SB 19-060

Legislative Council Staff

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FINAL FISCAL NOTE

Drafting Number: LLS 19-0552
Prime Sponsors: Sen. Hill

Date: May 9, 2019
Bill Status: Postponed Indefinitely
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Bill Topic: EDUCATOR SUPPLIES TAX CREDIT

Summary of Fiscal Impact:

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

For tax years 2019 through 2023, this bill would have created a state income tax credit of up to $500 for eligible educators that incur certain out-of-pocket expenses. The bill would have increased state expenditures and reduced state revenue in FY 2018-19 through FY 2023-24.

Appropriation Summary: For FY 2019-20, the bill would have required a General Fund appropriation of $970,202 and 17.3 FTE to the Department of Revenue.

Fiscal Note Status: This fiscal note reflects the introduced bill. This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

Table 1
State Fiscal Impacts Under SB 19-060

		FY 2018-19 *(current year)*	FY 2019-20	FY 2020-21
Revenue	General Fund	($10.9 million)	($22.0 million)	($22.2 million)
	Total	**($10.9 million)**	**($22.0 million)**	**($22.2 million)**
Expenditures	General Fund	-	$970,202	$839,809
	Centrally Appropriated	-	$458,715	$439,692
	Total	-	$1,428,917	$1,279,501
	Total FTE	-	17.3 FTE	16.6 FTE
Transfers		-	-	-
TABOR Refund	General Fund	($10.9 million)	($22.0 million)	not estimated

Summary of Legislation

For tax years 2019 through 2023, the bill creates a state income tax credit of up to $500 for eligible educators that incur certain out-of-pocket expenses for educating kindergarten through twelfth grade students in Colorado.

The credit amount is equal to the educator's qualifying expenses in excess of $250 but not exceeding $750. The bill ties the definition of an eligible educator and qualified expenses to the federal educator expense deduction. The tax credit is refundable, meaning if the amount exceeds the taxpayer's state income tax liability, the balance is refunded to the taxpayer.

State Revenue

The bill is expected to decrease General Fund revenue by $10.9 million in the current FY 2018-19 (half-year impact). Full-year revenue reductions of up to $22.6 million will continue each year through FY 2022-23, with a half-year impact of $11.4 million in FY 2023-24, when the credit is repealed. The bill reduces individual income tax revenue, which is subject to TABOR.

Assumptions. In FY 2017-18, there were approximately 64,000 instructional support staff, principals, and teachers in Colorado's public schools. In 2016, about 59,540 Colorado taxpayers claimed the federal educator expense deduction, at an average of $249.33 per taxpayer. The maximum federal tax deduction a qualified educator may claim is $250 each year.

The fiscal note assumes the taxpayer population eligible for this credit will grow by 1 percent each year from 2016 until tax year 2023. Data from the Bureau of Labor Statistics estimates the number of teachers will increase on average by 1 percent each year until 2026. Beginning in tax year 2019, the first tax year the credit is available under the bill, the fiscal note assumes 95 percent (58,277) of qualified taxpayers will spend more than $250 on educator expenses. Of these, half will spend up to $500 in qualified expenses, generating a refundable tax credit of $250 per taxpayer. The remaining taxpayers will expend at least $750, qualifying for a $500 refundable credit. Data from the U.S. Department of Education shows, on average, teachers spent about $479 of their own money on classroom supplies without reimbursement in 2015.

If the refundable income tax credit creates an incentive for more qualified taxpayers to purchase classroom supplies or if a larger number of taxpayers spend more than the $250 assumed under this fiscal note, the revenue impact of the bill will be higher than estimated.

State Expenditures

The bill will increase General Fund expenditures by $1.4 million and 17.3 FTE in FY 2019-20 and by $1.3 million and 16.6 FTE in FY 2020-21 through FY 2023-24. The income tax credit is not available after tax year 2024. Expenditures are summarized in Table 2 and detailed below.

Table 2
Expenditures Under SB 19-060

	FY 2018-19	FY 2019-20	FY 2020-21
Department of Revenue			
Personal Services	-	$862,735	$822,759
Operating and Capital Outlay	-	$98,477	$15,770
Computer Programming	-	$6,590	$1,280
Document Management	-	$2,400	-
Centrally Appropriated Costs*	-	$458,715	$439,692
FTE – Personal Services	-	17.3 FTE	16.6 FTE
Total Cost	**-**	**$1,428,917**	**$1,279,501**
Total FTE	**-**	**17.3 FTE**	**16.6 FTE**

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

Tax administration. The Department of Revenue will require resources to process income tax credits claimed under the bill. Expenditures assume that 100 percent of claimed credits will be reviewed, consistent with current department policy. In general, refundable income tax credits have a higher rate of fraud and require additional documentation and review. All expenditures for FY 2020-21 are for ongoing tax credit administration and continue through FY 2023-24. The majority of the expenditure increase is attributable to staffing in the Taxpayer Service Division to review tax credits claimed, identify and address taxpayer errors, and manage call and correspondence volume associated with the new tax credit. For FY 2019-20, estimated personnel costs assume a January 1, 2020, start date to administer tax credits claimed on 2019 tax forms.

Computer programing. This bill requires changes to the department's GenTax software system. Changes are programmed by a contractor at a rate of $250 per hour. The changes will increase General Fund expenditures by $2,750, representing 11 hours of programming. All GenTax programming changes are tested by the department. Testing will require contract personnel totaling $3,840, representing 160 hours at a rate of $24 per hour.

For FY 2019-20 only, the bill requires changes to two tax forms at a cost of $1,200 per form. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated Department of Revenue funds.

TABOR refunds. The bill is expected to decrease state General Fund obligations for TABOR refunds by $10.9 million for the current FY 2018-19 and $22.0 million for FY 2019-20. Under current law and the December 2018 forecast, the bill will correspondingly reduce the amount refunded to taxpayers via sales tax refunds on income tax returns for tax years 2019 and 2020, respectively. The state is not expected to collect a TABOR surplus in FY 2020-21. A forecast of state revenue subject to TABOR is not available beyond FY 2020-21.

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 estimated to be $458,718 in FY 2018-16, $439,692 in FY 2020-21, and $330,015 in FY 2021-22.

The centrally appropriated costs also include leased space to show the incremental impact of the additional FTE, and calculated at DOR's rate of 200 square feet per FTE at a rate of $27 per square foot.

Effective Date

The bill was postponed indefinitely by the Senate Finance Committee on February 5, 2019..

State Appropriations

For FY 2019-20, the bill requires a General Fund appropriation of $970,202 and 17.3 FTE to the Department of Revenue.

State and Local Government Contacts

Education	Information Technology	Personnel	Revenue