SB 18-047

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

FISCAL NOTE

Drafting Number: LLS 18-0701
Prime Sponsors: Sen. Marble, Rep. Saine
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Bill Status: Senate Finance
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Bill Topic: REPEAL TAX CREDITS INNOVATIVE VEHICLES

Summary of Fiscal Impact:

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

This bill repeals the income tax credits for innovative motor vehicles and innovative trucks. For three years, revenue attributable to the repeal of the credits is diverted for state and local transportation purposes. The bill reduces state expenditures and increases state and local revenue and diversions until the credit would have otherwise been repealed.

Appropriation Summary: For FY 2018-19, the bill requires a General Fund appropriation of $16,000 to the Department of Revenue.

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

Table 1
State Fiscal Impacts Under SB 18-047

		FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Revenue	General Fund	$10.3 million	$19.2 million	$14.9 million	$6.0 million
	Total	**$10.3 million**	**$19.2 million**	**$14.9 million**	**$6.0 million**
Expenditures	General Fund	$16,000	($13,523)	($39,140)	($39,140)
	Centrally Appropriated	-	($3,565)	($9,721)	($9,721)
	Total	**$16,000**	**($17,088)**	**($48,861)**	**($48,861)**
	Total FTE	**-**	**(0.3 FTE)**	**(0.8 FTE)**	**(0.8 FTE)**
Diversions	General Fund	($10.3 million)	($19.2 million)	($14.9 million)	-
	Hwy Users Tax Fund	$10.3 million	$19.2 million	$14.9 million	-
	Total	-	-	-	-

Summary of Legislation

This bill repeals state income tax credits for purchases of innovative motor vehicles and trucks earlier than these credits would have been repealed under current law. The following credits are repealed at the end of tax year 2018:

- the credit for innovative passenger motor vehicles, including electric, plug-in hybrid electric, compressed natural gas, and liquefied petroleum gas vehicles; and for vehicles with idling reduction technologies; and

- the credit for innovative trucks, including electric, plug-in hybrid electric, compressed natural gas, liquefied petroleum gas, liquefied natural gas, hydrogen, and hydraulic hybrid trucks; for trucks with idling reduction technologies or aerodynamic improvements; and for clean fuel refrigerated trailers.

For each fiscal year between FY 2018-19 and FY 2020-21, the amount by which state revenue increases as a result of these credits' repeal is diverted to the Highway Users Tax Fund (HUTF) and distributed to the state, counties, and municipalities for transportation project construction and maintenance. Distributions from the HUTF are made in the following shares:

- 60 percent to the State Highway Fund;
- 22 percent to counties, following the current county allocation formula; and
- 18 percent to municipalities, following the current municipal allocation formula.

The bill also repeals the requirement that the Colorado Energy Office conduct a study of life-cycle emissions produced by heavy duty trucks. Under current law, the study is required to be completed in 2018.

Background

The state has allowed an income tax credit for the purchase of certain alternative fuel or innovative vehicle types since tax year 1993. The credit is currently available for the purchase or lease of new vehicles, including trucks, powered by certain fuel sources or using certain technologies. Under current law, the amount of credit available for most qualifying vehicles will be reduced in 2020 and again in 2021. All innovative vehicle credits are set to repeal at the end of tax year 2021.

State Revenue

This bill increases General Fund revenue by the following amounts:

- $10.3 million in FY 2018-19;
- $19.2 million in FY 2019-20;
- $14.9 million in FY 2020-21; and
- $6.0 million in FY 2021-22.

The amounts for FY 2018-19 and FY 2021-22 represent half-year impacts for tax years 2019 and 2021, respectively, on an accrual accounting basis. No state revenue impacts are anticipated beyond FY 2021-22.

Assumptions. This bill is expected to increase income tax revenue between 2019 and 2021 by an amount equal to what would otherwise have been allowed in credits to taxpayers in these years. Data retrieved in January 2018 indicate that Colorado individual, corporate, partnership, and fiduciary taxpayers were allowed income tax credits for innovative motor vehicles and innovative trucks worth a total of $16.3 million for tax year 2016. For tax years 2017 through 2019, this amount is assumed to grow annually by 8.0 percent, the credit growth rate observed in the last year for which a policy change did not occur. Aggregate credit amounts for 2020 and 2021 will decrease under current law because the credit amount allowed per vehicle falls in these years; the bill's revenue impact will decline in these years as a result.

TABOR Impact

The bill increases state revenue subject to TABOR by $10.3 million in FY 2018-19 and $19.2 million in FY 2019-20. State revenue is not currently expected to exceed the TABOR limit in either year and no refund is required. Therefore, the bill is not expected to impact TABOR refunds in these years.

A forecast of the state TABOR situation is not yet available for FY 2020-21 or FY 2021-22. If the state collects a TABOR surplus, this bill will increase the refund required in tax year 2021 (for FY 2020-21) and/or tax year 2022 (for FY 2021-22).

State Diversions

For FY 2018-19 through FY 2020-21, the state controller is required to deposit in the HUTF the amount by which state revenue increases as a result of the repeal of the tax credits. The amount of the increase for FY 2021-22 is not required to be diverted under this bill and is assumed to be collected in the General Fund and spent or saved at the discretion of the General Assembly. Total diversion amounts, as well as these amounts' approximate allocations to the State Highway Fund, counties, and municipalities, are shown in Table 2.

Table 2
Diversions Under SB 18-047

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
GF Diversion to HUTF				
State Highway Fund Share	$6.2 million	$11.5 million	$8.9 million	-
County Share	$2.3 million	$4.2 million	$3.3 million	-
Municipal Share	$1.9 million	$3.5 million	$2.7 million	-
Total Diversion*	**$10.3 million**	**$19.2 million**	**$14.9 million**	**-**

**Totals may not sum due to rounding.*

Revenue distributed from the HUTF may be expended only for improvements to highways and other transportation-related projects, including construction, safety improvements, maintenance, and capacity improvements. These moneys may not be expended for administrative purposes.

State Expenditures

The bill increases state expenditures by $16,000 for FY 2018-19 only. The bill reduces state expenditures by $17,088 and 0.3 FTE in FY 2019-20 and by $48,861 and 0.8 FTE in each of FY 2020-21 and FY 2021-22. Expenditure impacts are not expected to continue beyond FY 2021-22. These impacts are summarized in Table 3 and described below.

Table 3
Expenditures Under SB 18-047

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Department of Revenue				
Personal Services	-	($13,523)	($38,380)	($38,380)
Operating Expenses	-	-	($760)	($760)
Computer Programming	$10,000	-	-	-
Document Management	$6,000	-	-	-
Centrally Appropriated Costs*	-	($3,565)	($9,721)	($9,721)
FTE – Personal Services	-	(0.3 FTE)	(0.8 FTE)	(0.8 FTE)
Total Expenditures	**$16,000**	**($17,088)**	**($48,861)**	**($48,861)**

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

Computer programming. This bill requires one-time changes to the GenTax software system used by the Department of Revenue (DOR). Changes are programmed by a contractor at a rate of $250 per hour. The changes in this bill are expected to increase General Fund expenditures by $10,000, representing 40 hours of programming. All GenTax programming changes are tested by department staff. The department can perform the testing required in this bill within existing appropriations.

Document management. The bill requires changes to five tax forms that can be used to claim the affected tax credits under current law. Form updates are performed via a contract with the Department of Personnel and Administration and paid using General Fund moneys reappropriated from the DOR budget.

Personal services and operating expenses. Beginning in 2020, the bill is expected to reduce DOR Taxpayer Services workload that would otherwise be required to process, investigate, and respond to inquiries regarding the tax credits. Based on the assumption that the number of taxpayers who file returns claiming the credit will grow by 8.0 percent annually, the workload reduction is expected to equal 0.3 FTE in FY 2019-20, representing a half-year impact for 2019 returns, and 0.8 FTE for each of FY 2020-21 and FY 2021-22. The amounts in Table 3 reflect a five-month salary impact for FY 2019-20 resulting from the General Fund pay date shift and the assumption that 100 percent of returns are reviewed by Taxpayer Services under current law.

Colorado Energy Office. This bill eliminates the requirement that the office complete a study of innovative truck life cycle emissions during 2018. Moneys for the study were appropriated in the 2017 Long Bill and have already been expended. This fiscal note assumes that no FY 2018-19 appropriation will be made for the study under current law; thus, this provision of the bill is assessed as having no fiscal impact. The bill minimally reduces office workload between FY 2018-19 and FY 2020-21 by eliminating the requirement that the office recertify the innovative truck credit for tax years 2019, 2020, and 2021.

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 estimated to be reduced by $3,565 in FY 2019-20 and $9,721 in each of FY 2020-21 and FY 2021-22.

Local Government

Counties and municipalities will receive increased distributions from the HUTF for FY 2018-19 through FY 2020-21, as shown in Table 2. Distributed amounts are allocated to individual counties and municipalities following an existing statutory formula. Revenue allocated to local jurisdictions is assumed to increase local expenditures for transportation projects.

Technical Note

The bill requires that the state controller make annual diversions to the HUTF in the estimated amounts by which state revenue increases as a result of the credits' repeal under this bill. The bill does not specify what office or agency is responsible for producing these estimates, the methodology to be used, or the protocol for resolving disputes if estimates conflict. Depending on how the bill is administered, this provision could increase workload in the Office of the State Controller in the Department of Personnel and Administration, the Office of Research and Analysis in the Department of Revenue, the Colorado Energy Office, the Office of State Planning and Budgeting, and/or Legislative Council Staff.

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, this bill requires a General Fund appropriation of $16,000 to the Department of Revenue, from which $6,000 is reappropriated to the Department of Personnel and Administration.

Departmental Difference

The Department of Revenue assesses the bill as reducing departmental taxpayer service workload by only a minimal amount beginning in FY 2019-20. The department notes that prior legislation that authorized or modified the credit, including House Bill 14-1326 and House Bill 16-1332, did not include personnel allocations. Similarly, the department's budget does not include appropriations specifically associated with this credit. Because the responsibility for administering individual credits is dispersed among various staff, the department assumes that the workload reduction resulting from the repeal of the credits cannot be quantified as a reduction in the number of taxpayer service personnel required.

This fiscal note assumes that the bill's effect on departmental expenditures will be the inverse of the increase that would be expected if a similarly complex pair of tax credits were enacted into law.

State and Local Government Contacts

Colorado Energy Office	Counties	Information Technology
Municipalities	Personnel	Revenue
Transportation		