

Colorado Legislative Council Staff Fiscal Note

**FINAL
FISCAL NOTE**

Drafting Number: LLS 15-0967
Prime Sponsor(s): Rep. Moreno

Date: August 24, 2015
Bill Status: Postponed Indefinitely
Fiscal Analyst: Larson Silbaugh (303-866-4720)

BILL TOPIC: ENDOWMENT OR INSTITUTIONAL FUND GIFT TAX CREDIT

Fiscal Impact Summary*	FY 2014-2015 (Current Year)	FY 2015-2016	FY 2016-2017
State Revenue	(\$4.1 million)	(\$8.1 million)	(\$8.2 million)
General Fund	(\$4.1 million)	(\$8.1 million)	(\$8.2 million)
State Expenditures		\$31,894	\$15,991
General Fund		30,734	12,402
Centrally Appropriated Costs**		1,160	3,589
FTE Position Change		0.1 FTE	0.3 FTE
TABOR Set-Aside	(\$4.1 million)	(\$8.1 million)	(\$8.2 million)
Appropriation Required: \$30,734 - DOR (FY 2015-16)			

* This summary shows changes from current law under the bill for each fiscal year. Parentheses indicate a decrease in funds.

** These costs are not included in the bill's appropriation. See the State Expenditures section for more information.

Summary of Legislation

This bill creates an income tax credit for contributions made to an endowment of a Colorado charitable organization. Eligible endowment funds do not include donor advised funds or funds for a private foundation. The credit is equal to 25 percent of the contribution and the maximum credit allowed is \$25,000 per taxpayer per year. The credit is non-refundable, but can be carried forward for five years, and is available starting in tax year 2015.

Background

Charitable organizations can establish endowment funds that help support their charitable mission. Endowments are set up so that the principal in the fund is maintained over a long period of time, but earnings on the principal are used to support the ongoing operations of the charitable organization. The contributions are deductible from federal taxable income; this would not effect the ability of taxpayers to claim this state credit.

State Revenue

This bill will reduce General Fund revenue by \$4.1 million in FY 2014-15, \$8.1 million in FY 2015-16, and \$8.2 million in FY 2016-17.

Assumptions. Montana has a similar individual income tax credit that is determined by contributions to charitable endowments. In 2012, Montana taxpayers claimed income tax credits based on contributions of \$5,181,885 to charitable endowments.

The Montana credit is based on a higher percentage of the contribution but has a lower cap; therefore, it is assumed that taxpayers in Colorado and Montana will make about the same level of contributions based on a per capita and personal income basis. Based on the difference in personal income of residents in Montana and Colorado, contributions to qualified endowments would have been equal to \$31.6 million in Colorado in 2012.

Contributions in Montana increased 0.8 percent annually in the five years between 2008 and 2012. Using this growth rate between 2012 and 2017, there would be \$32.4 million in Colorado contributions in 2015, the first year the credit is available; \$32.7 million in 2016; and \$33.0 million in 2017. This would equal \$8.1 million in tax credits in tax year 2015, \$8.2 million in 2016, and \$8.2 million in 2017.

Adjusting for fiscal years, individual income taxes will be reduced by \$4.1 million in the current FY 2014-15, \$8.1 million in FY 2015-16, and \$8.2 million in FY 2016-17. The FY 2014-15 impact reflects a partial year impact for the first six months of 2015.

TABOR Impact

This bill reduces state revenue from individual income taxes, which will reduce the amount required to be refunded under TABOR. TABOR refunds are paid from the General Fund.

State Expenditures

This bill will require \$31,894 and 0.1 FTE in FY 2015-16 and \$15,991 and 0.3 FTE in FY 2016-17 and future years to administer. Table 1 shows these costs.

Table 1. Expenditures Under HB 15-1314		
Cost Components	FY 2015-16	FY 2016-17
Personal Services	\$4,134	\$12,402
FTE	0.1 FTE	0.3 FTE
Computer Programing (DOR)	25,400	
Computer Programing (DPA)	1,200	
Centrally Appropriated Costs*	1,160	3,589
TOTAL	\$31,894	\$15,991

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

Department of Revenue. Based on a similar credit in Montana, the Department of Revenue (DOR) expects to receive and process about 2,800 tax returns where the credit is claimed per year. Charitable organizations are required to provide documentation that will be submitted with the tax return to claim the credit. Because there will not be an electronic file received from the charitable organizations, each return where a credit is claimed must be manually reviewed. This manual review will require 0.1 FTE in FY 2015-16 and 0.3 FTE in following years, requiring \$4,134 and \$12,402 of personal services costs in FY 2015-16 and FY 2016-17, respectively.

The DOR will modify the state's tax administration software so that it can track and allow the credit. This will require 120 hours of testing and programming from the software vendor, which will require \$25,400 in FY 2015-16.

Department of Personnel and Administration. The Department of Personnel and Administration (DPA) processes tax returns and correspondence on behalf of DOR. Imaging equipment and software used to scan supporting tax documentation will need to be modified to accept the documentation from charitable organizations certifying the credit. This will require \$1,200 in FY 2015-16 that will be reappropriated from DOR to DPA.

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 2.

Table 2. Centrally Appropriated Costs Under HB 15-1314*		
Cost Components	FY 2015-16	FY 2016-17
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$802	\$2,405
Supplemental Employee Retirement Payments	358	1,184
TOTAL	\$1,160	\$3,589

*More information is available at: <http://colorado.gov/fiscalnotes>

Effective Date

This bill was postponed indefinitely by the House Appropriations Committee on April 17, 2015.

State Appropriations

To administer this bill, the Department of Revenue will require a \$30,734 General Fund appropriation in FY 2015-16. \$1,200 will be reappropriated from DOR to DPA for document management.

State and Local Government Contacts

Revenue Personnel and Administration