Colorado Legislative Council Staff

HB16-1467

FISCAL NOTE

FISCAL IMPACT: ☒ State ☐ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 16-0265	**Date:**	May 5, 2016
Prime Sponsor(s):	Rep. Duran; Salazar Sen. Scheffel; Martinez Humenik	**Bill Status:**	House Transportation and Energy
		Fiscal Analyst:	Kate Watkins (303-866-3446)

BILL TOPIC: FIRST-TIME HOME BUYER SAVINGS ACCOUNT TAX DEDUCTION

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019
State Revenue	**($23,651)**	**($85,554)**	**($161,379)**
General Fund	(23,651)	(85,554)	(161,379)
State Expenditures		**$120,672**	**$142,788**
General Fund		120,672	115,243
Centrally Appropriated Costs			27,545
TABOR Impact		($85,554)	Not estimated
FTE Position Change			1.6 FTE
Appropriation Required: None			
Future Year Impacts: Ongoing revenue decrease and expenditure increase.			

Summary of Legislation

This bill allows for the creation of first-time home buyer savings accounts, and starting tax year 2017, allows an income tax deduction for account holders equal to the interest and other income earnings on account contributions. The savings account holder must designate a qualifying beneficiary of the account who must have never owned a single-family, owner-occupied residence (including a condo, manufactured home or mobile home), or must have been off of the title for such a residence for at least three years due to the dissolution of marriage. The beneficiary may be changed at any time and the account holder may designate himself or herself as the beneficiary.

Account limitations and penalties. Allowable contributions to a savings account are limited to $14,000 per year for individuals and $28,000 for joint filers per year. The maximum principal in the account is limited to $50,000 and maximum amount in an account is limited to $150,000. If these limits are exceeded, no deduction may be claimed. Money in an account used for purposes aside from the down payment or closing costs on a Colorado home is subject to recapture and a penalty of 5 percent of the amount recaptured within ten years of first deposit in the account, or a 10 percent thereafter. The penalty does not apply if funds are used to purchase a home in another state, or if the beneficiary dies and the account holder does not designate a new beneficiary within the same tax year.

State Revenue

This bill will **reduce General Fund revenue by $23,651 in FY 2016-17 (half-year impact), $85,554 in FY 2017-18, and $161,379 in FY 2018-19.** The revenue impact will increase over time with growth in the population of taxpayers claiming the deduction.

Data and assumptions. Based on historical data, 31 percent (or 35,300) of the projected 114,000 home buyers in Colorado in tax year 2017 will be first-time home buyers. Revenue estimates in this fiscal note are based on a cohort analysis, which assumes that savings accounts will be established for 5 percent of the first-time home buyers in Colorado each year and that 10 percent of the beneficiaries of these accounts will purchase a home each subsequent year. Qualifying taxpayers are expected to average investment earnings of $579 in tax year 2017. Average earnings are expected to grow to nearly $1,000 by tax year 2021 as contributions in savings accounts grow. As summarized in Table 1, on average, qualifying account holders are expected to save between $27 and $46 each year from claiming the deduction.

Table 1. Taxpayer Savings Under HB16-1467

Tax Year	**2017**	**2018**	**2019**	**2020**
Taxpayers Claiming the Deduction	1,765	3,383	4,969	6,238
Average Amount Deducted	$579	$791	$882	$944
Average Taxpayer Savings	$27	$37	$41	$44

TABOR Impact

This bill reduces state revenue to the General Fund, which will reduce the amount required to be refunded under TABOR beginning FY 2017-18. TABOR refunds are paid from the General Fund. Since the bill reduces both 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. However, the bill will reduce money available for the General Fund budget in the future during years the state does not collect money above the TABOR limit. A TABOR refund obligation is not expected in FY 2016-17.

State Expenditures

This bill will **increase state General Fund expenditures by $120,672 in FY 2017-18, and by $142,788 and 1.6 FTE each year beginning in FY 2018-19.** Expenditures include personal services, document management, programming, testing, and form change costs, as summarized in Table 2.

Table 2. Expenditures Under HB16-1467			
Cost Components	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**
Personal Services			$68,138
FTE			1.6 FTE
Operating Expenses and Capital Outlay Costs			10,926
GenTax Programming		$89,800	
GenTax Testing		9,596	
Form Change Costs		2,400	
Document Management		18,876	36,179
Centrally Appropriated Costs*			27,545
TOTAL		**$120,672**	**$142,788**

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

Department of Revenue (DOR). This bill requires changes to the DOR's GenTax software system. Changes are programmed by a contractor at a rate of $200 per hour. The changes in this bill are expected to increase General Fund expenditures by $89,800, representing 449 hours of programming. All GenTax programming changes are tested by department staff. Testing for this bill will require expenditures for contract personnel totaling $9,596, representing 400 hours of testing at a rate of $24 per hour. Eligibility for the deduction cannot be verified by a third party or a formal certification process. Therefore, this fiscal note assumes a 100 percent review rate for each deduction claimed, which will require 1.6 FTE each year beginning in FY 2018-19 for review and auditing.

Department of Personnel and Administration (DPA). Scanning and imaging software will require modification to implement changes under the bill. This will require $1,200 per income tax form for two forms (DR104 and DR104X), totaling $2,400 in FY 2017-18. Additionally, document management to process supporting documentation of eligibility is expected to require $18,876 in FY 2017-18 and an ongoing expenditure of $36,179 each year beginning in FY 2018-19. These funds will be reappropriated from DOR to the document management line for DPA.

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. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3.

Table 3. Centrally Appropriated Costs Under HB16-1467			
Cost Components	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**
Employee Insurance (Health, Life, Dental, and Short-term Disability)			$12,799
Supplemental Employee Retirement Payments			6,106
Leased Space			8,640
TOTAL			**$27,545**

HB16-1467

Technical Considerations

There is currently no known single data source that DOR could use to determine home prior ownership for a beneficiary of a first-time home buyer savings account. In order to adequately verify that a qualified beneficiary is a first-time home buyer, DOR will need to validate the beneficiary's title history for homes in each county of each state in the U.S.

Effective Date

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Revenue Personnel and Administration Information Technology