



Colorado
Legislative
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Staff

Bill 3

FISCAL NOTE

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

Drafting Number: LLS 16-0302
Prime Sponsor(s):

Date: October 23, 2015
Bill Status: Interim Committee to Study Vocational
Rehabilitation for the Blind Bill Request
Fiscal Analyst: Kate Watkins (303-866-3446)

BILL TOPIC: INCOME TAX CREDIT FOR EMPLOYERS OF PERSONS WITH DISABILITIES

Fiscal Impact Summary	FY 2015-2016 (Current Fiscal Year)	FY 2016-2017	FY 2017-2018
State Revenue			
Revenue Change General Fund	(Up to \$31.0 million)	(Up to \$85.6 million)	(Up to \$102.1 million)
State Transfers General Fund Capital Construction Fund Highway Users Tax Fund			(\$165.3 million) \$55.1 million \$110.2 million
State Expenditures		\$39,878	\$35,217
General Fund		36,418	28,196
Centrally Appropriated Costs		3,460	7,021
TABOR Impact		(Up to \$85.6 million)	(Up to \$102.1 million)
FTE Position Change		0.3 FTE	0.6 FTE
Appropriation Required: \$39,878 – Department of Revenue (FY 2016-17)			
Future Year Impacts: Ongoing expenditure impact, decreasing over time.			

*Numbers in parentheses indicate a decrease.

Summary of Legislation

This bill, **requested by the Interim Committee to Study Vocational Rehabilitation for the Blind**, creates two income tax credits for taxpayers who hire persons with developmental disabilities and persons who are blind or visually impaired. The income tax credits are calculated as follows:

- **a tax credit for employee wages** equal to 50 percent of the gross wages of a qualifying employee in the first three months of continuous employment, and 30 percent of the gross wages of a qualifying employee in the next nine months of continuous employment; and
- **a tax credit for software and hardware costs** equal to a share of the cost of the maintenance, repair, or upgrade of software or hardware that assists a qualifying employee in performing his or her job as follows:

- 75 percent of costs incurred in the first year of a qualifying employee's employment;
- 50 percent of costs incurred in the second year; and
- 25 percent of costs incurred in the third year of employment.

Both credits are non-refundable and are available for three years, beginning in tax year 2016. Both credits are limited to a taxpayer's income tax liability. The amount of a credit in excess of the liability may be carried forward for up to 5 years.

Background

House Bill 08-1127 created an income tax credit for taxpayers who hire individuals with a developmental disability at a workplace located in certain Colorado counties. The tax credit was calculated as 50 percent of the gross wages of a qualifying employee in the first three months of continuous employment, and 30 percent of the gross wages of a qualifying employee in the next nine months of continuous employment. However, the credit was not triggered in the three years it was offered beginning with tax year 2009, because it was contingent upon the December 2008, 2009 and 2010 forecasts of General Fund revenue being sufficient to grow General Fund appropriations by 6 percent. This bill reinstates this prior tax credit without the General Fund revenue contingency, expands the covered population to include the blind and visually impaired, and creates a new credit for accommodation costs of qualifying employees.

State Revenue

This bill is estimated to reduce General Fund revenue by **up to \$31.0 million in FY 2015-16 (half-year impact), \$85.6 million in FY 2016-17, and \$102.1 million in FY 2017-18**. Table 1 shows the full revenue impact expected from the bill through FY 2020-21. These estimates represent an upper bound as they assume that the entire population of qualifying employees would be hired. Revenue estimates could vary widely in any given year depending on the date in which a qualifying employee is hired, the employers tax liability, the duration of a qualifying employee's employment, deviation from the assumed average employee wage, and the cost of and number of qualifying employees hired between 2016 and 2019.

Table 1. Estimated General Fund Revenue Impact of LLS 16-0302						
<i>Dollars in Millions</i>						
	FY 2015-16*	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21*
Credit for Gross Wages	(\$29.5)	(\$80.7)	(\$94.6)	(\$43.4)	\$0	\$0
Credit for Accommodation Costs	(\$1.5)	(\$4.9)	(\$7.5)	(\$5.9)	(\$2.4)	(\$0.5)
Total Revenue Impact	(\$31.0)	(\$85.6)	(\$102.1)	(\$49.3)	(\$2.4)	(\$0.5)

*Half year impact. Totals may not sum due to rounding.

Assumptions. Using the population, cost, and wage assumptions detailed below, this fiscal note assumes that up to 7,250 new qualifying employees will be hired in 2016, half of the qualifying employee population. This includes up to 2,350 blind or visually impaired employees and up to 4,900 developmentally disabled employees. Assuming a 15 percent turnover rate for both new hires and employees who are currently working but change jobs, up to 12,590 new hires are projected for 2017 and up to 10,680 new hires for 2018.

Qualifying employees are assumed to earn an average annual salary of \$23,233 and the annual cost for accommodating employment of qualifying employees is estimated at \$550. Using these assumptions, Table 2 summarizes the average tax credits expected for qualifying employees hired in 2016 and employed through 2018.

Table 2. Estimated Average Employer Tax Credits Under LLS 16-0302 per Qualifying Employee Hired January 1, 2016*				
	2016	2017	2018	3-Year Total
Credit for Gross Wages 50% of the first 3 month's wages, 30% of the following 9 month's wages	\$8,132	\$0	\$0	\$8,132
Credit for Accommodation Costs 75% in the first year of employment, 50% in the second, and 25% in the third	\$413	\$275	\$138	\$825
Total Employer Tax Credit	\$8,544	\$275	\$138	\$8,957

*Assumes the employee remains hired for three consecutive years.

Revenue estimates assume that no tax credit carry-overs will occur. The average corporate income taxes owed after subtracting tax credits averaged \$10,523 in 2012 and 2013, the two most recent years for which data are available. This amount exceeds the average tax credits shown in Table 2. However, employers with below average income tax liabilities and those who hire multiple qualifying employees may claim a tax credit that exceeds their liability. This would push out the expected revenue impact of this bill to future years if these employers claim a tax credit carry-over, which is allowed for up to 5 years.

Qualifying employee population estimates. An estimated 9,800 working-age Coloradans with a cognitive disability were not working but were actively seeking work in 2013. An estimated 4,700 working-age Coloradans who are blind or have serious difficulty seeing were not working but were actively seeking work in 2013. These estimates were derived from the 2013 American Community Survey. This fiscal note assumes that each year half of the employees would be hired in the first half of the year and half would be hired in the second half. Therefore, the qualifying population is reduced by half for 2016 and 2018. Estimates for 2017 and 2018 assume that 15 percent of the 2016 working population will turnover, this includes 15 percent of 56,700 working individuals with visual or cognitive disabilities, as estimated in the 2013 American Community Survey. These estimates represent an upper bound as they assume that the entire population of qualifying employees would be hired.

Accommodation costs. Costs associated with hardware or software that assists a qualifying employees in performing work-related tasks could range widely. This fiscal note assumes that costs associated with hiring a qualifying employee would average \$550 for each year of employment. According to a 2007 study published by DePaul University and the Illinois Department of Commerce and Economic Opportunity, 10 percent of disabled employees needed

special accommodations to work, and the average cost of accommodating employees with disabilities was \$521. Disability in this study is defined as a permanent physical or mental impairment that substantially limits one or more major life activities. According to the National Foundation for the Blind, 88 percent of total employee accommodations cost less than \$1,000.

Average employee wage. According to data on employment placements for the blind and visually impaired provided from the Colorado Department of Human Services, Division of Vocational Rehabilitation, the average hourly wage of employed persons who are blind and visually impaired was \$14.67 in FY 2012-13 through FY 2014-2015. These employees averaged 30.5 hours of work per week. This equates to an annual salary of \$23,233.

TABOR Impact

This bill reduces state General Fund revenue by **up to \$31.0 million in FY 2015-16, \$85.6 million in FY 2016-17, and \$102.1 million in FY 2017-18.** This will reduce the state's TABOR surplus and the amount of money required to be refunded to taxpayers by these amounts. Table 3 shows the projected impact on the mechanisms used to refund the TABOR surplus under current law.

Based on the September 2015 Legislative Council Staff forecast, the individual income tax rate reduction is expected to be available as a TABOR refund mechanism in FY 2016-17 and FY 2017-18. In FY 2016-17, this bill could reduce the TABOR surplus below the \$216.1 million threshold required to trigger the individual income tax rate reduction. If this were to occur, the entire TABOR surplus will be refunded through the Six Tier Sales Tax Refund.

Table 3. Impact of LLS 16-0302 on Current Refund Mechanisms		
<i>Millions of Dollars</i>		
	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	\$252.2 million	\$352.0 million
Income Tax Rate Reduction	\$216.1 million	\$228.1 million
Sales Tax Refund	\$36.1 million	\$123.9 million
LLS 16-0302		
Revenue above the TABOR limit	\$166.6 million	\$249.9 million
Income Tax Rate Reduction	\$0.0	\$228.1 million
Sales Tax Refund	\$166.6 million	\$21.8 million
Change from Current Law		
Revenue above the TABOR limit	(\$85.6 million)	(\$102.1 million)
Income Tax Rate Reduction	(\$216.1 million)	\$0.0
Sales Tax Refund	\$130.5 million	(\$102.1 million)
Total Change from Current Law	(\$85.6 million)	(\$102.1 million)

Source: Legislative Council Staff Forecast, September 2015.

Senate Bill 09-228 Transfers. When the TABOR surplus is between 1.0 percent and 3.0 percent of General Fund revenue, the Senate Bill 09-228 transfers are cut in half; when the TABOR surplus exceeds 3.0 percent the Senate Bill 09-228 transfers are eliminated in that year. This bill could reduce the TABOR surplus in FY 2017-18 to below 1.0 percent of General Fund revenue, which will increase the amount of money transferred to the Capital Construction Fund by \$55.1 million and the Highway Users Tax Fund by \$110.2 million in FY 2017-18.

State Expenditures

This bill will increase General Fund expenditures for the Department of Revenue by \$39,878 and 0.3 FTE in FY 2016-17 and \$35,217 and 0.6 FTE in FY 2017-18. Costs include personal services, operating expenses, document management, and forms change costs, as summarized in Table 4.

Table 4. Expenditures Under LLS 16-0302		
Cost Components	FY 2016-17	FY 2017-18
Personal Services - Tax Services Division	\$12,402	\$24,804
FTE	0.3	0.6
Operating Expenses and Capital Outlay Costs	\$1,696	\$3,392
Programming	\$22,320	
Centrally Appropriated Costs*	\$3,460	\$7,021
TOTAL	\$39,878	\$35,217

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

Taxpayer Service Division costs. Based on estimates of the qualifying population and number of employees hired per employer, an estimated 1,531 employers will claim tax credits in tax year 2016, 2,658 in tax year 2017, and 2,255 in tax year 2018. Additional tax examiner staff (0.3 FTE in FY 2016-17 and 0.6 FTE in FY 2017-18) will be required to validate claims for assistive hardware or software technology and to review them on a case-by-case basis.

Call Center. Taxpayer inquiries under this bill to the Call Center will be minimal and can be absorbed within existing resources.

Programming and document management costs. This bill requires GenTax programming and reconfiguring of the Fairfax imaging system to insert an additional line to capture the credit value on the various schedules for each of the four income tax types (individual, corporate, partnership, fiduciary). The department will incur one-time programming costs of \$17,520 in FY 2016-17 to modify the GenTax system. Maintenance and updating are performed by Fast Enterprises and estimated at \$219 per hour for 80 hours. Fairfax programming requires changes to 4 state tax forms (104CR, 112CR, DR 105, and 106CR) at \$1,200 each.

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 5.

Cost Components	FY 2016-17	FY 2017-18
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$2,399	\$4,798
Supplemental Employee Retirement Payments	\$1,061	\$2,223
TOTAL	\$3,460	\$7,021

Technical Considerations

The Department of Revenue has raised the issue that this bill does not specify a method of verification that an employee is blind, visually impaired, or developmentally disabled. The department is prohibited from requesting or reviewing medical information for any individual under the provisions of HB 14-1323. Federal Health Insurance Portability and Accountability Act (HIPAA) requirements also prohibit employers from disclosing medical information of employees. The department recommends that the Division of Vocational Rehabilitation under the Department of Human Services certify employee qualifications. Fraud or abuse may result in a greater revenue impact without certification.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2016-17, the Department of Revenue requires a General Fund appropriation of \$36,418 and an allocation of 0.3 FTE.

Department Contacts

Revenue

Human Services

Labor and Employment