HB12-1132

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number:	LLS 12-0575	**Date:**	February 21, 2012
Prime Sponsor(s):	Rep. Miklosi Sen. Williams S.	**Bill Status:**	House Finance
		Fiscal Analyst:	Jonathan Senft (303-866-3523)

TITLE: CONCERNING CREATIVE DISTRICT TAX INCENTIVES, AND, IN CONNECTION THEREWITH, ALLOWING A STATE INCOME TAX CREDIT FOR INCOME DERIVED FROM CREATIVE BUSINESS ACTIVITIES CONDUCTED WITHIN A CREATIVE DISTRICT AND REDUCING THE RATE OF THE STATE SALES TAX IMPOSED ON SALES MADE WITHIN A CREATIVE DISTRICT.

Fiscal Impact Summary	FY 2012-2013	FY 2013-14	FY 2014-15
State Revenue General Fund	Reduction		
State Expenditures General Fund	Increase - See State Expenditures section		
FTE Position Change			
Effective Date: August 8, 2012, if the General Assembly adjourns on May 9, 2012, as scheduled, and no referendum petition is filed.			
Appropriation Summary for FY 2012-2013: See State Appropriations section.			
Local Government Impact: See Local Government Impact section.			

Summary of Legislation

This bill alters taxes for individuals and businesses involved with the state's Creative Districts. Creative Districts are arts-oriented business clusters intended to promote local entrepreneurship. The Creative District program was created under HB11-1031, and to date, the state has not yet designated any Creative Districts.

Under this bill, from January 1, 2013 to January 1, 2018, a person who earns income performing creative business activities within a Creative District can claim a tax credit equal to 50 percent of his or her state income tax liability each year from business derived from those activities. Additionally, the state sales tax rate is reduced to 1.45 percent on sales within Creative Districts, from the normal sales tax rate of 2.9 percent.

Background

In July 2010, the Division of Creative Industries was established within the Office of Economic Development and International Trade (OEDIT). Key goals of this division are to (I) increase access to funding for creative enterprises; (ii) expand professional development; and (iii) to stimulate support for creative enterprises by local governments. Local governments seeking Creative District certification are currently under review by the Division of Creative Industries.

State Revenue

This bill will reduce state General Fund revenue by a indeterminate amount each year from FY 2012-13 until FY 2017-18. Since the Creative Districts have not yet been designated, calculations for this estimate can not be reliably made. However, reductions in revenue stem from the decrease in sales tax revenue and the decrease in income tax revenues otherwise collected.

State Expenditures

This bill will increase state General Fund expenditure by a indeterminate amount each year from FY 2012-13 until FY 2017-18. An estimate cannot be made at this time because the Creative Districts have not yet been identified.

Department of Revenue (DOR). The DOR will require staff to administer the income tax credit and the separate sales tax rate for creative districts. The DOR has not experienced administering income taxes with different rates. Duties include determining the taxability of creative work produced outside the district, but sold within, the taxability of sales occurring within private residences if a district includes such residences; and auditing incomes of individuals and businesses.

When new districts are formed, the DOR will manually enter the correct sales tax jurisdiction codes for businesses located within district boundaries. It is further anticipated that sales tax auditing within the districts will become more involved. A tax auditor will have to review and differentiate all aspects of business transactions to identify and substantiate the correct rate of tax.

Governor's Office of Information Technology. This bill requires computer reprogramming changes to both the income tax and sales tax systems. The Governor's Office of Information Technology (OIT), will modify the department's GenTax software concerning these taxes.

Local Government Impact

To the extent Creative Districts stimulate local economies, counties and municipalities collecting sales and use tax may see an increase in business activity, which may increase revenue. Since it is not possible to predict economic impact of these districts, this fiscal note does not estimate fiscal impact to local government.

State Appropriations

For FY 2012-13, the Department of Revenue requires an appropriation to cover its costs. Detail on required appropriations will be provided if more information becomes available.

Departments Contacted

Governor's Office	Local Affairs	Revenue