SB10-133

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 10-0837	**Date:**	February 15, 2010
Prime Sponsor(s):	Sen. Heath; Romer	**Bill Status:**	Senate Business, Labor & Technology
		Fiscal Analyst:	Jason Schrock (303-866-4720)

TITLE: CONCERNING THE CREATION OF AN INCOME TAX CREDIT TO INCENTIVIZE COLORADO BUSINESSES TO REHIRE LAID-OFF WORKERS SOONER.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue General Fund*	($5.5 million)	($5.5 million)
State Expenditures General Fund		$53,203
FTE Position Change		0.5 FTE
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2010-2011: None.		
Local Government Impact: None.		

* *Because the degree to which rehires of unemployed workers occur sooner than otherwise expressly due to the bill is unknown, the fiscal impact stated above does not incorporate increased revenue from potential increased economic activity.*

Summary of Legislation

For tax year 2011, this bill creates a state income tax credit available to Colorado businesses that rehire workers who were laid off during 2009. The tax credit is only available to businesses that rehire their laid-off workers sooner than they would have without the tax credit and if the worker is employed for at least a year after being rehired.

The credit is equal to a percentage of the employer's costs for paying its portion of Federal Insurance Contributions Act (FICA) taxes. An employer's share is 7.65 percent of each worker's salary. For workers rehired between January 1, 2010 and April 30, 2010, the credit for each rehired worker is equal to 66 percent of the employer's FICA taxes. For workers rehired between May 1, 2010 and August 31, 2010, the credit is equal to 33 percent of the employer's FICA taxes.

To claim the credit, businesses must submit an affidavit with their tax return stating that:

- each individual they rehire during the eligibility period worked for them for a year prior to being laid off and was laid off by them in 2009;
- each rehired individual has worked for them for a year since the date of rehire; and
- without the credit they would not have rehired the employee by the date he or she was rehired.

Any credit amount that exceeds a taxpayer's income tax liability cannot be refunded to the taxpayer, but any excess credit amount can be carried forward and used on future tax returns for five years.

State Revenue

This bill will reduce General Fund revenue by $5.5 million in FY 2010-11 and $5.5 million in FY 2011-12.

Methodology used to estimate the revenue impact. It is estimated that around 330,000 private-sector workers were laid-off in Colorado in 2009. Of these workers, it is assumed that about 8 percent will be rehired by their former employer. Thus, it is estimated that about 26,400 workers laid off in 2009 will be rehired by their former employer at some point regardless of the tax credit provided by this bill.

During the period between January 1, 2010, and August 31, 2010, it is assumed the employers who are aware of the tax credit will rehire roughly 40 percent of the 26,400 workers expected to be rehired on a date marginally sooner than otherwise. This fiscal note assumes that these hires would have occurred in the absence of this bill, but the bill will accelerate the rehiring by one or two months. It is expected that rehiring would especially occur sooner in April before the tax credit amount is reduced, and in August before employers can no longer claim a tax credit for rehires. Of these rehires, it was assumed about 70 percent would stay on the job for at least a year, allowing their employer to claim the tax credit. Thus, it estimated that about 7,300 tax credits would be claimed.

Using an average annual wage of $40,000 for rehired workers, the tax credit would amount to $2,000 per worker rehired between January 1, 2010, and April 30, 2010, and about $1,000 per worker rehired between May 1, 2010, and August 31, 2010. Therefore, state income tax revenue will be reduced an estimated $11 million for tax year 2011. The income tax revenue reduction will be accrued half ($5.5 million) to FY 2010-11and half ($5.5 million) to FY 2011-12.

Any credit not claimed in its entirety may be carried forward for up to five years. It is important to note that the estimated annual revenue impact represents the total amount of credits expected to be claimed. However, since the actual amount claimed is limited by a businesses' income tax liability, it is unknown how many of the credits will be claimed in the current year or how many credits will be carried forward.

Potential offsetting fiscal impacts to the state. Because the degree to which the bill will directly cause rehires of laid-off workers to occur sooner than otherwise is unknown, the fiscal impact stated above does not incorporate increased marginal revenue from potential increased economic activity. It also does not include the potential impacts of reduced state spending to support unemployed workers, such as through unemployment insurance benefits.

To the extent that this tax credit is the sole determining reason that rehires occur sooner than otherwise and economic activity increases in the state, sales and income tax revenue from that activity would serve to partially offset the estimated loss of state revenue. However, since it is assumed that the rehires for which employers claim tax credits would have occurred regardless of the tax credit at some point later, any increased revenue would only be the additional tax revenue generated by these workers by being employed sooner than otherwise. Any additional revenue would be based on how much sooner the rehires occur.

State Expenditures

Department of Revenue – $53,203 General Fund in FY 2011-12 . The Department of Revenue will incur costs of $22,761 in FY 2011-12 in staff (0.5 FTE) and operating costs to administer the tax credit. Additional staff resources are needed to work with taxpayers regarding the credit and to review tax returns to verify eligibility and ensure the credit is claimed correctly. The FTE will be needed for one year as the tax credit is available for the 2011 tax year only.

The department will also incur programming expenses of $30,442 in FY 2011-12 to implement the provisions of this bill. Expenditures are based on an expected 776 hours of programming by an IT Professional III to modify the state's tax system, called GenTax, at a rate of $39.23 per hour.

Expenditures Not Included

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 summarized in Table 1.

Table 1. Expenditures Not Included Under SB 10-133*

Cost Components	FY 2010-11	FY 2011-12
Employee Insurance (Health, Life, Dental, and Short-term Disability)		$3,318
Supplemental Employee Retirement Payments		$907
TOTAL		**$4,225**

**More information is available at: http://www.colorado.gov/cs/Satellite/CGA-LegislativeCouncil/CLC/1200536133924*

State Appropriations

No appropriations are required to implement this bill in FY 2010-11.

Departments Contacted

Revenue