HB 20-1125

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

FINAL FISCAL NOTE

Drafting Number:	LLS 20-0945	**Date:**	August 25, 2020
Prime Sponsors:	Rep. Baisley; Buentello Sen. Zenzinger; Woodward	**Bill Status:**	Deemed Lost
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Bill Topic: **ELIGIBLE EDUCATOR SUPPLIES TAX CREDIT**

Summary of Fiscal Impact:

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

For tax years 2020 through 2024, 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 2019-20 through FY 2024-25.

Appropriation Summary: For FY 2020-21, the bill would have required a General Fund appropriation of $644,873 and 8.4 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 HB 20-1125

		FY 2019-20 *(current year)*	FY 2020-21	FY 2021-22
Revenue	General Fund	($10.3 million)	($20.7 million)	($20.9 million)
	Total	**($10.3 million)**	**($20.7 million)**	**($20.9 million)**
Expenditures	General Fund	-	$644,873	$1,052,857
	Centrally Appropriated	-	$118,611	$251,420
	Total	-	**$763,484**	**$1,304,277**
	Total FTE	-	**8.4 FTE**	**17.8 FTE**
Transfers		-	-	-
TABOR Refund	General Fund	($10.3 million)	($20.7 million)	($20.9 million)

Summary of Legislation

For tax years 2020 through 2024, 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 $10.3 million in the current FY 2019-20 (half-year impact). Full-year revenue reductions of up to $21.4 million will continue each year through FY 2023-24, with a half-year impact of $10.7 million in FY 2024-25, when the credit is repealed. The bill reduces individual income tax revenue, which is subject to TABOR.

Assumptions. In FY 2018-19, there were almost 60,000 principals and teachers in Colorado's public schools (data for private schools was not available). In 2017, about 56,190 Colorado taxpayers claimed the federal educator expense deduction, at an average of $250 per taxpayer, according to the Internal Revenue Service The maximum federal tax deduction a qualified educator may claim is $250 each year.

The fiscal note assumes that the taxpayer population eligible for this credit will grow by 1 percent each year from 2017 until tax year 2024. 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 2020, the first tax year the credit is available under the bill, the fiscal note assumes 95 percent (54,998) of qualified taxpayers will spend more than $250 on educator expenses. Of these taxpayers, 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 $763,484 and 8.4 FTE in FY 2020-21 and by $1.3 million and 17.8 FTE in FY 2021-22. Through FY 2024-25, the Department of Revenue will require 21.5 FTE to administer the income tax credit. The income tax credit is not available after tax year 2024. Expenditures are summarized in Table 2 and detailed below.

Table 2
Expenditures Under HB 20-1125

	FY 2020-21	FY 2021-22
Department of Revenue		
Personal Services	$422,991	$897,211
Operating Expenses	$13,635	$24,030
Capital Outlay Costs	$124,000	-
Computer Programming and Testing	$24,360	$1,600
Document Management and Postage	$5,767	$7,256
Lease Space	$54,120	$122,760
Centrally Appropriated Costs*	$118,611	$251,420
FTE – Personal Services	8.4 FTE	17.8 FTE
Total Cost	**$763,484**	**$1,304,277**
Total FTE	**8.4 FTE**	**17.8 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. Since there is not a third-party verification process to certify if the taxpayer qualifies as an eligible educator and if the claimed expenses meet the criteria in 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 2021-22 are for ongoing tax credit administration and continue through FY 2024-25. 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 2020-21, estimated personnel costs assume a January 1, 2021, start date to administer tax credits claimed on 2020 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 $225 per hour. The changes will increase General Fund expenditures by $9,000, representing 40 hours of programming. All GenTax programming changes are tested by the department. Testing will require contract personnel totaling $15,360, representing 640 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. The department will also incur postage costs.

TABOR refunds. The bill is expected to decrease state General Fund obligations for TABOR refunds by $10.3 million in the current FY 2019-20, $20.7 million in FY 2020-21 and $20.9 million in FY 2021-22. Under current law and the December 2019 Legislative Council Staff forecast, the bill will correspondingly decrease the amount refunded to taxpayers via sales tax refunds made available on income tax returns for tax years2020, 2021 and 2022, respectively. A forecast of state revenue subject to TABOR is not available beyond FY 2021-22.

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 $118,611 in FY 2020-21 and $251,420 in FY 2021-22.

Effective Date

The bill was deemed lost on June 16, 2020.

State Appropriations

For FY 2020-21, the bill requires a General Fund appropriation of $644,873 and 8.4 FTE to the Department of Revenue.

State and Local Government Contacts

Information Technology Personnel Revenue