HB 18-1208

Legislative Council Staff

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FISCAL NOTE

Drafting Number:	LLS 18-0466	**Date:**	March 9, 2018
Prime Sponsors:	Rep. Duran; Winter Sen. Martinez Humenik	**Bill Status:**	House Finance
		Fiscal Analyst:	Greg Sobetski | 303-866-4105 Greg.Sobetski@state.co.us

Bill Topic: EXPAND CHILD CARE EXPENSES INCOME TAX CREDIT

Summary of Fiscal Impact:

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

This bill expands the state income tax credit for child care expenses by increasing the amount of the credit and broadening the eligible taxpayer population. It decreases state revenue and increases state expenditures on an ongoing basis.

Appropriation Summary: For FY 2018-19, the bill requires an appropriation of $29,966 and 0.3 FTE to the Department of Revenue.

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

Table 1
State Fiscal Impacts Under HB 18-1208

		FY 2017-18 *(current year)*	FY 2018-19	FY 2019-20
Revenue	General Fund	($10.7 million)	($21.3 million)	($21.3 million)
	Total	**($10.7 million)**	**($21.3 million)**	**($21.3 million)**
Expenditures	General Fund	-	$29,966	$44,648
	Centrally Appropriated	-	$5,186	$14,041
	Total	-	$35,152	$58,689
	Total FTE	-	0.3 FTE	0.8 FTE
Transfers		-	-	-

Summary of Legislation

Beginning in the current tax year 2018, this bill expands the state income tax credit for child care expenses.

The credit is available to taxpayers who claim a child care expenses credit on their federal income tax return. Under current law, taxpayers with adjusted gross income (AGI) of $60,000 or less are eligible to claim the state credit. The credit is equal to:

- 50 percent of the federal credit for taxpayers with AGI of $25,000 or less;
- 30 percent of the federal credit for taxpayers with AGI of $25,001 to $35,000; and
- 10 percent of the federal credit for taxpayers with AGI of $35,001 to $60,000.

This bill allows taxpayers with AGI of up to $150,000 to claim the state credit. Under the bill, the state credit is equal to 80 percent of the federal credit for all eligible taxpayers.

Background

The federal child and dependent care expenses credit is available for individuals who pay child care expenses for a dependent child under the age of 13. Child care may be provided inside or outside of the home, and the taxpayer must report the persons or organizations providing child care on their tax return. The amount of expenses upon which the federal credit is based is capped at $3,000 for a taxpayer with one qualifying child and $6,000 for a taxpayer with two or more qualifying children. Based on the taxpayer's AGI, this amount is multiplied by a percentage between 35 percent and 20 percent for the purposes of determining the credit's value. Example calculations are provided in Table 2.

Table 2
Federal Child Care Expenses Tax Credit Caps

Taxpayer AGI	Percentage Adjustment	Credit Cap for One Dependent Child	Credit Cap for Two or More Dependent Children
Up to $15,000	35 percent	$1,050	$2,100
$25,000	30 percent	$900	$1,800
$35,000	25 percent	$750	$1,500
$43,001 and up	20 percent	$600	$1,200

State Revenue

This bill is expected to decrease income tax revenue to the General Fund by $10.7 million in the current FY 2017-18 and by $21.3 million annually beginning in FY 2018-19. The revenue impact for FY 2017-18 represents a half-year impact for tax year 2018 on an accrual accounting basis. The estimated effects of the bill on taxpayers of different AGI levels are presented in Table 3.

Table 3
Estimated Taxpayer Impact of HB 18-1208 for Tax Year 2018

Taxpayer AGI	Number of Taxpayers	Average Federal Credit	Average State Credit Current Law	Average State Credit HB 18-1208	Total GF Revenue Reduction	HB 18-1208 Fiscal Impact
Up to $25,000	3,200	$313	$156	$250	($0.8 million)	($0.3 million)
$25,001 to $35,000	7,000	$550	$165	$440	($3.1 million)	($1.9 million)
$35,001 to $60,000	14,100	$525	$53	$420	($5.9 million)	($5.2 million)
$60,001 to $150,000	33,100	$525	$0*	$420	($13.9 million)	($13.9 million)
Total	**57,400**	**$516**	**$99***	**$413**	**($23.7 million)**	**($21.3 million)**

**Average state credit amount under current law omits taxpayers with AGI of $60,001 or greater.*

Assumptions. Based on prior year populations claiming the federal and state child care expenses credits, the bill is assumed to increase the amount of the credit for about 24,300 taxpayers who claim the state credit under current law, and to expand the credit to an additional 33,100 taxpayers who are ineligible to claim the state credit under current law because their AGI exceeds $60,000. Because the allowable federal credit is the same for all taxpayers with AGI of $43,001 and up, the amount of the federal tax credit claimed by taxpayers with AGI exceeding $60,000 is assumed to resemble the amount of the federal credit claimed by taxpayers with AGI between $43,001 and $60,000 under current law.

TABOR Impact

The bill decreases state revenue subject to TABOR by $10.7 million in the current FY 2017-18 and $21.3 million in FY 2018-19 and subsequent years. State revenue is not currently expected to exceed the TABOR limit through FY 2019-20 and no refund is required. Therefore, the bill is not expected to impact TABOR refunds in these years. However, refunds in future years when the state next collects a TABOR surplus will be reduced.

State Expenditures

This bill increases General Fund expenditures by $35,152 and 0.3 FTE in FY 2018-19 and by $58,689 and 0.8 FTE in FY 2019-20 and subsequent fiscal years. Expenditures are summarized in Table 4 and described below.

Table 4
Expenditures Under HB 18-1208

	FY 2018-19	FY 2019-20
Department of Revenue		
Personal Services	$13,523	$38,380
Operating Expenses and Capital Outlay Costs	$4,703	$760
Computer Programming and Testing	$5,090	-
Document Management	$6,650	$5,508
Centrally Appropriated Costs*	$5,186	$14,041
Total Cost	**$35,152**	**$58,689**
Total FTE	**0.3 FTE**	**0.8 FTE**

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

Personal services. Based on the assumption that the bill allows an additional 33,100 taxpayers to claim the income tax credit, workload in the Department of Revenue Taxpayer Service Division is expected to increase by 0.3 FTE in FY 2018-19 and 0.8 FTE beginning in FY 2019-20 to administer the credit, verify eligibility, and correspond with taxpayers. Workload estimates are based on actual workload for the current law credit. The estimate for FY 2018-19 is based on the assumption that administration of the expanded credit will begin in January 2019 for income tax returns filed for tax year 2018, and reflects the General Fund pay date shift for June 2019.

Computer programming and testing. This bill requires changes to the department's GenTax software system. Changes are programmed by a contractor at a rate of $250 per hour. The changes in this bill are expected to increase expenditures by $1,250, representing 5 hours of programming. All GenTax programming changes are tested by department staff. Testing for this bill will require the expenditures for contract personnel totaling $3,840, representing 160 hours of testing at a rate of $24 per hour.

Document management. The bill requires changes to one tax form at a cost of $1,200 in FY 2018-19 only. Additional document management costs are for the processing of paper income tax returns and for mailing costs for correspondence with taxpayers. A portion of these costs occur in the Department of Personnel and Administration and are paid with reappropriated Department of Revenue 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, supplemental employee retirement payments, and leased office space, are estimated to be $5,186 in FY 2018-19 and $14,041 beginning in FY 2019-20.

Effective Date

The bill takes effect August 8, 2018, if the General Assembly adjourns on May 9, 2018, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2018-19, the bill requires a General Fund appropriation of $29,966 to the Department of Revenue with an allocation of 0.3 FTE, from which $3,870 should be reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Information Technology Personnel Revenue