HB 23-1208

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Final Fiscal Note

Drafting Number:	LLS 23-0435	**Date:**	August 24, 2023
Prime Sponsors:	Rep. Marshall; Soper Sen. Rich	**Bill Status:**	Deem Postponed Indefinitely
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Bill Topic: **INCOME TAX CREDIT FOR ELIGIBLE TEACHERS**

Summary of Fiscal Impact:

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

For tax years 2023 through 2026, this bill would have created a refundable state income tax credit for eligible public school teachers. The bill would have increased state expenditures and reduced state revenue through FY 2026-27.

Appropriation Summary: For FY 2023-24, the bill would have required an appropriation of $250,458 to the Department of Revenue.

Fiscal Note Status: The fiscal note reflects the introduced bill. The bill was deemed postponed indefinitely on May 9, 2023, so the impacts in the fiscal note do not take effect.

Table 1
State Fiscal Impacts Under HB 23-1208

		Current Year FY 2022-23	Budget Year FY 2023-24	Out Year FY 2024-25
Revenue	General Fund	($17.7 million)	($35.6 million)	($35.8 million)
	Total Revenue	**($17.7 million)**	**($35.6 million)**	**($35.8 million)**
Expenditures	General Fund	-	$250,458	$280,133
	Centrally Appropriated	-	$52,303	$76,730
	Total Expenditures	**-**	**$302,761**	**$356,863**
	Total FTE	**-**	**3.2 FTE**	**4.7 FTE**
Transfers		-	-	-
Other Budget Impacts	TABOR Refund	($17.7 million)	($35.6 million)	($35.8 million)
	GF Reserve	-	$37,569	$42,020

Summary of Legislation

For tax years 2023 through 2026, this bill creates a state income tax credit for eligible public school teachers. The amount of the credit is $1,000 for an eligible teacher who is employed for the equivalent of an entire academic year and $500 for a teacher who is employed for one-half of an academic year. The tax credit is refundable, meaning if the amount exceeds the taxpayer's state income tax liability, the balance is refunded to the taxpayer. Two eligible teachers who file a joint income tax return may each claim the credit.

Assumptions

Data from the Department of Education shows that in FY 2021-22 there were 51,681 teachers in public schools. Of these, 32,954 worked less than 1.0 full time equivalent (FTE) hours, and 18,727 worked hours equating to 1.0 FTE or more. Data were not available concerning how many teachers only worked for one semester of the school year. The fiscal note assumes that those that worked at least 1.0 FTE would qualify for $1,000 credit, while those working less than 1.0 FTE would claim the $500 credit. If the bill is administered differently than the assumptions used in this analysis, the revenue impact of the credit will be correspondingly greater or less.

The fiscal note assumes that the taxpayer population eligible for this credit will grow by 0.7 percent each year from 2023 until tax year 2026. The U.S. Bureau of Labor Statistics expects 7 percent growth in employment of teachers between 2020 and 2030. Beginning in tax year 2023, the first tax year the credit is available under the bill, the fiscal note assumes approximately 52,000 full-time and part time teachers will qualify for the credit, increasing to 53,143 by tax year 2026.

It is assumed that the fully refundable credit will incentivize almost all eligible teachers to claim the tax credit in the bill. If a taxpayer does not claim the full refundable credit amount allowed under this bill, the revenue impact will be less than estimated.

State Revenue

The bill is expected to decrease General Fund revenue by $17.7 million in the current FY 2022-23 (half-year impact) and $35.6 million in FY 2023-24. Full-year revenue reductions of up to $36.1 million will continue each year through FY 2025-26, with a half-year impact of $18.1 million in FY 2026-27, when the credit is repealed. The bill reduces individual income tax revenue, which is subject to TABOR.

State Expenditures

The bill will increase General Fund expenditures in the Department of Revenue by $302,761 in FY 2023-24 and $356,863 from FY 2024-25 through FY 2026-27, when the credit is set to expire. Expenditures are summarized in Table 2 and detailed below.

Table 2
Expenditures Under HB 23-1208

	FY 2023-24	FY 2024-25	FY 2025-26
Department of Revenue			
Personal Services	$182,071	$266,460	$266,460
Operating Expenses	$4,860	$6,345	$6,345
Capital Outlay Costs	$33,350	-	-
GenTax Programming and Testing	$17,896	-	
Data Reporting	$7,392	$7,328	$7,328
Document Management and Tax Form Changes	$4,889	-	-
Centrally Appropriated Costs[1]	$52,303	$76,730	$76,730
Total Cost	**$302,761**	**$356,863**	**$356,863**
Total FTE	**3.2 FTE**	**4.7 FTE**	**4.7 FTE**

Personal services. The Department of Revenue will require resources to process income tax credits claimed under the bill. The majority of the personal services 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. In general, refundable income tax credits have a higher rate of fraud and require additional documentation and review. 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. On average, 52,400 taxpayers are expected to claim the bill's tax credits each year the credit is available. Standard operating and capital outlay costs are included for new staff. For FY 2023-24, estimated personnel costs assume an October 1, 2023, start date to administer tax credits claimed on 2023 tax forms and are prorated for the General Fund pay date shift.

Computer programming and testing. For FY 2023-24 only, the bill will require changes to DOR's GenTax software system and additional testing. Changes are programmed by a contractor at a cost of $225 per hour. Approximately 40 hours of computer programming will be required to implement this bill, totaling $9,000. Additional computer and user acceptance testing are required to ensure programming changes are tested and functioning properly, resulting in an additional $8,896 in expenditures by the department.

Data reporting. Beginning in FY 2023-24, the Office of Research and Analysis (ORA) within DOR will expend $7,392 to collect and report data on the new tax credit.

Document management and tax form changes. For FY 2023-24 only, the bill requires changes to one tax form at a cost of $4,899. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated funds.

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

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above for FY 2022-23, FY 2023-24, and FY 2024-25. This estimate assumes the March 2023 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25. Because TABOR refunds are paid from the General Fund, 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.

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 beginning in FY 2022-23. 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, which will decrease the amount of General Fund available for other purposes.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

This bill requires a General Fund appropriation of $250,458 to the Department of Revenue and 3.2 FTE. Of this amount, $4,889 is reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Education	Information Technology	Personnel
Revenue	State Auditor	