

Business Bears Brunt to Pay for Polis Tax Plan

Governor Jared Polis continues to unveil details of his campaign pledges. This week, income tax cuts. Early details, however, leave business bearing the burden of the floated tax cuts. Meanwhile, legislative Democrats are pushing back against Polis' across-the-board income tax reduction arguing for targeted tax credits that directly benefit the middle class and poor, setting the stage for a worse-case scenario for business.

Although details are yet to be fully disclosed, the Polis tax plan proposes to provide a 3 -5%, or \$450 million, permanent cut to the state income tax rate to lower the tax bill of most Colorado households. Colorado businesses – particularly sole proprietorships, retailers, partnerships, and S-Corporations – would pay for the tax plan.

The Trump federal tax plan that included a tax cut — a **20% federal tax deduction - for “pass through” businesses whose income is taxed through their owners’ individual income tax returns is the first target of Governor Polis’ tax plan** that includes eliminating a series of corporate tax breaks and incentives.

The vendor fee – a 3.33% hold back by retailers for administering the state sales tax – would also be capped under the Polis tax plan. **A number of other, yet to be determined corporate tax breaks and incentives will be eliminated to achieve Polis’ across the board state income tax reduction goal.**

Democrat leaders in the legislature criticized the Polis plan to provide tax relief across the board for all income levels. Colorado employs a flat 4.63 percent income tax rate across income levels. Chair of the Joint Budget Committee, Dominick Moreno, D-Commerce City, noted his preference to see a middle-class tax cut through targeted tax cuts. According to the Colorado Sun, Moreno believes a cut to the flat rate “would inherently benefit the wealthy more than the middle class or poor, because they make more money and pay more taxes.”

Business owners could be the losers in the emerging debate on how to provide tax relief to Coloradoans. **The current political climate could result in business tax breaks being eliminated coupled with a dramatic shift from Colorado’s long established constitutionally mandated flat tax rates to de facto marginal tax rates through tax credits to select income classes.** A concept to impose marginal tax rates for the benefit of education funding was rejected by voters in fall of 2018.