COLORADO FISCAL
POLICY INSTITUTE

Prepared Testimony in support of H.B. 1199 for House Finance Committee

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Mr. Chairman, members of the House Finance Committee:

My name is Ali Mickelson, and I am the Tax Policy Analyst at the Colorado Fiscal Policy Institute.

The Fiscal Policy Institute is a nonprofit, nonpartisan project of the Colorado Center on Law and Policy. We promote justice and economic security for *all* Coloradans, and are leading an effort to help resolve some of Colorado's biggest fiscal challenges. As both a resource and catalyst, the Institute works for changes in public policy through timely, credible and accessible fiscal policy analysis, education, advocacy and coalition building.

I am here today to testify in support of House Bill 1199 – the TEMPORARY LIMIT ON THE STATE INCOME TAX DEDUCTION FOR A NET OPERATING LOSS.

Colorado is currently facing a debilitating fiscal crisis, largely as a result of a rising budget deficit. This crisis has resulted in cuts in many of the public services Coloradans depend on. However, Colorado cannot cut its way back into prosperity and in these difficult economic times, we must all do everything we can to preserve state revenues and provide the maximum amount of flexibility for state legislators to prioritize needs and allocate funds. The Colorado Fiscal Policy Institute strongly supports striking a better balance between making cuts in core services and closing corporate tax loopholes.

Every year Colorado loses $2 billion in tax revenues to corporate tax loopholes. This year, when every one is being forced to tighten their belts, it is imperative that corporations share the sacrifice. By asking corporations to assist in balancing the budget by temporarily delaying a corporate tax deduction, Colorado can raise between $22 and $45 million dollars to offset the cuts being made in programs like education, health care and transportation.

Other states, such as New Hampshire and Pennsylvania, have already permanently capped the net operating loss deduction. HB 1199 only creates a temporary, three year cap. Additionally, the corporation will be permitted to make up for the temporary cap by carrying-forward any forfeited deduction for up to three additional years once the cap expires. However, when child falls behind his peers three years in a row, he will never, ever be able to make it up. This is why we must seek a better balance.

Despite claims of the contrary, HB 1199 does not have a direct relation to job creation or business expansion within the state. Since Colorado has elected to become a single-sales factor apportionment state, the net operating loss deduction claimed in Colorado only reflects the percentage of sales in-state – not the number of employees or facilities. We believe that in these times, a small business starting today will rely on the public's investment in business such as an educated workforce, a judicial system that enforces their business contracts, and public infrastructure to obtain inputs and move products to market than they will more so than they will rely on taking a net operating loss deduction over more than $250,000 against a large profit.

We ask for your support on H.B. 1199 because it is time that we strike a better balance between making cuts and closing corporate tax loopholes. This bill promotes and furthers that balance.

Thank you Mr. Chairman.

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