



**Colorado
Legislative
Council
Staff**

SB16-001

**REVISED
FISCAL NOTE**

(replaces fiscal note dated January 20, 2016)

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

Drafting Number: LLS 16-0669
Prime Sponsor(s): Sen. Crowder
Rep. Landgraf

Date: February 8, 2016
Bill Status: Senate Appropriations
Fiscal Analyst: Kate Watkins (303-866-3446)

BILL TOPIC: UNLIMITED MILITARY RETIREMENT BENEFIT TAX DEDUCTION

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019
State Revenue	<u>(\$11.6 million)</u>	<u>(\$23.9 million)</u>	<u>(\$25.4 million)</u>
General Fund	(\$11.6 million)	(\$23.9 million)	(\$25.4 million)
State Expenditures		<u>\$41,754</u>	<u>\$11,071</u>
General Fund		\$38,261	\$8,708
Centrally Appropriated Costs		\$3,493	\$2,363
TABOR Impact	(\$11.6 million)	(\$23.9 million)	Not estimated
FTE Position Change		0.3	0.2
Appropriation Required: None.			
Future Year Impacts: Ongoing state revenue and expenditure impacts.			

The fiscal note has been revised to reflect new information and as well as amendments to the bill.

Summary of Legislation

Under current law, qualifying taxpayers ages 55 to 64 may deduct up to \$20,000 in retirement benefits from their taxable income each year and qualifying taxpayers ages 65 and older may deduct up to \$24,000 each year. **As amended by the Senate Finance Committee**, this bill eliminates these limitations for military retirement income, allowing taxpayers to deduct the entire amount of their military retirement income from state taxable income beginning in tax year 2017. Other, non-military income is still subject to the existing deduction limits.

State Revenue

This bill is estimated to **reduce General Fund revenue by \$11.6 million in FY 2016-17 (half-year impact), \$23.9 million in FY 2017-18, and \$25.4 million in FY 2018-19.** In future fiscal years, the revenue impact is expected to grow with the military retirement population and cost-of-living adjustments to military retirement benefits. These estimates may understate the full revenue impact of this bill to the extent that military retirees' total retirement income exceeds the deduction limits under current law, and these retirees are able to claim additional non-military income, such as social security income, as a result of this bill.

Assumptions. Data from the Department of Defense Office of the Actuary indicate that in federal fiscal year 2014, 45,816 retirees in Colorado claimed \$118.7 million monthly in military retirement benefits. This population excludes retirees who are disabled whose benefits are assumed to be excluded from federal taxable income. The 20,917 retirees over age 65 averaged an annual retirement income of \$32,253. Those under 65 averaged \$31,100 in annual retirement income, including an estimated 12,183 retirees ages 55 to 64 and 11,200 retirees under age 55.

These population and average payment amounts were grown by expectations for population and cost-of-living adjustments to arrive at estimates for tax year 2017 and beyond. The deduction under current law was then subtracted from the average retirement income amount for the above stated age groups to determine the difference between deductions claimed under current law and Senate Bill 16-001. Table 1 compares the estimated 2017 income tax liability reduction for taxpayers who claim the maximum deduction under current law and the projected average deduction under SB 16-001.

Table 1. Estimated Tax Year 2017 Income Tax Savings (Calculated as the deduction amount multiplied by the state income tax rate of 4.63%)			
Taxpayer Age	Under Current Law (Maximum Deduction)	Under SB16-001 (Average Deduction)	Average Savings* under SB16-001
Below 55	\$0	\$31,152 × 4.63% = \$1,442	\$1,442
55 to 64	\$20,000 × 4.63% = \$926		516
65 and Over	\$24,000 × 4.63% = \$1,111	\$32,801 × 4.63% = \$1,519	408

*Assumes that the taxpayer has a large enough tax liability to receive additional savings.

The estimated average taxpayer savings was then multiplied by the projected eligible population in each age group to arrive at a projection of the revenue impact of this bill. Not all qualifying taxpayers will have a Colorado income tax liability large enough to experience savings from this bill because many taxpayers claim other tax deductions and credits that reduce the taxes they owe. To account for this consideration, the projected revenue impact was reduced by 28.1 percent, an adjustment based on a weighted average of the tax liability and share of taxpayers ages 65 and older using data from the 2012 Colorado statistics of income.

TABOR Impact

This bill reduces state revenue from the General Fund, which will reduce the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. Table 2 shows the projected impact on the mechanisms used to refund the TABOR surplus under current law. This bill is expected to reduce the TABOR surplus by \$11.6 million in FY 2016-17 and \$23.9 million in FY 2017-18, reducing the amount of revenue refunded through the Six Tier Sales Tax Refund by these amounts. Since the bill reduces both 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 available for the General Fund budget in the future during years the state does not collect money above the TABOR limit.

Table 2. Impact of SB16-001 on Current Refund Mechanisms (Millions of Dollars)		
	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	\$191.6 million	\$384.2 million
Income Tax Rate Reduction	0	232.9 million
Sales Tax Refund	191.6 million	151.3 million
SB 16-001		
Revenue above the TABOR limit	180.0 million	360.3 million
Income Tax Rate Reduction	0	232.9 million
Sales Tax Refund	180.0 million	127.4 million
Change from Current Law		
Revenue above the TABOR limit	(11.6 million)	(23.9 million)
Income Tax Rate Reduction	0	0
Sales Tax Refund	(11.6 million)	(23.9 million)
Total Change from Current Law	(\$11.6 million)	(\$23.9 million)

Source: Legislative Council Staff December 2015 forecast.

State Expenditures

This bill will increase General Fund expenditures for the **Department of Revenue by \$41,754 and 0.3 FTE in FY 2017-18 and \$11,071 and 0.2 FTE beginning in FY 2018-19.** Costs include personal services, operating expenses, form change and programming costs, as summarized in Table 3.

Table 3. Expenditures Under SB16-001			
Cost Components	FY 2016-17	FY 2017-18	FY 2018-19
Personal Services		\$12,776	\$8,518
FTE		0.3	0.2
Operating Expenses and Capital Outlay Costs		285	190
Form Change and Programming		25,200	
Centrally Appropriated Costs*		3,493	2,363
TOTAL		\$41,754	\$11,071

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

Department of Revenue. This bill requires changes to the Department of Revenue's GenTax software system. Changes are programmed by a contractor at a rate of \$200 per hour. The changes in this bill are expected to increase General Fund expenditures by \$24,000, representing 120 hours of programming. All GenTax programming changes are tested by department staff. Testing for this bill will require the addition of 0.2 FTE in the Department's Taxpayer Service Division. Additionally, this bill will require 0.2 FTE each year to answer taxpayer inquiries at the department call center. As a result of the payday shift, 0.1 FTE will be required in FY 2017-18. Retirement income is reported on federal income tax returns, requiring minimal verification workload demands that can be absorbed within existing appropriations.

Department of Personnel and Administration. This bill requires programming and reconfiguring of the document imaging system to insert an additional line to capture the deduction value on individual income tax form 104CR. This will require one-time programming costs of \$1,200 in FY 2017-18, which will be reappropriated from the Department of Revenue to the Department of Personnel and Administration.

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 4.

Cost Components	FY 2016-17	FY 2017-18	FY 2018-19
Employee Insurance (Health, Life, Dental, and Short-term Disability)		\$2,400	\$1,600
Supplemental Employee Retirement Payments		1,093	763
TOTAL		\$3,493	\$2,363

Effective Date

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Military Affairs
Revenue

Information Technology

Personnel and Administration