# HB 18-1208

Legislative Council Staff
*Nonpartisan Services for Colorado's Legislature*

# FINAL FISCAL NOTE

| | | | |
|---|---|---|---|
| **Drafting Number:** | LLS 18-0466 | **Date:** | August 30, 2018 |
| **Prime Sponsors:** | Rep. Duran; Winter<br>Sen. Martinez Humenik | **Bill Status:** | Signed into Law |
| | | **Fiscal Analyst:** | Greg Sobetski \| 303-866-4105<br>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 increases the amount of the state income tax credit for child care expenses. It decreases state revenue on an ongoing basis and requires one-time implementation expenditures.

**Appropriation Summary:** No appropriation is required.

**Fiscal Note Status:** This revised fiscal note reflects the enacted bill.

**Table 1**
**State Fiscal Impacts Under HB 18-1208**

| | | FY 2018-19 | FY 2019-20 |
|---|---|---|---|
| **Revenue** | General Fund | ($1.9 million) | ($3.7 million) |
| **Expenditures** | General Fund | - | $11,040 |
| **Transfers** | | - | - |
| **TABOR Refund** | | ($1.9 million) | ($3.7 million) |

## Summary of Legislation

Beginning in tax year 2019, this bill expands the state income tax credit for child care expenses. The credit is available to taxpayers with adjusted gross income (AGI) of $60,000 or less who claim a child care expenses credit on their federal income tax return. Under current law, 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.

Under the bill, the state credit is equal to 50 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 reduce state income tax revenue to the General Fund by $1.9 million in FY 2018-19 and by $3.7 million in FY 2019-20 and subsequent fiscal years. The revenue impact for FY 2018-19 represents a half-year impact for tax year 2019 on an accrual accounting basis. The estimated effects on taxpayers of different AGI levels are presented in Table 3.

**Table 3**
**Estimated Taxpayer Impact of Child Care Expenses Credit in HB 18-1208 for Tax Year 2019**

| 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 | $314 | $157 | $157 | ($0.5 million) | - |
| $25,001 to $35,000 | 7,000 | $545 | $164 | $273 | ($1.9 million) | ($0.8 million) |
| $35,001 to $60,000 | 14,100 | $526 | $53 | $263 | ($3.7 million) | ($3.0 million) |
| **Total** | **24,300** | **$504** | **$98** | **$252** | **($6.1 million)** | **($3.7 million)** |

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.

## TABOR Refund

This bill reduces state income tax revenue by $1.9 million in FY 2018-19 and $3.7 million in FY 2019-20, which will reduce the amount of money required to be refunded under TABOR. Since the bill reduces revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money for the General Fund budget in the future during years when the state does not collect revenue above the TABOR limit.

State revenue subject to TABOR is not estimated for years beyond FY 2019-20.

## State Expenditures

This bill increases General Fund expenditures by $11,040 in FY 2019-20 only. 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** | | |
| Computer Programming and Testing | - | $9,840 |
| Document Management | - | $1,200 |
| **Total Cost** | **$0** | **$11,040** |

**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 $6,000, representing 24 hours of programming. All GenTax programming changes are tested by the department. Testing for this bill will require 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 two tax forms at a cost of $1,200 per form in FY 2018-19 only. These costs occur in the Department of Personnel and Administration and are paid with reappropriated Department of Revenue funds.

## Effective Date

The bill was signed into law by the Governor on May 22, 2018, and took effect on August 8, 2018.

## State and Local Government Contacts

Information Technology Personnel Revenue