HB 23-1128

Legislative Council Staff

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Fiscal Note

Drafting Number:	LLS 23-0571	**Date:**	February 10, 2023
Prime Sponsors:	Rep. Weinberg	**Bill Status:**	House Finance
		Fiscal Analyst:	Elizabeth Ramey | 303-866-3522 elizabeth.ramey@coleg.gov

Bill Topic: **INCOME TAX CREDITS AND DEDUCTIONS MARRIED TAXPAYERS**

Summary of Fiscal Impact:

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

The bill expands certain income tax deductions and credits for married taxpayers who file a joint income tax return. Starting in FY 2023-24, it reduces state revenue and increases state expenditures on an ongoing basis.

Appropriation Summary: For FY 2023-24, the bill requires an appropriation of $15,976 to the Department of Revenue.

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

Table 1
State Fiscal Impacts Under HB 23-1128

		Budget Year FY 2023-24	Out Year FY 2024-25	Out Year FY 2025-26
Revenue	General Fund	($4.2 million)	($8.4 million)	($7.9 million)
	Total Revenue	**($4.2 million)**	**($8.4 million)**	**($7.9 million)**
Expenditures	General Fund	$15,976	$85,503	$107,569
	Centrally Appropriated	-	$20,876	$30,764
	Total Expenditures	**$15,976**	**$106,379**	**$138,333**
	Total FTE	**-**	**1.3 FTE**	**1.9 FTE**
Transfers		-	-	-
Other Budget Impacts	TABOR Refund	($4.2 million)	($8.4 million)	($7.9 million)
	General Fund Reserve	$2,396	$12,825	$16,135

Summary of Legislation

The bill changes certain income tax credits and deductions for married taxpayers who file a joint return. Specifically, the bill:

- raises the qualifying maximum income threshold for the child care expense tax credit from $60,000 to $120,000;
- raises the qualifying maximum income threshold for the low-income child care expense tax credit from $25,000 to $50,000; and
- increases the maximum amount of the wildfire mitigation measures tax deduction from $2,500 to $5,000.

Background

Child care expense tax credit. Taxpayers with an annual income of up to $60,000 for both single and joint filers can receive a state income tax credit worth 50 percent of their federal child and dependent care tax credit for child care expenses.

Low-income child care expense tax credit. The low-income child care expense tax credit is available to taxpayers with annual incomes up to $25,000 for both single and joint filers. The amount of the credit is 25 percent of child care expenses, up to $500 for one child and $1,000 for two or more children. The low-income child care expense tax credit is only available to taxpayers who are ineligible for the child care expense credit.

Wildfire measures mitigation tax deduction. The Colorado wildfire measures mitigation tax deduction is available through tax year 2025 to taxpayers for certain costs incurred in performing wildfire mitigation measures on their property in a wildland-urban interface area within Colorado. The deduction is equal to 50 percent of qualifying costs, up to a total subtraction of $2,500 per taxpayers, regardless of filing status.

Assumptions

The fiscal note assumes that the changes in the bill take effect starting with tax year 2024, which is the earliest year that changes in the definition of taxable income can take effect due to TABOR constraints. Estimates for the child care expenses tax credit are based on 2019 federal income tax data, adjusted for population growth, for taxpayers filing jointly who meet the income limits under the bill and claim the federal child care expenses tax credit. Estimates for the low-income child care expense tax credit are based on 2019 federal income tax data, adjusted for population growth, on taxpayers filing jointly who meet the income limits under the bill, do not claim the federal child care expenses tax credit, and have at least one child under the age of 13. Estimates for changes to wildfire mitigation tax deduction are based on the number of filers currently claiming the maximum credit amount, adjusted for average annual growth in the number of these filers.

State Revenue

The bill is expected to decrease state revenue by $4.1 million in FY 2023-24, a half-year impact, $8.4 million in FY 2024-25, $7.9 million in FY 2025-26, and similar amounts in future years. The bill decreases revenue from income taxes, which are subject to TABOR. Revenue impacts are detailed in Table 2 below.

Table 2
Revenue Reductions Under HB 23-1128

	FY 2023-24	FY 2024-25	FY 2025-26
Child Care Expenses Tax Credit	($3.1 million)	($6.3 million)	($6.6 million)
Low-Income Child Care Expenses Tax Credit	($0.1 million)	($0.2 million)	($0.2 million)
Wildfire Mitigation Tax Deduction	($0.9 million)	($1.9 million)	($1.0 million)
Total Cost[1]	**($4.1 million)**	**($8.4 million)**	**($7.9 million)**

[1]Totals may not sum due to rounding.

State Expenditures

The bill increases General Fund expenditures by about $16,000 in FY 2023-24, by about $106,000 in FY 2024-25, by about $138,000 in FY 2025-26, and by similar amounts in future years. These costs represent administrative expenses in the DOR to implement the new tax credit. Expenditures are shown in Table 3 and detailed below.

Table 3
Expenditures Under HB 23-1112

	FY 2023-24	FY 2024-25	FY 2025-26
Department of Revenue			
Personal Services	-	$70,003	$105,004
Operating Expenses	-	$2,160	$2,565
Capital Outlay Costs	-	$13,340	-
Computer Programming and Testing	$15,976	-	-
Centrally Appropriated Costs[1]	-	$20,876	$30,764
Total Cost	**$15,976**	**$106,379**	**$138,333**
Total FTE	**-**	**1.3 FTE**	**1.9 FTE**

[1]Centrally appropriated costs are not included in the bill's appropriation.

Personal services. The DOR will require additional staff to review and process tax returns claiming the expanded deductions and credits under the bill. The department will require 1.3 FTE in FY 2024-25 and 1.9 FTE in FY 2025-26 and ongoing for tax examiners and project management. Operating expenses include telephone, computers, and other supplies for these staff.

Computer programming and testing. The DOR will have one-time costs of $15,976 in FY 2023-24 for computer programming and testing. Programming costs are estimated at $9,000, representing 40 hours of contract programming at a rate of $225 per hour. Costs for user acceptance testing at the department are estimated at $6,976, representing 218 hours at $35 per hour.

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. 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. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing 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

For FY 2023-24, the bill requires an appropriation of $15,976 to the Department of Revenue.

State and Local Government Contacts

Information Technology	Personnel	Revenue