HB 18-1060

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REVISED FISCAL NOTE

(replaces fiscal note dated April 3, 2018)

Drafting Number: LLS 18-0631
Prime Sponsors: Rep. Danielson; Landgraf
Sen. Crowder; Williams A.

Date: May 4, 2018
Bill Status: House Second Reading
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Bill Topic: INCOME TAX DEDUCTION FOR MILITARY RETIREMENT BENEFITS

Summary of Fiscal Impact:

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

This bill allows an income tax deduction for military retirement benefits received by individuals under age 55. The deduction is available for tax years 2019 through 2022, resulting in General Fund reductions from FY 2018-19 to FY 2022-23. This bill will result in one-time expenditures of $35,000 in FY 2019-20.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: This revised fiscal note reflects the introduced bill, as amended by the House Finance and Appropriations Committees.

Table 1
State Fiscal Impacts Under HB 18-1060

		FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Revenue	General Fund	($1.3 million)	($3.0 million)	($3.4 million)	($3.4 million)	($1.7 million)
Expenditures	General Fund	-	$35,038	-	-	-
TABOR Refund		($1.3 million)	($3.0 million)	Not estimated	Not estimated	Not estimated

Summary of Legislation

This bill allows a state income tax deduction for military retirement benefits received by qualified individuals under age 55. A qualified individual must have military retirement benefits less than or equal to $40,000 at the close of each tax year in order to qualify for the deduction. The deduction is available for tax years 2019 through 2022 and is capped at $10,000 per tax year. The deduction is phased-in over three years, as summarized in Table 2 by tax year.

Table 2
Military Retirement Income Tax Deduction under HB 18-1060

Tax Year	2019	2020	2021 to 2022
Deduction Amount	25% of the individual's military retirement income	50% of the individual's military retirement income up to $10,000	100% of the individual's military retirement income up to $10,000

The bill requires the Department of Revenue to include in their annual report to the finance committees of the General Assembly an estimate of the number of taxpayers who claimed the deduction under this bill and the number of first-time filers in the state.

Background

Under current law, qualifying taxpayers aged 55 to 64 may deduct up to $20,000 in retirement income from their taxable income each year and qualifying taxpayers aged 65 and older may deduct up to $24,000 each year. The deduction is allowable for both military and non-military sources of retirement income, including but not limited to Social Security income, pensions, and 401(k) retirement plan distributions.

State Revenue

This bill is estimated to reduce General Fund revenue by $1.3 million in FY 2018-19 (half-year impact), $3.0 million in FY 2019-20, $3.4 million in both FY 2020-21 and FY 2021-22, and $1.7 million (half-year impact) in FY 2022-23, the final fiscal year the deduction is available.

Assumptions. Based on data from the Department of Defense's Office of the Actuary, the number of retirees in Colorado under the age of 55 receiving non-disabled military benefits was approximately 11,000 in 2017. On average, these retirees received an annual benefit payment of $27,000.

In tax year 2019, the amount of the income tax deduction will vary based on the military member's retirement benefits, but will not exceed $10,000. The fiscal note assumes the average taxpayer savings will be $305. By tax years 2020 and 2021, the fiscal note assumes the majority of qualified individuals will have sufficient military retirement benefits to reach the $10,000 cap, generating the full $463 in annual taxpayer savings ($10,000 X 4.63%). In addition, this fiscal note assumes that the majority of these taxpayers will have a Colorado income tax liability large enough to claim the full savings allowed under this bill because many military retirees under age 55 pursue a second career thus increasing their total taxable income. On average, taxpayers with a total adjusted gross income between $35,000 to $50,000 had a state income tax liability of $992 in 2013, the year for which the latest data are available. This average tax liability and that of higher income taxpayers exceeds the maximum savings under the bill. To the extent that qualifying taxpayers do not have an income tax liability large enough to experience the full savings from this bill or do not reach the $10,000 cap, state revenue reductions estimated in this fiscal note will be lower. Finally, the fiscal note assumes 25 percent of military retirees will exceed the $40,000 annual cap and will not qualify for the income tax deduction.

To the extent that this bill induces nonresidents who receive military retirement benefits to move to Colorado who otherwise would not have moved, or induces current residents receiving such benefits to remain in Colorado who otherwise would have moved, the state and local governments may receive additional revenue through taxes and fees that may partially offset the revenue impact of this bill.

TABOR Refund

This bill reduces state revenue from the General Fund, which will reduce the amount of money required to be refunded under TABOR for FY 2018-19 and FY 2019-20. Since the bill reduces 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. However, the bill will reduce money for the General Fund budget in the future during years when the state does not collect revenue above the TABOR limit. State revenue subject to TABOR is not estimated for years beyond FY 2019-20.

State Expenditures

This bill will increase General Fund expenditures for the Department of Revenue by $35,038 in FY 2019-20 only. Costs include programming, testing, and form change costs, as summarized in Table 3.

Table 3
Expenditures Under HB 18-1060

Cost Components	FY 2018-19	FY 2019-20
Department of Revenue	-	-
GenTax Programming	-	$30,000
GenTax Testing	-	$3,838
Form Change Costs	-	$1,200
Total	**-**	**$35,038**

Department of Revenue. This bill requires changes to the Department of Revenue's GenTax software system, which is programmed by a contractor at a rate of $250 per hour. These changes are expected to increase General Fund expenditures by $30,000, representing 120 hours of programming. All GenTax programming changes are tested by department staff, requiring expenditures for contract personnel totaling $3,838, representing 160 hours of testing at a rate of $24 per hour. Individual income tax form updates and programming changes typically begin in the last quarter of the first year the tax deduction is available. Retirement income is reported on federal income tax returns, requiring minimal verification workload demands that can be accommodated within existing appropriations.

Department of Personnel and Administration. This bill requires programming and reconfiguring of the document imaging system to insert an additional line to capture the deduction value on individual income tax form 104CR. This will require one-time programming costs of $1,200 in FY 2019-20 which will be reappropriated from the Department of Revenue to the Department of Personnel and Administration.

Effective Date

The bill takes effect August 8, 2018, if the General Assembly adjourns on May 9, 2018, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Information Technology   Military Affairs   Revenue