


Colorado Legislative Council Staff Fiscal Note
STATE
FISCAL IMPACT

Drafting Number: LLS 12-0413
Prime Sponsor(s): Rep. Hullinghorst
 Sen. Heath

Date: February 20, 2012
Bill Status: House Finance
Fiscal Analyst: Harry Zeid (303-866-4753)

TITLE: CONCERNING REFORMS TO THE "URBAN AND RURAL ENTERPRISE ZONE ACT".

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014	FY 2014-2015
State Revenue General Fund		up to \$7.7 million	up to \$15.4 million
State Expenditures General Fund			\$2,960
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 the State Appropriations section.			
Local Government Impact: None.			

Summary of Legislation

For income tax years commencing on or after January 1, 2014, the bill continues current law limitations on the amount of the investment tax credit that may be claimed for qualified investments in an enterprise zone. Under current law, a taxpayer can claim a state income tax credit equal to three percent of any qualified investment that is either acquired, placed into service, or constructed and used exclusively in an enterprise zone for the first year of ownership by the taxpayer. The credit is limited to the taxpayer's actual tax liability for the income tax year up to \$5,000, plus 50 percent of any portion of the tax liability that exceeds \$5,000 up to a maximum of \$500,000.

Under the bill, a taxpayer may appeal the \$500,000 limitation by applying to the Colorado Economic Development Commission to claim a credit in excess of the limit. The taxpayer must provide information to the commission showing that the additional income tax credit is a substantial factor to the start-up, expansion, or relocation of the taxpayer's business in the enterprise zone. An independent analysis may be requested by the commission. The commission may allow all, part, or none of the taxpayer's request to claim the credit in excess of the \$500,000 limit. Unused portions of the credit may be carried forward for up to 12 years to be used against subsequent years' income tax liability.

The Colorado Economic Development Commission must annually post certain information regarding enterprise zone credits claimed on its web site. Beginning September 1, 2012, and each year thereafter, the commission must also provide an electronic report with specified information of taxpayers receiving enterprise zone tax credits to the Department of Revenue.

Background

Colorado's Enterprise Zone program provides tax incentives to encourage businesses to locate and expand in designated economically distressed areas of the state. Beginning January 1, 2012, a business must receive pre-certification from the enterprise zone administrator prior to commencing the activity that will earn the credit. There are 16 Enterprise Zones and 2 sub-zones in Colorado.

State Revenue

The limitation on the amount of the investment tax credit that may be claimed by taxpayers beginning with income tax years commencing on or after January 1, 2014 is expected to increase General Fund revenue by up to \$7.7 million in FY 2013-14 (one-half state fiscal year on an accrual accounting basis), and by up to \$15.4 million per year beginning in FY 2014-15. These estimates were prepared by Legislative Council Staff. Since the bill authorizes an appeal process whereby a company may seek a waiver to the \$500,000 cap from the Colorado Economic Development Commission, the actual credit claimed may be greater than the cap. Thus, the additional state revenue may be less than the amount identified above.

State Expenditures

Department of Revenue. The Department of Revenue will require \$2,960 General Fund in FY 2014-15 for the Office of Information Technology (OIT) to make one-time programming changes to the GenTax system. A total of 40 hours will be necessary to test and implement the program changes.

Economic Development Commission. The commission will provide an electronic report to the Department of Revenue annually beginning September 1, 2012. The commission must also post certain information regarding enterprise zone credits claimed on its web site. These functions will be accomplished within existing budgeted resources. No further appropriation is required.

State Appropriations

No appropriation is required in FY 2012-13.

Departments Contacted

Revenue Governor's Office Legislative Council Staff