SB 23-030

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 23-0259	**Date:**	January 24, 2023
Prime Sponsors:	Sen. Rich Rep. Soper	**Bill Status:**	Senate State Affairs
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Bill Topic: **ELIGIBLE EDUCATOR CLASSROOM EXPENSES TAX CREDIT**

Summary of Fiscal Impact:

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

For tax years 2023 through 2027, this bill creates a state income tax credit of up to $500 for eligible educators that incur certain out-of-pocket expenses. The bill increases state expenditures and reduces state revenue through FY 2027-28.

Appropriation Summary: For FY 2023-24, the bill requires an appropriation of $393,068 to the Department of Revenue.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under SB 23-030

		Current Year FY 2022-23	Budget Year FY 2023-24	Out Year FY 2024-25	Out Year FY 2025-26
Revenue	General Fund	($19.1 million)	($38.5 million)	($39.1 million)	($39.6 million)
	Total Revenue	**($19.1 million)**	**($38.5 million)**	**($39.1 million)**	**($39.6 million)**
Expenditures	General Fund	-	$393,068	$440,348	$440,348
	Centrally Appropriated	-	$86,769	$119,280	$119,280
	Total Expenditures	**-**	**$479,837**	**$559,628**	**$559,628**
	Total FTE	**-**	**5.3 FTE**	**7.3 FTE**	**7.3 FTE**
Transfers		-	-	-	-
Other Budget Impacts	TABOR Refund	($19.1 million)	($38.5 million)	($39.1 million)	Not estimated
	GF Reserve	-	$58,960	$66,052	$66,052

Summary of Legislation

For tax years 2023 through 2027, the bill creates a state income tax credit of up to $500 for eligible educators that teach kindergarten through twelfth grade and classroom paraprofessionals that incur certain out-of-pocket classroom expenses. The credit amount is equal to the educator's qualifying classroom expenses in excess of the $300 deduction allowed on their federal income tax return, but not exceeding $800. The tax credit is refundable, meaning if the amount exceeds the taxpayer's state income tax liability, the balance is refunded to the taxpayer. Eligible educators filing a joint income tax return may each claim the full credit.

Assumptions

In FY 2021-22, there were almost 78,000 teachers and paraprofessionals in Colorado's public schools (data for private schools was not available). In 2020, about 51,960 Colorado taxpayers claimed the federal educator expense deduction, at an average of $255 per taxpayer, according to the Internal Revenue Service. The maximum federal tax deduction a qualified educator could claim was $250.

The fiscal note assumes that the taxpayer population eligible for this credit will grow by 1.6 percent each year from 2022 until tax year 2027. Data from the Bureau of Labor Statistics estimates the number of teachers will increase by 0.7 percent, while employment for paraprofessionals is expected to increase by 0.9 percent each year until 2026. Beginning in tax year 2023, the first tax year the credit is available under the bill, the fiscal note assumes 95 percent (76,401) of qualified taxpayers will spend more than $800 on qualified classroom expenses, of which $300 will be claimed on their federal income return, and generating a state refundable tax credit of $500 per taxpayer. Data from the U.S. Department of Education show that 94 percent of U.S. teachers spent their own money on school supplies in 2015, the latest report available. On average, these teachers spent about $479 of their own money on classroom supplies without reimbursement.

It is assumed that the fully refundable credit will incentivize 95 percent of eligible educators to claim the full $500 tax credit in the bill. If the refundable income tax credit creates an incentive for more qualified taxpayers to purchase classroom supplies, the revenue impact of the bill will be higher than estimated, or conversely, 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 $19.1 million in the current FY 2022-23 (half-year impact) and $38.5 million in FY 2023-24. Full-year revenue reductions of up to $40.4 million will continue each year through FY 2027-28, with a half-year impact of $20.4 million in FY 2027-28, 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 $479,837 in FY 2023-24 and $551,690 from FY 2024-25 through FY 2027-28, when the credit is set to expire. Expenditures are summarized in Table 2 and detailed below.

Table 2
Expenditures Under SB 23-030

	FY 2023-24	FY 2024-25	FY 2025-26
Department of Revenue			
Personal Services	$303,264	$415,227	$415,227
Operating Expenses	$8,100	$9,855	$9,855
Capital Outlay Costs	$53,360	-	-
GenTax Programming and Testing	$12,808	-	
Data Reporting	$7,392	$7,328	$7,328
Document Management and Tax Form Changes	$8,144	-	-
Centrally Appropriated Costs[1]	$86,769	$119,280	$119,280
Total Cost	**$479,837**	**$551,690**	**$551,690**
Total FTE	**5.3 FTE**	**7.3 FTE**	**7.3 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. Approximately 76,000 to 82,000 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 $3,808 in expenditures by the department. This amount is included on the personal services line in Table 2.

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 $8,144. 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 December 2022 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 decrease the amount of General Fund held in reserve by the amounts shown in Table 1, which will increase the amount of General Fund available for other purposes.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

This bill requires a General Fund appropriation of $393,068 to the Department of Revenue and 5.3 FTE. Of this amount, $8,144 is reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Education	Information Technology	Personnel
Revenue		