HB 23-1016

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Final Fiscal Note

Drafting Number:	LLS 23-0095	**Date:**	August 24, 2023
Prime Sponsors:	Rep. Bird; Sirota Sen. Kolker; Hansen	**Bill Status:**	Deem Postponed Indefinitely
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Bill Topic: **TEMPORARY TAX CREDIT FOR PUBLIC SERVICE RETIREES**

Summary of Fiscal Impact:

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

For tax years 2023 and 2024 only, this bill would have created a $700 refundable state income tax credit for qualifying public service retirees. The bill would have increased state expenditures and reduced state revenue through FY 2024-25.

Appropriation Summary: For FY 2023-24, the bill would have required an appropriation of $603,177 to the Department of Revenue.

Fiscal Note Status: This fiscal note reflects the introduced bill as recommended by the Pension Review Commission. The bill was deemed postponed indefinitely so the impacts in the fiscal note do not take effect.

Table 1
State Fiscal Impacts Under HB 23-1016

		Current Year FY 2022-23	Budget Year FY 2023-24	Out Year FY 2024-25
Revenue	General Fund	($58.9 million)	($119.5 million)	($60.5 million)
	Total Revenue	**($58.9 million)**	**($119.5 million)**	**($60.5 million)**
Expenditures	General Fund	-	$603,177	$345,192
	Centrally Appropriated	-	$122,384	$98,064
	Total Expenditures	**-**	**$725,561**	**$443,256**
	Total FTE	**-**	**7.3 FTE**	**6.1 FTE**
Transfers		-	-	-
Other Budget Impacts	TABOR Refund	($58.9 million)	($119.5 million)	($60.5 million)
	GF Reserve	-	$90,477	$51,779

Summary of Legislation

For tax years 2023 and 2024 only, this bill creates a $700 refundable state income tax credit for qualifying public service retirees. A qualifying public service retiree is:

- a full time Colorado resident that is 55 years old at the close of the income tax year for which the credit is claimed; and
- a retiree of a Colorado public pension plan administered pursuant to the Colorado Revised Statutes or a retiree of a public pension plan administered by a local government of the state of Colorado.

The tax credit is refundable, meaning if the amount exceeds the taxpayer's state income tax liability, the balance is refunded to the taxpayer.

Assumptions

According to the U.S. Census Bureau, there were 72 public pension system plans in Colorado in 2020. Of these, 11 were state level programs, while 61 were administered at the local level. The Census Bureau estimates 155,302 public service retirees received benefits in 2020. However, this estimate does not differentiate between those who are 55 years and older, although most plans are not payable until the retiree is at least 50 years old. A survey sample of the two largest public pension plans in Colorado, the Public Employees' Retirement Association (PERA) and the Colorado Retirement Association, shows 115,664 retirees would qualify for the credit in 2023 and 118,822 in 2024.

The fiscal note utilizes the 2020 Census Bureau estimate as a starting point and grows the number of public service retirees by 2.73 percent each year, the average growth rate in the number of PERA retirees. The fiscal note assumes that 168,372 public service retirees will qualify in tax year 2023 and 172,968 will qualify in tax year 2024. Finally, it is assumed that the fully refundable credit will incentivize all eligible retirees to claim the full $700 tax credit in the bill. The revenue impact of the bill will be higher than estimated if there are more qualified public service retirees than estimated in the bill, or conversely, lower if the number of retirees claiming the credit is less.

State Revenue

The bill is expected to decrease General Fund revenue by $58.9 million in the current FY 2022-23 (half-year impact), $119.5 million in FY 2023-24, and 60.5 million in FY 2024-25 (half-year impact). 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 $725,561 in FY 2023-24 and $443,256 in FY 2024-25, when the credit is set to expire. Expenditures are summarized in Table 2 and detailed below.

Table 2
Expenditures Under HB 23-1016

	FY 2023-24	FY 2024-25
Department of Revenue		
Personal Services	$448,254	$329,629
Operating Expenses	$11,340	$8,235
Capital Outlay Costs	$73,370	-
GenTax Programming and Testing	$47,190	-
Data Reporting	$7,392	$7,328
Document Management and Tax Form Changes	$15,631	-
Centrally Appropriated Costs[1]	$122,384	$98,064
Total Cost	**$725,561**	**$443,256**
Total FTE	**7.3 FTE**	**6.1 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 a qualifying public service retiree, expenditures assume that 100 percent of claimed credits will be reviewed, consistent with current department policy. 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 150 hours of computer programming will be required to implement this bill, totaling $33,750. Additional computer and user acceptance testing are required to ensure programming changes are tested and functioning properly, resulting in an additional $13,440 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 $15,631. These costs also include testing of the scan system. 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 the current FY 2022-23, FY 2023-24, and FY 2024-25. This estimate assumes the December 2022 LCS revenue forecast. 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 $603,177 to the Department of Revenue and 7.3 FTE. Of this amount, $15,631 is reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Information Technology	PERA	Personnel
Revenue		