Colorado Legislative Council Staff

SB16-086

REVISED FISCAL NOTE

(replaces fiscal note dated February 8, 2016)

FISCAL IMPACT: ☒ State ☐ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 16-0906	**Date:**	February 23, 2016
Prime Sponsor(s):	Sen. Neville T. Rep. Neville P.	**Bill Status:**	Senate Appropriations
		Fiscal Analyst:	Kate Watkins (303-866-3446)

BILL TOPIC: UNLIMITED PENSION OR ANNUITY TAX DEDUCTION

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-19
State Revenue	**($185.4 million)**	**($386.3 million)**	**($418.1 million)**
Revenue Change			
General Fund	($185.4 million)	($386.3 million)	($418.1 million)
State Transfers			
General Fund	($128.0 million)	($324.1 million)	Not estimated
Capital Construction Fund	$25.6 million	$108.0 million	Not estimated
Highway Users Tax Fund	$102.4 million	$216.1 million	Not estimated
State Expenditures		**68,147**	**132,283**
General Fund		56,216	96,130
Centrally Appropriated Costs		11,931	36,153
TABOR Impact	($185.4 million)	($384.2 million)	Not estimated
FTE Position Change		0.7 FTE	2.1 FTE
Appropriation Required: None.			
Future Year Impacts: Ongoing revenue decrease and expenditure increase.			

This fiscal note was revised to reflect new information.

Summary of Legislation

Under current law, qualifying taxpayers ages 55 to 64 may deduct up to $20,000 in pension or annuity income from their taxable income each year and qualifying taxpayers ages 65 and older may deduct up to $24,000 each year. This bill eliminates these limitations, allowing taxpayers to deduct the entire amount of their pension and annuity income from state taxable income beginning in tax year 2017.

Background

To qualify for the deduction under current law in a given tax year, taxpayers must be at least 55 years of age on December 31 of that year. Pension income includes PERA retirement benefits, Social Security payments, pension income, and distributions from Individual Retirement Accounts

(IRAs) and tax-deferred savings plans. Persons receiving a survivor benefit, regardless of age, also qualify for the deduction. As of tax year 2014, 426,302 Colorado taxpayers claimed the deduction under current law. The average deduction amount for these taxpayers was $20,859, which translates to an average taxpayer savings of $966.

State Revenue

This bill is estimated to **reduce General Fund revenue by $185.4 million in FY 2016-17 (half-year impact), $386.3 million in FY 2017-18, and $418.1 million in FY 2018-19.** In future fiscal years, the revenue impact is expected to grow with the population of those ages 55 and older and with growth in retirement income.

Data and assumptions. Revenue estimates are based on taxpayer data from the Colorado Department of Revenue statistics of income. The revenue impact of the deduction under current law and under this bill in tax year 2017 and beyond were estimated as follows:

- The actual number of taxpayers claiming the deduction was grown by the Colorado state Demographer's population forecast for those ages 55 and older.
- The average deduction claimed under current law and estimated average deduction under this bill was grown by the compound average annual growth rate in the average deduction for the four years prior to the 2007-09 recession.
- Average deduction amounts were then multiplied by the projected number of taxpayers claiming the deduction.

Finally, the projected total revenue impact under current law was subtracted from the total revenue estimate under this bill to arrive at a revenue impact estimate. Table 1 compares the projected taxpayer and state revenue impacts under current law and under this bill for tax years 2017, 2018, and 2019.

Table 1. Comparison of Taxpayer and State Revenue Impacts Under Current Law and SB16-086

Tax Year	2017	2018	2019
Current Law			
Average Deduction	$22,004	$22,803	$23,213
Average Taxpayer Savings*	$1,019	$1,037	$1,056
Number of Taxpayers Claiming Deduction	471,061	485,048	498,488
State General Fund Revenue Impact	($479.9 million)	($503.1 million)	($526.3 million)
SB 16-086			
Average Deduction	$40,427	$41,739	$43,094
Average Taxpayer Savings*	$1,872	$1,933	$1,995
Number of Taxpayers Claiming Deduction	471,061	485,048	498,488
State General Fund Revenue Impact	($881.7 million)	($937.4 million)	($994.6 million)
Increase/(Decrease) from Current Law			
Average Deduction	$18,423	$19,339	$20,291
Average Taxpayer Savings*	$853	$895	$939
Number of Taxpayers Claiming Deduction	0	0	0
State General Fund Revenue Impact	($401.8 million)	($434.3 million)	($468.3 million)

** Calculated as the average deduction multiplied by the state income tax rate of 4.63 percent.*

TABOR Impact

This bill reduces state revenue to the General Fund, which will reduce the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. Table 2 shows the projected impact on the mechanisms used to refund the TABOR surplus in current law. Revenue is refunded in the year following the year in which it is collected. This bill is expected to reduce the TABOR surplus by $185.4 million in FY 2016-17, reducing the amount of revenue refunded through the Six Tier Sales Tax Refund by an equal amount. This bill is expected to eliminate the TABOR surplus in FY 2017-18, and reduce revenue subject to TABOR by an additional $2.1 million.

Table 2. Impact of SB16-086 on Current Refund Mechanisms

	FY 2016-17 Surplus FY 2017-18 Refund Tax Year 2017	FY 2017-18 Surplus FY 2018-19 Refund Tax Year 2018
Current Law		
Revenue above the TABOR limit	$191.6 million	$384.2 million
Income Tax Rate Reduction	0	232.9 million
Sales Tax Refund	191.6 million	151.3 million
SB 16-086		
Revenue above the TABOR limit	6.2 million	0
Income Tax Rate Reduction	0	0
Sales Tax Refund	6.2 million	0
Change from Current Law		
Revenue above the TABOR limit	(185.4 million)	(384.2 million)
Income Tax Rate Reduction	0	(232.9 million)
Sales Tax Refund	(185.4 million)	(151.3 million)
Total Change from Current Law	**($185.4 million)**	**($384.2 million)**

Source: Legislative Council Staff December 2015 forecast.

State Transfers

When the TABOR surplus is between 1.0 percent and 3.0 percent of General Fund revenue, the SB 09-228 transfers are halved; when the TABOR surplus exceeds 3.0 percent, the Senate Bill 09-228 transfers are suspended. This bill will reduce the TABOR surplus in FY 2016-17 and FY 2017-18 to below 1.0 percent of General Fund revenue. In FY 2016-17, this will increase the amount of money transferred to the Capital Construction Fund by $25.6 million and the Highway Users Tax Fund by $102.4 million. In FY 2017-18, this will increase the amount of money transferred to the Capital Construction Fund by $108.1 million and the Highway Users Tax Fund by $216.1 million.

State Expenditures

This bill will **increase state General Fund expenditures by $68,147 and 0.7 FTE in FY 2017-18, and by $132,283 and 2.1 FTE beginning in FY 2018-19 for the Department of Revenue.** Costs include personal services, operating expenses, programming, testing, and form change costs, as summarized in Table 3.

Table 3. Expenditures Under SB 16-086			
Cost Components	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**
Personal Services		$29,810	$89,432
FTE		0.7	2.1
Operating Expenses and Capital Outlay Costs		5,368	6,698
Programming and Form Change Costs		17,200	
GenTax Testing Costs		3,838	
Centrally Appropriated Costs*		11,931	36,153
TOTAL		**$68,147**	**$132,283**

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

Department of Revenue. This bill requires changes to the Department of Revenue's GenTax software system. Changes are programmed by a contractor at a rate of $200 per hour. The changes in this bill are expected to increase General Fund expenditures by $16,000, representing 80 hours of programming. GenTax testing for this bill will require the expenditures for contract personnel totaling $3,838, representing 160 hours of testing at a rate of $24 per hour. Additionally, this bill will require ongoing allocation of 2.1 FTE to answer taxpayer inquiries at the department's call center. This assumes that 5 percent of taxpayers claiming the deduction will require assistance. The allocation in FY 2017-18 is 0.7 FTE to account for the General Fund employee paydate shift. No additional verification or audit workload is expected because federal tax data can be used to verify the taxpayer income.

Department of Personnel and Administration. Scanning and imaging software will require modification to implement changes to the deduction. This will require $1,200 for individual income tax form 104CR in FY 2017-18 reappropriated from the Department of Revenue to the document management line for the Department of Personnel and Administration.

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. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 4.

Table 4. Centrally Appropriated Costs Under SB16-086			
Cost Components	**FY 2016-17**	**FY 2017-18**	**FY 2017-18**
Employee Insurance (Health, Life, Dental, and Short-term Disability)		$5,600	$16,799
Supplemental Employee Retirement Payments		2,551	8,014
Leased Space		3,780	11,340
TOTAL		**$11,931**	**$36,153**

Effective Date

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Information Technology	Personnel and Administration	Revenue