HB 19-1013

Legislative Council Staff

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FISCAL NOTE

Drafting Number:	LLS 19-0402	**Date:**	January 22, 2019
Prime Sponsors:	Rep. Exum Sen. Pettersen	**Bill Status:**	House Finance
		Fiscal Analyst:	Louis Pino | 303-866-3556 louis.pino@state.co.us

Bill Topic: CHILD CARE EXPENSES TAX CREDIT LOW-INCOME FAMILIES

Summary of Fiscal Impact:

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

This bill makes the existing tax credit for child care expenses made by low-income taxpayers permanent. The bill decreases state revenue beginning in FY 2020-21.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: This fiscal note reflects the introduced version of the bill.

Table 1
State Fiscal Impacts Under HB 19-1013

		FY 2019-20	FY 2020-21	FY 2021-22
Revenue	General Fund	-	($1.7 million)	($3.5 million)
	Total	**-**	**($1.7 million)**	**($3.5 million)**
Expenditures		-	-	-
Transfers		-	-	-
TABOR Refund		-	-	not estimated

Summary of Legislation

This bill makes the existing state income tax credit for child care expenses made by low-income taxpayers permanent. Under current law, the credit is set to expire after the tax year 2020.

Background

Colorado offers two child care expense income tax credits. The first credit was enacted by House Bill 96-1121 and is based on the federal child and dependent care tax credit. Pursuant to House Bill 18-1208, beginning in tax year 2019, the credit is 50 percent of the federal tax credit for all taxpayers with a federal adjusted gross income of less than $60,000. The federal tax credit is nonrefundable, meaning a credit can only be claimed up to the amount of income tax owed by a taxpayer. A taxpayer is not eligible for the federal income tax credit if they do not owe federal income taxes.

The second credit was created by House Bill 14-1072 and is commonly referred to as the low-income child care expenses tax credit. Colorado taxpayers with insufficient income tax liability to qualify for the federal child and dependent care tax credit and who have a federal adjusted gross income of $25,000 or less may qualify for the credit. The credit is equal to 25 percent of the taxpayer's child care expenses and is capped at $500 for a single dependent or $1,000 for two or more dependents. The credit is refundable, meaning if the amount of the credit exceeds the taxpayer's state income tax liability, the balance is refunded to the taxpayer.

House Bill 17-1002 extended the low-income child care expenses income tax credit for three tax years. Based on parameters in the bill and the June 2017 forecast, the credit will be available for tax years 2018 through 2020. The low-income child care expenses tax credit was not available for tax year 2017.

State Revenue

This bill is expected to decrease General Fund revenue by $1.7 million in FY 2020-21, $3.5 million in FY 2021-22, $3.7 million in FY 2022-23, and by similar amounts each year thereafter. The estimate for FY 2020-21 represents a half-year impact for tax year 2021. Revenue impacts begin in FY 2020-21 because the credit is available through tax year 2020 under current law.

Assumptions. Data from the Department of Revenue (DOR) shows that on average 6,040 taxpayers claimed the low income child care expense credit each year in tax years 2014, 2015, and 2016. The average state income tax credit was $380, which equates to $1,522 in qualified child care expenses. For years beyond 2018, the fiscal note assumes the average amount of qualified child care expenses will increase by the consumer price index published in the December 2018 Legislative Council forecast, and the number of tax claimants will increase by 8 percent in 2018, 7 percent in 2019, and average about 4 percent in tax year 2021 and thereafter. The population increases are based on the assumption that the ongoing presence of the tax credit will raise awareness and continue to incentive qualified taxpayers to utilize tax credit. By tax year 2021, it is expected that about 7,475 taxpayers will claim the credit for an average credit amount of $447. To the degree that more quailed taxpayers utilize the credit, reductions in General Fund revenue will be greater than estimated.

State Expenditures

The DOR administers the low-income child care expense income tax credit. This bill makes the income tax credit permanent, which will result in ongoing workload that can be completed with existing appropriations. Approximately 0.5 FTE currently work on this credit and will continue beginning in FY 2020-21 and thereafter.

TABOR Refunds. The bill reduces revenue subject to TABOR, thereby reducing TABOR refunds in years in which the state incurs a TABOR surplus. A TABOR surplus is not expected in FY 2020-21, and a forecast is not available for FY 2021-22, or subsequent years.

Effective Date

The bill takes effect August 2, 2019, if the General Assembly adjourns on May 3, 2019, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Information Technology Revenue Personnel and Administration