharply form the institute's policy recommendations. Ganahl has proposed a more ambition and aggressive plan than that put forth by the institute, but it incorporates some of the same elements. For example, like Independence Institute, she recommends issuing TABOR refunds through an income tax rate reduction and making the new rate permanent. Ultimately, Polis's plan falls short of accomplishing the zero income tax goal while Ganahl's plan maps out a more thoroughly fleshed out and workable, though still challenging, path to zero.

Polis and Ganahl have expressed agreement with Independence Institute's position that Colorado should eliminate its income tax and that it should do so gradually over time. ...Ultimately, Polis's plan falls short of accomplishing the zero income tax goal while Ganahl's plan maps out a more thoroughly fleshed out and workable, though still challenging, path to zero.

ENDNOTES

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