

## PROPOSITION 116: A CUT TO COLORADO'S STATE INCOME TAX RATE

SEPTEMBER 2020

This November, voters in Colorado will have the opportunity to vote on Proposition 116, a state income tax reduction, which would decrease Colorado's income tax rate from 4.63% to 4.55%. **If passed, individuals and businesses would save \$8 for every \$10,000 of taxable income.** The static fiscal note estimates the total reduction in the tax burden to be \$158,400,000 in FY2021 and \$169,800,000 in FY2022.

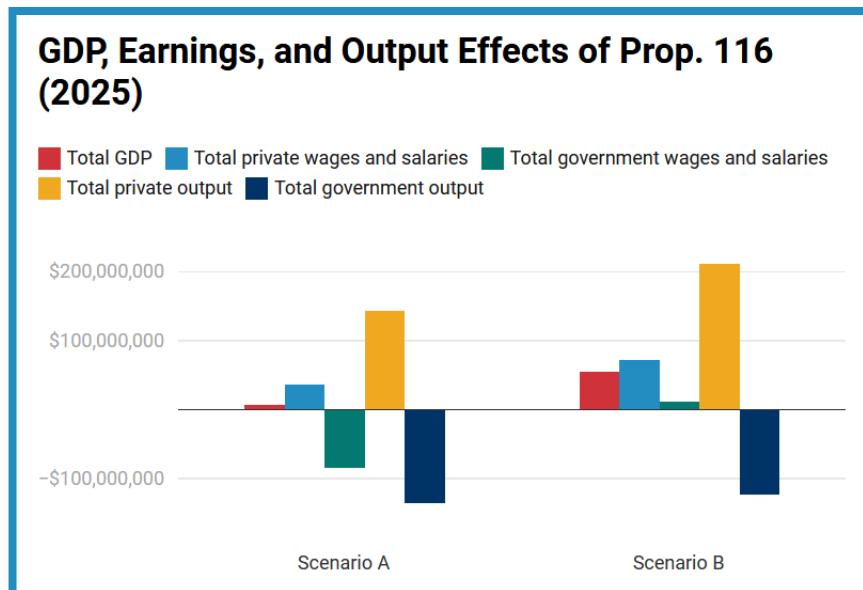
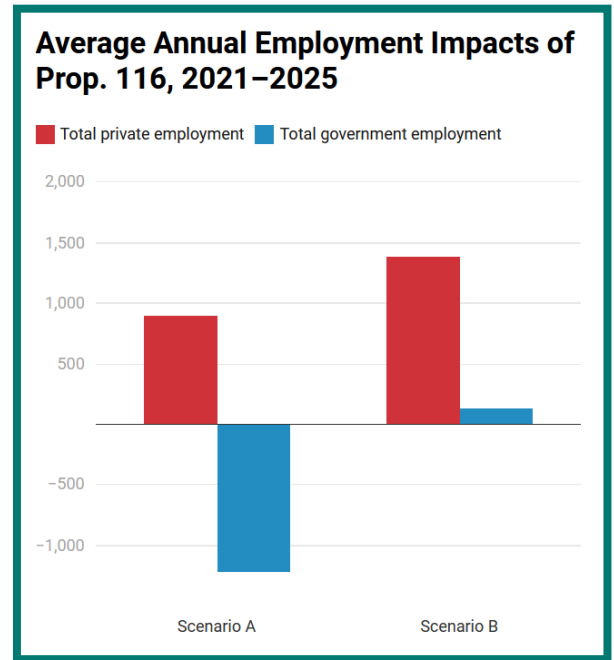
### Dynamic Economic and Fiscal Impacts

To estimate a range of dynamic economic and fiscal impacts of Prop. 116, two scenarios were developed using the REMI Tax-PI model.

In **Scenario A, the Colorado government cuts its employment to account for the reduction in its revenue;** in **Scenario B, the state government does not cut any direct jobs and instead reduces spending elsewhere.**

Though the private sector experiences positive growth under both scenarios, the modeling demonstrates that the true impact of the tax cut will depend upon the extent to which the state government manages a tighter budget by cutting jobs.

**The two scenarios suggest that, over the first five years, the private sector will on average add between 896 and 1,384 jobs.** Over the same span, public sector employment will on average be lower by up to 1,216 or grow by up to 132. The net impact is a reduction in employment against the baseline of up to 324 or an increase of up to 1,514.



Similar results can be seen across wages and output. **The 5-year net impact upon GDP is between \$8.1m and \$55.5m above the baseline.**

Prior to accounting for spending cuts, the growth of the private sector offsets the static state revenue losses by an average of 5%.

**Generally, passage of Prop. 116 will ease some of the hardship the recession has caused the private sector and magnify some of the strain it's caused the public sector.**