HB08-1110

Colorado Legislative Council Staff Fiscal Note

STATE
FISCAL IMPACT

Drafting Number:	LLS 08-0649	**Date:**	January 21, 2008
Prime Sponsor(s):	Rep. Witwer Sen. Kopp	**Bill Status:**	House Finance
		Fiscal Analyst:	Marc Carey (303-866-4102)

TITLE: CONCERNING AN INCOME TAX DEDUCTION FOR A LANDOWNER'S DIRECT COSTS INCURRED IN PERFORMING WILDFIRE MITIGATION MEASURES.

Fiscal Impact Summary	FY 2008-2009	FY 2009-2010
State Revenue General Fund	($548,302)	($1,096,604)
State Expenditures General Fund	$17,843	$258
FTE Position Change	0.2 FTE	0.0 FTE
Effective Date: 90 days after final adjournment by the General Assembly, unless a referendum petition is filed (August 6, 2008 if adjournment is on May 7, 2008).		
Appropriation Summary for FY 2008-2009: See State Appropriations Section.		
Local Government Impact: None.		

* *Of this amount, $17,585 may be funded by line item in the FY 2008-09 Long Bill for programming costs in the Department of Revenue for 2008 legislation.*

Summary of Legislation

For income tax years beginning January 1, 2009, this bill establishes a state income tax deduction for 50 percent of a landowner's direct costs in performing wildfire mitigation measures on his property, up to the lesser of $2,500 or the landowners federal taxable income. The bill further specifies that the mitigation measures must be performed within wild land-urban interface areas and be authorized by a community wildfire protection plan for the landowner to claim the deduction.

Background

The Colorado State Forest Service recommends the following fire-mitigation strategies for homeowners and landowners:

- creating and maintaining a "defensible space" around structures;
- developing proper access to and escape from a structure;
- establishing a viable water supply for fire fighting;
- protecting the interior of the home with sprinklers, smoke detectors, and fire extinguishers; and
- incremental replacement of, or redesign to include, recommended building materials.

This fiscal note assumes that the cost of implementing these type of measures would qualify for the proposed income tax deduction.

State Revenue

General Fund. According to a 2007 study by Headwaters Economics, 94,739 households lie within the boundaries of wild land-urban interface areas in Colorado. Each household claiming the maximum deduction for wildfire mitigation expenses will reduce General Fund revenue by $115.75. This amount is likely not high enough to substantially change household behavior. In addition, some portion of these households have already implemented wildfire mitigation strategies, and, because these types of expenses are probably intermittent in nature, they are unlikely to implement additional measures and claim deductions in the next couple of years. Thus, this fiscal note assumes that relatively few eligible households (10%) will claim the deduction on an annual basis. Thus, the deduction will result in an annual loss of General Fund revenue of $1,096,604 (94,739 households * 0.1 * $115.75 = $1,096,604). Because the tax deduction begins January 1, 2009, there is a half-year revenue impact in FY 2008-09 on an accrual accounting basis.

State Expenditures

Department of Revenue (DOR). The DOR will incur additional reprogramming and data entry expenses of $17,843 and 0.2 FTE in FY 2008-09 and $258 in FY 2009-10 to implement the new income-tax deduction for wildfire mitigation expenses.

The creation of this new income tax deduction will require the addition of a new line on a form within the income tax system. The DOR is currently implementing the Colorado Integrated Tax Architecture (CITA) system, and the income phase is scheduled to be operational by the end of 2009. While it is anticipated that this new deduction can be implemented concurrently with CITA at no additional cost, various other DOR subsystems will have to be modified to accept the new line for data input. Table 1 details the associated expenses, based on the assumed number of deduction claims discussed above.

Table 1. Department of Revenue Expenditures Under HB08-1110

Cost Components	**FY 2008-09**	**FY 2009-10**
Personal Services	$17,585	$0
FTE	0.2	0.0
Contract Services (Data Entry)	$258	$258
TOTAL	**$17,843**	**$258**

There is currently much uncertainty concerning the transition to the CITA system. Should an unforseen circumstance arise requiring additional funding to implement the bill, this fiscal note assumes the department will address the issue through the supplemental budget process.

It should be noted that the computer programming resources identified in this fiscal note may also be included in the FY 2008-09 Long Bill appropriation for DOR. If these resources are provided in the Long Bill, no further appropriation for computer programming will be necessary.

Other State Impacts

General Fund for Highways and Capital Construction. Based on the December 2007 Legislative Council Staff revenue forecast, money is available to be transferred to the Highway Users Tax Fund (HUTF) and Capital Construction Fund through the mechanism passed in HB 02-1310 each year through at least FY 2011-12. This bill reduces General Fund revenue, thereby reducing the amount available for these transfers by $365,535 for the HUTF and $182,767 for the Capital Construction Fund in FY 2008-09.

State Appropriations

The Department of Revenue will require a General Fund appropriation of $258 in FY 2008-09 to implement this bill.

Departments Contacted

Revenue