HB 22-1121

Legislative Council Staff
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Revised Fiscal Note

(replaces fiscal note dated March 7, 2022)

Drafting Number: LLS 22-0392
Prime Sponsors: Rep. Cutter
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Bill Status: House Finance
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Bill Topic: **SUPPORTING LOCAL MEDIA**

Summary of Fiscal Impact:

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

The bill creates an income tax credit for small businesses advertising with local broadcasters and newspapers. It will decrease state revenue and increase state expenditures beginning in FY 2022-23.

Appropriation Summary: For FY 2022-23, the bill requires an appropriation of $45,154 to the Department of Revenue.

Fiscal Note Status: This revised fiscal note reflects the bill as amended by House Business Affairs and Labor Committee.

Table 1
State Fiscal Impacts Under HB 22-1121

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	($4.4 million)	($9.0 million)
	Total Revenue	**($4.4 million)**	**($9.0 million)**
Expenditures	General Fund	$45,154	$56,092
	Centrally Appropriated	-	$9,875
	Total Expenditures[1]	**$45,154**	**$65,967**
	Total FTE	**-**	**0.7 FTE**
Transfers		-	-
Other Budget Impacts	TABOR Refund	($4.4 million)	($9.0 million)
	General Fund Reserve	$6,773	$8,414

[1] *Department of Revenue expenditures will decline in FY 2024-25 compared to FY 2023-24, as discussed in the State Expenditures section.*

Summary of Legislation

The bill creates an income tax credit for supporting local broadcasters and newspapers. For income tax years beginning on or after January 1, 2023, but before January 1, 2033:

- a small business is allowed a credit against their income taxes, not to exceed $2,500, in an amount equal to 50 percent of the amount paid by the eligible small business for local broadcaster and newspaper advertising.

If the amount of the credit allowed exceeds the amount of income taxes otherwise due in the income tax year for which the credit is being claimed, the bill permits the amount of the credit not used in the income tax year to be carried forward as a credit against subsequent years' income tax liability for a period not to exceed 10 years. Any amount of the credit that is not used after such period is not refunded to the taxpayer.

State Revenue

The bill will reduce General Fund revenue by an estimated $4.4 million in FY 2022-23 (half-year impact), by $9.0 million in FY 2023-24, and by similar amounts in subsequent years until the credits expire in FY 2033-34. The bill reduces income tax revenue, which is subject to TABOR. Revenue impacts are on a tax year basis. Additional information is presented in Table 2 and discussed below.

Table 2
Revenue Reduction Under HB 22-1121

	Tax Year 2023	Tax Year 2024
Business tax credit claimants	3,510	3,690
Value of tax credit	$2,500	$2,500
Total State Revenue Impact	**($8.8 million)**	**($9.2 million)**

The fiscal note assumes that approximately 3,510 small businesses will claim the tax credit in tax year 2023 and 3,690 businesses will claim the credit in tax year 2024. This estimate is based on the total number of businesses in Colorado with fewer than 50 employees that are in the retail trade (11,308 businesses) and the other services industry (12,987 businesses), as these are the two industries most likely to engage in local advertising. These figures were reduced further to reflect that only about 17 percent of small businesses regularly advertise in newspapers, according to available data. The fiscal note assumes that businesses will claim the full $2,500 tax credit in the year that the advertising occurs. To the extent that some taxpayers do not have sufficient tax liability to claim the full credit in the year that the spending occurs, the unused portion of the credit will be carried to future years.

State Expenditures

The bill increases state General Fund expenditures in the Department of Revenue by $45,154 in FY 2022-23, by $65,967 in FY 2023-24, and by $32,189 in FY 2023-24 through FY 2033-34. Expenditures are shown in Table 3 and detailed below.

Table 3
Tax-related Expenditures Under HB 22-1121

	FY 2022-23	FY 2023-24	FY 2024-25
Department of Revenue			
Personal Services	-	$31,960	$19,818
Operating Expenses	-	$945	-
Capital Outlay Costs	-	$4,340	-
Document Management & Tax Form Changes	-	$12,447	$188
Data Reporting	-	$6,400	$6,400
GenTax Programming	$11,250	-	-
Computer and User Acceptance Testing	$33,904	-	-
Centrally Appropriated Costs	-	$9,875	$5,783
Total Cost	**$45,154**	**$65,967**	**$32,189**
Total FTE	**-**	**0.7 FTE**	**0.4 FTE**

Department of Revenue. The Department of Revenue (DOR) will require an additional 0.7 FTE tax examiners in FY 2023-24 and 0.4 FTE tax examiners in FY 2024-25 and subsequent years. The tax examiners are necessary to process and review additional returns claiming the new tax credit, to resolve errors in returns, and verify the qualifications for local broadcasters and newspapers as specified in the bill. Staff-related expenditures include standard operating and capital outlay costs and have been prorated for the General Fund pay date shift in FY 2023-24.

- **Computer programming and testing.** For FY 2022-23 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 50 hours of computer programming will be required to implement this bill, totaling $11,250. Additional computer and user acceptance testing are required to ensure programming changes are tested and functioning properly, resulting in an additional $33,904 in expenditures by the department.

- **Document management and tax form changes.** The bill requires additional expenditures of $12,447 in FY 2023-24 and $188 in FY 2024-25 to implement document management and tax form changes. These expenditures will take place in the Department of Personnel and Administration using reappropriated funds from the DOR.

- **Data reporting.** Beginning in FY 2023-24, the Office of Research and Analysis within DOR will expend $6,400 each year to collect and report data on the new tax credit.

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 3.

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 2021 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2023-24. 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 increase the amount of General Fund held in reserve by the amounts shown in Table 1, which will decrease 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 2022-23, the bill requires an appropriation of $45,154 General Fund to the Department of Revenue to implement the tax credit.

State and Local Government Contacts

Information Technology	Personnel	Revenue