

**STATE
FISCAL IMPACT**

Drafting Number: LLS 10-0458
Prime Sponsor(s): Rep. Pommer
 Sen. Boyd

Date: April 27, 2010
Bill Status: House Finance
Fiscal Analyst: Leora Starr (303-866-4105)

TITLE: CONCERNING A LIMIT ON THE STATE INCOME TAX BENEFIT FOR COMPENSATION PAID BY A BUSINESS FOR PERSONAL SERVICES RENDERED.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue		
General Fund	\$8.8 million	\$17.5 million
State Education Fund	0.6 million	1.4 million
State Expenditures		
General Fund		\$31,126
FTE Position Change	0.0 FTE	0.0 FTE
Effective Date: August 11, 2010, assuming the General Assembly adjourns May 12, 2010, as scheduled and no referendum petition is filed.		
Appropriation Summary for FY 2010-2011: None required.		
Local Government Impact: None.		

Summary of Legislation

Beginning in 2011, this bill limits the amount of employee compensation that businesses can deduct from their state income taxes to the first \$250,000 per employee.

State Revenue

This bill increases income tax revenue by \$8.8 million in FY 2010-11 and \$18.9 million in FY 2011-12. In FY 2010-11, this money will be distributed \$8.2 million to the General Fund and \$0.6 million to the State Education Fund, based on a half-year impact. In FY 2011-12, this money will be distributed \$17.5 million to the General Fund and \$1.4 million to the State Education Fund.

Based on 2006 data from the Internal Revenue Service, 2.1 percent of salaries paid to employees in 2006 (the most recent year for which data are available) is estimated to have been salary in excess of \$250,000. This represented 2.4 percent of taxable income for corporations and 1.8 percent of taxable income for businesses that filed individual income tax forms. Because detailed information is unavailable at the state level, these national relationships were assumed to hold true for Colorado. It is estimated that about 14.3 percent of Colorado individual taxable income is attributable to businesses filing individual income tax forms. The impact was grown over time based on the March 2010 Legislative Council Staff forecast for growth in corporate income taxes.

State Expenditures

Department of Revenue: \$31,126 General Fund in FY 2011-12. The Department of Revenue will incur \$30,443 in information technology costs to adjust the state's computer system and forms. The annual Long Bill may include line item funding for these information technology costs. The department also identified a need for \$684 from the General Fund for data entry contract services in FY 2011-12. No costs were identified for FY 2010-11.

State Appropriations

For FY 2010-11, no state appropriations are required to implement the bill.

Departments Contacted

Law Revenue