HB 20-1204

Legislative
Council Staff
Nonpartisan Services for Colorado's Legislature

FINAL FISCAL NOTE

Drafting Number:	LLS 20-0962	**Date:**	August 26, 2020
Prime Sponsors:	Rep. Ransom Sen. Smallwood; Tate	**Bill Status:**	Postponed Indefinitely
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Bill Topic: **TAX DEDUCTION FOR DONATIONS TO SCHOLARSHIP ORGS**

Summary of Fiscal Impact:

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

This bill would have created an income tax deduction for charitable contributions to certain scholarship granting organizations for tax years 2021 through 2025. It would have decreased state revenues beginning in FY 2020-21 and increased state expenditures through FY 2025-26.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: This fiscal note reflects the introduced version of the 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 20-1204

		FY 2020-21	FY 2021-22	FY 2022-23
	General Fund	($223,559)	($450,472)	($457,229)
Revenue	**Total**	**($223,559)**	**($450,472)**	**($457,229)**
Expenditures	General Fund	-	$44,369	$13,892
	Centrally Appropriated	-	$6,001	$6,106
	Total		**$50,370**	**$19,998**
	Total FTE	-	**0.3 FTE**	**0.3 FTE**
Transfers		-	-	
TABOR Refund	General Fund	($223,559)	($450,472)	($457,229)

Summary of Legislation

Beginning in tax year 2021, this bill creates a state income tax deduction for individual or corporate taxpayers for any amount contributed to an eligible scholarship granting organization, to the extent that the contribution is not claimed on the taxpayer's federal tax return. Eligible organizations are those that provide scholarships to disadvantaged children for private school tuition expenses. This deduction is available from tax year 2021 through tax year 2025.

To be eligible, a charitable organization must be tax exempt under section 501 (c)(3) of the Internal Revenue Code, and must use all contributions claimed under the deduction to provide scholarships for children who are eligible for free or reduced-cost lunch to attend private school in Colorado. An eligible scholarship organization must undergo an annual audit to verify compliance with the requirements for the use of donations and submit that audit to the Colorado Department of Education (CDE) for review.

State Revenue

The bill is expected to reduce General Fund revenue by $223,559 in FY 2021-21, by $450,472 in FY 2021-22, by $457,229 in FY 2022-23, and by similar amounts through FY 2024-25 with a half-year impact in FY 2025-26. The estimate for FY 2020-21 also reflects a half-year impact on an accrual accounting basis. The bill reduces income tax revenue, which is subject to TABOR.

Assumptions. Based on conversations with scholarship granting charitable organizations in Colorado, it is estimated that $9.2 million in scholarships was distributed by eligible organizations in FY 2019-20, and that this amount reflects the distributions of qualifying contributions from 900 individuals. Beginning in tax year 2021, this fiscal note assumes that eligible organizations will distribute $9.7 million in qualifying contributions from 1,000 taxpayers, representing a 2.5 percent increase over tax year 2020 estimated scholarship distributions. The fiscal note further assumes that contributions will increase by 1.5 percent in subsequent tax years until tax year 2025.

Individuals who make qualifying contributions, itemize these contributions on their federal tax return, and claim the federal charities contribution tax deduction are excluded from the state tax deduction. Individuals who instead claim the standard exemption on their federal tax return may claim the state tax credit. Therefore, the bill reduces state revenue from individual taxpayers who currently make qualifying contributions, claim the standard exemption on their federal tax return, and take advantage of the new state income tax deduction. The fiscal note assumes that the new income tax deduction will incentivize additional eligible contributions. If these taxpayers claim contributions on their federal tax forms, the revenue impact will be lower.

State Expenditures

This bill increases state General Fund expenditures by $50,370 and 0.3 FTE in FY 2021-22, by $19,998 in FY 2022-23, and by similar amounts through FY 2025-26. These costs include personal service and computer programming costs for the Department of Revenue (DOR), as shown in Table 2 and discussed below.

Table 2
Expenditures Under HB 20-1204

	FY 2020-21	FY 2021-22	FY 2022-23
Department of Revenue			
Personal Services	-	$12,734	$13,892
Computer Programming (GenTax)	-	$26,550	-
Document Management	-	$5,085	-
Centrally Appropriated Costs*	-	$6,001	$6,106
FTE – Personal Services	-	0.3 FTE	0.3 FTE
Total Cost	**$0**	**$50,370**	**$19,998**
Total FTE		**0.3 FTE**	**0.3 FTE**

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

Department of Revenue. In FY 2021-22, General Fund expenditures for the DOR will increase by $50,370 and 0.3 FTE. These costs include one-time costs for programming and testing to add the new state income tax deduction to the GenTax accounting system. These changes are expected to increase General Fund expenditures by $26,550, representing 118 hours of work by a contractor at a rate of $225 per hour. Other costs for FY 2021-22 include $5,085 in expenditures for document management tasks.

The DOR will also require 0.3 FTE from FY 2021-22 through FY 2025-26 for taxpayer services to administer the tax credit. An estimated 1,000 taxpayers are expected to claim the deduction each year it is available. Beginning in FY 2023-24, through FY 2025-26, the DOR will require expenditures of $840 for a statistical analyst to map new fields for annual reporting at a rate of $35.00 per hour for 24 hours.

Colorado Department of Education. The CDE will have a workload increase of 54 hours to review annual financial and compliance audits of eligible scholarship organizations. This workload increase can be accomplished within existing appropriations.

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 $6,001 in FY 2021-22 and $6,106 in FY 2022-23.

TABOR Refund.

The bill is expected to decrease state General Fund obligations for TABOR refunds by $223,559 in FY 2021-21 and $450,472 in FY 2021-22. Under current law and the December 2019 Legislative Council Staff forecast, the measure will correspondingly decrease the amount refunded to taxpayers via sales tax refunds made available on income tax returns. Since the bill reduces General Fund revenue and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money for the General Fund budget in the future during years when the state does not collect revenue above the TABOR limit. A forecast of state revenue subject to TABOR is not available beyond FY 2021-22.

Effective Date

The bill was postponed indefinitely by the House Finance Committee on February 27, 2020.

State and Local Government Contacts

Education	Information Technology
Personnel	Revenue