Colorado Legislative Council Staff

HB17-1002

FISCAL NOTE

FISCAL IMPACT: ☒ State ☐ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 17-0167	**Date:**	January 24, 2017
Prime Sponsor(s):	Rep. Pettersen; Exum Sen. Kefalas	**Bill Status:**	House Finance
		Fiscal Analyst:	Kate Watkins (303-866-3446)

BILL TOPIC: CHILD CARE EXPENSES INCOME TAX CREDIT EXTENSION

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020
State Revenue	**($2.9 million)**	**($6.1 million)**	**($6.4 million)**	**($3.4 million)**
General Fund	(2.9 million)	(6.1 million)	(6.4 million)	(3.4 million)
State Expenditure				
TABOR Impact		($6.1 million)	($6.4 million)	
Appropriation Required: None.				
Future Year Impacts: None.				

Summary of Legislation

This bill extends the existing tax credit for child care expenses made by low-income taxpayers for tax years 2017, 2018, and 2019. The tax credit is limited to qualifying taxpayers with a federal adjusted gross income of less than $25,000. The credit is equal to 25 percent of the taxpayer's child care expenses and is capped at a maximum amount of $500 for a single dependent or $1,000 for two or more dependents. Dependents must be under age 13. The tax credit is refundable, meaning the amount of the credit that exceeds the taxpayer's income tax liability must be refunded to the taxpayer.

Background

Two child care expense tax credits are allowed in Colorado. The first was enacted by House Bill 96-1121 and is based on the federal child and dependent care tax credit, which is a nonrefundable federal tax credit, meaning it is limited to a taxpayers income tax liability. A Colorado taxpayer may claim a refundable state income tax credit for expenses incurred in the care of children under age 13. On Colorado state tax returns, Colorado taxpayers may claim a percentage of the child care credit claimed on their federal tax returns. As shown in Table 1, the percentage varies based on the taxpayer's federal adjusted gross income.

Table 1 . Colorado Child Care Tax Credit	
If the taxpayers's adjusted gross income is:	**The Colorado Child Care Credit will be:**
$25,000 or less	50 percent of the federal child care credit
From $25,001 to $35,000	30 percent of the federal child care credit
From $35,001 to $60,000	10 percent of the federal child care credit
$60,001 or more	No Colorado child care credit is allowed

House Bill 14-1072 created an additional refundable child care expense tax credit for Colorado taxpayers who have a federal adjusted gross income of $25,000 or less with insufficient federal tax liability to claim the existing state child care expense credit. Under current law this low-income child care expense tax credit is only available for tax years 2014, 2015, and 2016. House Bill 17-1002 extends the availability of this low income child care expense tax credit through tax year 2019.

State Revenue

This bill will reduce General Fund revenue by $2.9 million in FY 2016-17 (half-year impact), $6.1 million in FY 2017-18, $6.4 million in FY 2018-19, and $3.4 million in FY 2019-20 (half-year impact).

Data and assumptions. In fiscal year 2015-16, 34,337 taxpayers claimed an average tax credit of $158, reducing General Fund revenue by $5.4 million. Revenue estimates assume that the average tax credit will grow by the historical ten-year compound average annual growth rate in the price of child care and nursery school, as measured by the U.S. Bureau of Labor Statistics. After growing 4.2 percent in fiscal year 2016-17, the population of taxpayers qualifying for the credit is assumed to grow by the Colorado State Demography Office projections of the number of households in Colorado with children. Table 2 summarizes revenue and taxpayer impact projections based on these assumptions.

Table 2. Estimated Revenue and Taxpayer Impact of HB17-1002				
	FY 2016-17	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**
General Fund Revenue Impact	$2.9 million*	$6.1 million	$6.4 million	$3.4 million*
Taxpayers Claiming the Credit	35,779	36,315	36,921	37,524
Average Tax Credit per Taxpayer	$163	$168	$174	$180

**Half-year impact.*

TABOR Impact

This bill reduces state revenue from the General Fund, which will reduce the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. This bill will reduce the TABOR refund obligation by $6.1 million in FY 2017-18 and by $6.4 million in FY 2018-19, reducing the Six-Tier Sales Tax refund by equal amounts. Since the bill reduces both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget in FY 2017-18 and FY 2018-19. The bill will reduce money available for the General Fund budget in years when the state does not collect money above the TABOR limit.

Effective Date

The bill takes effect August 9, 2017, if the General Assembly adjourns on May 10, 2017, as scheduled, and no referendum petition is filed. The bill includes a repeal date of January 1, 2021.

State and Local Government Contacts

Information Technology | Revenue | Personnel and Administration