HB 24-1249

Legislative Council Staff
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Revised Fiscal Note

(replaces fiscal note dated February 29, 2024)

Drafting Number:	LLS 24-0697	**Date:**	April 25, 2024
Prime Sponsors:	Rep. Winter T.; Martinez Sen. Pelton R.; Roberts	**Bill Status:**	House Second Reading
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Bill Topic: **TAX CREDIT AGRICULTURAL STEWARDSHIP PRACTICES**

Summary of Fiscal Impact:

☒ State Revenue ☐ State Transfer ☐ Local Government
☒ State Expenditure ☒ TABOR Refund ☐ Statutory Public Entity

The bill creates a new refundable tax credit from 2026 through 2030 for farms and ranches engaging in agricultural stewardship practices. It increases state expenditures beginning in FY 2024-25 and decreases state revenue beginning in FY 2025-26.

Appropriation Summary: For FY 2024-25, the bill requires and includes an appropriation of $17,117 to the Department of Agriculture.

Fiscal Note Status: The fiscal note reflects the introduced bill, as amended by the House Finance Committee and the House Appropriations Committee.

Table 1
State Fiscal Impacts Under HB 24-1249

		Budget Year FY 2024-25	Out Year FY 2025-26	Out Year FY 2026-27
Revenue	General Fund	-	($1,500,000)	($3,000,000)
	Total Revenue	-	**($1,500,000)**	**($3,000,000)**
Expenditures	General Fund	$17,117	$199,583	$258,613
	Centrally Appropriated	$3,492	$46,380	$52,634
	Total Expenditures	**$20,609**	**$245,962**	**$311,247**
	Total FTE	**0.1 FTE**	**1.7 FTE**	**2.0 FTE**
Transfers		-	-	-
Other Budget	General Fund Reserve	$2,568	$29,937	$38,792
	TABOR Refunds	-	($1,500,000)	not estimated

Summary of Legislation

The bill creates a refundable state income tax credit for active qualified stewardship practices on a farm or ranch to be claimed for income tax years 2026 through 2030.

Qualified stewardship practices are to be defined by the Colorado Department of Agriculture (CDA) and may include but are not limited to:

- rotational grazing and/or rotational crops;
- reduced or no till soil;
- cover cropping;
- interseeding;
- compost application; and
- any other practice that increases soil health, improves water efficiency, or creates more diverse and beneficial ecosystems while maintaining the productivity of the farm or ranch.

There are three tiers of the tax credit, based on the number of stewardship practices that the farm or ranch engages in. Through rulemaking, the CDA shall determine the amount of credit that each qualified stewardship is worth. The tiers are outlined in Table 2 below.

Table 2
Tiers for Agricultural Stewardship Practices Tax Credit

Number of Stewardship Practices	Tax Credit per Acre	Maximum Yearly Credit per Farm/Ranch
1	up to $75	$150,000
2	up to $100	$200,000
3+	up to $150	$300,000

The aggregate amount of tax credits issued in one calendar year cannot exceed $3 million. After certificates have been issued for credits that exceed an aggregate of $3 million in a calendar year, any claims that exceed the amount allowed are placed on a waitlist and a certificate is issued for use of the credit in the next income tax year. No more than $2 million in claims may be placed on the waitlist in any given calendar year.

To claim the tax credit, a taxpayer must apply to the CDA for a tax credit certificate. The CDA is required to determine whether the taxpayer is actively practicing the qualified stewardship practice and verify the amount of the tax credit to be certified. A taxpayer may only be issued one tax credit per calendar year and may only receive the tax credit for up to three income tax years. No credit may be earned if the taxpayer has received another tax credit, tax deduction, or grant related to agricultural land health from any source during the income tax year that the tax credit is sought.

State Revenue and Assumptions

The bill will reduce General Fund revenue by $1.5 million in FY 2025-26, a half-year impact for tax year 2026 on an accrual accounting basis, and $3 million per fiscal year beginning in FY 2026-27. The bill reduces revenue by a similar amount until a final half-year impact occurs in FY 2030-31. The bill reduces income tax revenue, which is subject to TABOR.

It is assumed that the definition of qualified stewardship practices will allow for the entirety of the maximum $3 million per year to be issued in tax credit certificates. It is possible that the credit amounts placed on the waitlist will exceed $2 million per year, in which case taxpayers at the end of the waitlist may not be able to receive the tax credit. It is assumed that up to 90 farms or ranches per year will be awarded the tax credit, though it is possible that significantly more will submit an application.

State Expenditures

The bill increases state expenditures by about $17,000 in FY 2024-25, $250,000 in FY 2025-26, $310,000 in FY 2026-27, and $265,000 in FY 2027-28 through FY 2030-31. Expenditures are summarized in Table 3 and explained below.

Table 3
Expenditures Under HB 24-1249

	FY 2024-25	FY 2025-26	FY 2026-27
Department of Agriculture			
Personal Services	$10,319	$143,104	$169,712
Operating Expenses	$128	$2,048	$2,560
Capital Outlay Costs	$6,670	$6,670	-
Legal Services	-	$15,362	-
Lodging and Transportation	-	$32,398	$32,398
Centrally Appropriated Costs[1]	$3,492	$46,380	$52,634
FTE – Personal Services	0.1 FTE	1.6 FTE	2.0 FTE
FTE – Legal Services	-	0.1 FTE	-
CDA Total	**$20,609**	**$245,962**	**$257,305**
Department of Revenue			
GenTax Programming and Testing	-	-	$43,948
Office of Research and Analysis	-	-	$7,392
Document Management (paid to DPA)	-	-	$2,602
DOR Total	**-**	**-**	**$53,942**
Total Cost	**$20,609**	**$245,962**	**$311,247**
Total FTE	**0.1 FTE**	**1.7 FTE**	**2.0 FTE**

[1] *Centrally appropriated costs are not included in the bill's appropriation.*

Department of Agriculture (CDA). Beginning in FY 2024-25, CDA will require additional personnel, lodging, and legal resources to implement the tax credit. Legal expenditures are one-time impacts in FY 2025-26; personnel and lodging resources are ongoing costs.

- **Program management.** CDA requires 1.0 FTE program manager beginning in June 2025 to implement the program. The program manager is responsible for application and program development; maintaining reports to meet DOR's and the State Auditor's reporting requirements; issuing tax credit certificates; developing and maintaining oversight of the waitlist; and supervising inspectors. It is estimated that up to 90 taxpayers per year will be awarded the tax credit. To the extent that applications are submitted beyond expectations, CDA may require more program management resources in the future.

- **Inspector**. CDA requires 1.0 FTE inspector to conduct annual stewardship inspections, including on-site visits to assess the implementation and maintenance of stewardship practices and document findings. In order to verify that a farm is actively practicing stewardship practices for the entirety of the tax year, CDA requires inspectors to visit the farm or ranch both at the beginning and end of the growing season. It is estimated that up to 90 taxpayers will be awarded the tax credit per year, though many more may apply and CDA will need to inspect applicants' farms to verify active stewardship practices. The inspectors will begin in January 2026 as the need for inspections ramp up.

- **Lodging and Transportation.** The fiscal note assumes a total of 5 nights of lodging and 15 days of per diem per year to conduct inspections in remote areas. While the applicant must provide information in the application for CDA to make a determination of certificate for tax credit, in-person inspections are needed to verify that an applicant is actively practicing qualified stewardship practices on the relevant number of acres. Travel costs to conduct inspections additionally include fleet costs for transportation totaling $26,738 per year.

- **Legal services.** It is estimated that 120 hours of legal services will be needed for rulemaking in FY 2025-26. Ongoing legal costs will be less than 100 hours and are considered absorbable.

Department of Revenue (DOR). Beginning in FY 2026-27 when the credit becomes available on returns for tax year 2026, DOR will require resources for GenTax programming and development, paper form changes, and reporting done by the Office of Research and Analysis (ORA) within DOR. Programming and form changes are one-time expenditures in FY 2026-27, while ORA expenditures are ongoing.

- **GenTax Programming and Testing.** For FY 2026-27, the bill will require changes to DOR's GenTax software system. This includes $23,175 in GenTax programming costs, $14,245 in development and testing in support of the GenTax programming, and $6,528 in business and user acceptance testing following the GenTax programming.

- **Office of Research and Analysis.** The Office of Research and Analysis within the Department of Revenue will perform 231 hours of work at a rate of $32 per hour in FY 2026-27, and 229 hours of work in future years, to update database fields and conduct ongoing reporting.

- **Document management.** For FY 2026-27, DOR will incur $2,602 in document management costs. This includes adding two additional lines to five tax return forms and the tax exempt tax return form. These expenditures will occur in the Department of Personnel and Administration (DPA) using reappropriated DOR funds. The population workload impact is expected to be minimal and absorbable.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are shown in Table 2.

Other Budget Impacts

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing the amount of General Fund available for other purposes.

TABOR refunds. For FY 2025-26, the bill decreases the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. A forecast of state revenue subject to TABOR is not available beyond FY 2025-26. TABOR refunds are paid from the General Fund; therefore, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2024-25, the bill requires and includes a General Fund appropriation of $17,117 to the Department of Agriculture, and 0.1 FTE.

State and Local Government Contacts

Agriculture	Information Technology	Personnel
Revenue	State Auditor	