HB 22-1123

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Final Fiscal Note

Drafting Number:	LLS 22-0671	**Date:**	August 19, 2022
Prime Sponsors:	Rep. Geitner	**Bill Status:**	Postponed Indefinitely
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Bill Topic: **STANDARD DEDUCTION ADJUSTMENT**

Summary of Fiscal Impact:

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

The bill would have created a new inflation-adjusted state income tax deduction available to taxpayers that utilize the federal standard deduction. Beginning in FY 2022-23, the bill would have decreased state revenue and increased expenditures.

Appropriation Summary: For FY 2022-23, the bill would have required a General Fund appropriation of $41,027 to the Department of Revenue.

Fiscal Note Status: The 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 22-1123

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	($99.3 million)	($213.7 million)
	Total Revenue	**($99.3 million)**	**($213.7 million)**
Expenditures	General Fund	$41,027	$722,688
	Centrally Appropriated	-	$156,596
	Total Expenditures	$41,027	**$879,284**
	Total FTE	-	**10.7 FTE**
Transfers		-	-
Other Budget Impacts	TABOR Refund	($99.3 million)	($213.7 million)
	General Fund Reserve	$6,154	$108,403

Summary of Legislation

Beginning in tax year 2023, the bill creates a new inflation-adjusted state income tax deduction available to taxpayers that utilize the federal standard deduction. The new deduction is equal to the 2018 federal standard deduction, multiplied by an adjustment factor equal to the percentage change in the Denver-Aurora-Lakewood consumer price index (CPI) since 2017, and twenty thousandths of a percent for every percent that the Bureau of Labor Statistics' motor fuel index exceeds the increase in CPI since 2017. The calculation for the deduction under the bill is shown in Figure 1.

Figure 1
State Tax Deduction Calculation

$$\text{New Tax Deduction} = \text{Federal Standard Deduction} \times \left(\text{Percentage Change in CPI since 2017} + \left(\frac{20}{1000} \times \left(\text{Percentage change in Motor Fuel Index since 2017} - \text{Percentage Change in CPI since 2017} \right) \right) \right)$$

Background

The federal standard deduction amounts are set in statute based on a taxpayer's filing status (26 U.S.C. § 63 (c) (2)). The statutory standard deduction is set at $6,000 for a married couple filing jointly, $4,400 for a head of household filer, and $3,000 for a single filer. Each year those statutory amounts are adjusted for inflation by the Internal Revenue Service based on the national Chained Consumer Price Index. As of 2017, the inflation-adjusted federal standard deduction was $12,700 for a couple filing jointly, $9,350 for a head of household filer, and $6,350 for a single filer.

In 2018, the statutory standard deduction amounts were temporarily increased to the amounts shown in Table 2, as part of the federal Tax Cuts and Jobs Act (TCJA). These deduction amounts are set to expire and return to their lower levels at the beginning of 2026, as shown in Table 2.

The deduction created in this bill is a function of the federal statutory deduction amounts, not the inflation-adjusted amounts. As such, for a married couple filing jointly in 2023, their state deduction will equal $24,000 multiplied by the bill's adjustment factor. As of 2026, assuming the TCJA standard deduction amounts are allowed to expire at the federal level, the state deduction for the same couple will equal $6,000 multiplied by the bill's adjustment factor.

Table 2
Statutory Federal Standard Deduction by Filing Status

Filing Status	Under TCJA (Tax Years 2018 to 2025)	Post-TCJA (Starting in Tax Year 2026)
Married	$24,000	$6,000
Head of household	$18,000	$4,400
Single	S12,000	$3,000

Assumptions

The fiscal note assumes current federal law. As such, the higher federal deductions implemented under the TCJA are assumed to expire and return to their lower levels for tax year 2026. If Congress were to extend the TCJA-level standard deduction amounts, the reduced state revenue would be significantly higher than shown in Table 3 beginning in tax year 2026.

The fiscal note uses inflation assumptions consistent with the December 2021 Legislative Council Staff Forecast through the end of the forecast period in 2023. Outside of this forecast period, inflation rates are assumed to return to their historical averages of 2.3 percent growth per year for the Denver-Aurora-Lakewood Consumer Price Index and 3.3 percent for the motor fuel index.

Certain taxpayers will not be able to utilize the entire state deduction offered in this bill due to a lack of taxable income. As such, only taxpayers with federal adjusted gross income of $20,000 or more are assumed to claim the new state deduction. The universe of taxpayers is also restricted to include only those taxpayers that claim the federal standard deduction. Additionally, the fiscal note assumes that the number of Colorado taxpayers will grow at the same rate as Colorado's general population.

State Revenue

The bill will reduce state revenue by an estimated $99.3 million in FY 2022-23 (a half-year impact), and by $213.7 million in FY 2023-24. Due to the structure of the bill and interactions with federal law, the estimated deduction amount and state revenue decrease changes significantly over the next several years. A longer time horizon for the decreased revenue associated with this bill, along with the state deduction amounts by filing status, are presented in Table 3. The bill reduces state income tax revenue, which is subject to TABOR.

Table 3
Deduction and Revenue Impact Under HB 22-1123 by Tax Year

Tax Year	2023	2024	2025	2026	2027
Deduction by filing status					
Married	$3,600	$4,100	$4,750	$1,350	$1,550
Head of Household	$2,700	$3,050	$3,550	$1,000	$1,150
Single	$1,800	$2,050	$2,400	$700	$800
Total Revenue Reduction	**($198.7 million)**	**($228.8 million)**	**($269.6 million)**	**($78.3 million)**	**($90.9 million)**

State Expenditures

The bill increases General Fund expenditures in the Department of Revenue by $41,027 in FY 2022-23, by $879,284 and 10.7 FTE in FY 2023-24, and by similar amounts in subsequent years. Expenditures are summarized in Table 4 and discussed below.

Table 4
Expenditures Under HB 22-1123

	FY 2022-23	FY 2023-24
Department of Revenue		
Personal Services	-	$551,361
Operating Expenses	-	$15,795
Capital Outlay Costs	-	$72,540
GenTax Programming	$13,500	-
Computer and User Acceptance Testing	$27,527	-
Document Management and Form Changes	-	$73,392
Data Reporting	-	$9,600
Centrally Appropriated Costs[1]	-	$156,596
Total Cost	**$41,027**	**$879,284**
Total FTE	**-**	**10.7 FTE**

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

Department of Revenue. The Department of Revenue (DOR) will require an additional 11.7 FTE tax examiners (prorated to 10.7 FTE in FY 2023-24 to reflect the General Fund pay date shift) to implement this bill. Approximately 86 percent of Colorado taxpayers currently claim the federal standard deduction. All of these taxpayers will be eligible to claim the bill's new deduction. Additional tax examiners are necessary to review the new deduction claimed on these returns, match IRS and taxpayer-reported data, and resolve discrepancies.

- **Computer programming and testing.** For FY 2022-23 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 60 hours of computer programming will be required to implement this bill, totaling $13,500. Additional computer and user acceptance testing are required to ensure programming changes are tested and functioning properly, resulting in an additional $27,527 in expenditures by the department.

- **Document management and form changes.** Beginning in FY 2023-24, the bill requires $73,392 in expenditures for document management, data entry, and tax form changes. These expenditures will take place in the Department of Personnel and Administration using reappropriated funds from the DOR.

- **Data reporting.** Beginning in FY 2023-24, the Office of Research and Analysis within DOR will expend $9,600 each year to collect and report data on the new tax deduction.

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 4.

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. This estimate assumes the December 2021 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2023-24. 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 $6,154 in FY 2022-23 and by $108,403 in FY 2023-24, which will decrease the amount of General Fund available for other purposes.

Effective Date

This bill was postponed indefinitely by the House Finance Committee on April 25, 2022.

State Appropriations

For FY 2022-23, the bill requires a General Fund appropriation of $41,027 to the Department of Revenue.

State and Local Government Contacts

Information Technology　　Personnel　　Revenue