

**STATE  
FISCAL IMPACT**

**Drafting Number:** LLS 13-0917  
**Prime Sponsor(s):** Rep. Hullinghorst  
 Sen. Heath

**Date:** March 26, 2013  
**Bill Status:** House Finance  
**Fiscal Analyst:** Louis Pino (303-866-3556)

**TITLE:** CONCERNING THE INCOME TAX CREDIT FOR BUSINESS FACILITY EMPLOYEES UNDER THE "URBAN AND RURAL ENTERPRISE ZONE ACT".

<b>Fiscal Impact Summary</b>	<b>FY 2013-2014</b>	<b>FY 2014-2015</b>
<b>State Revenue</b> General Fund	at least (\$950,000)	at least (\$1.92 million)
<b>State Expenditures</b>		
<b>FTE Position Change</b>		
<b>Effective Date:</b> Upon signature of the Governor, or upon becoming law without his signature. Tax changes are effective beginning tax year 2014.		
<b>Appropriation Summary for FY 2013-2014:</b> None required.		
<b>Local Government Impact:</b> None.		

**Summary of Legislation**

Beginning with tax year 2014, this bill allows any business within an enterprise zone to be eligible for the new employee income tax credit. In addition, the bill increases the amount of the credit from \$500 to \$1,100 for each new qualified employee. It also increases the employer sponsored health insurance income tax credit from \$200 to \$1,100 for each new qualified business employee.

Under current law, businesses that exist in a distressed area prior to the enterprise zone program can qualify as a "new business facility" if they expand at their existing location in the enterprise zone or by expanding at a replacement facility in the enterprise zone and meeting certain criteria.

HB13-1265 eliminates the "new business facility" criteria, and allows any business facility located in an enterprise zone to be eligible for the new employee enterprise zone credit.

**State Revenue**

**This bill decreases state revenue to the General Fund by at least \$950,000 in FY 2013-14 and \$1.92 million in FY 2014-15.** This estimate includes the impact of increasing the tax credits for both new employees and employer sponsored health insurance, but it does not include the impact of altering the eligibility of businesses. The FY 2013-14 estimate is for one half year on an accrual accounting basis. Table 1 shows the General Fund revenue impact from HB13-1265.

<b>Table 1: General Fund Revenue Impact from HB 13-1265</b>		
<b>(in millions)</b>		
<b>General Fund</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
New Business Facility Employee Enterprise Zone Credit	(\$0.64)	(\$1.29)
Enterprise Zone Employee Health Insurance Credit	(\$0.31)	(\$0.63)
<b>TOTAL</b>	<b>(\$0.95)</b>	<b>(\$1.92)</b>

*Source: Colorado Department of Revenue and Colorado Legislative Council*

It is difficult to estimate the number of existing businesses that would qualify for the new business facility employee credit. According to the Office of Economic Development and International Trade, most existing businesses have already met the criteria required to qualify as a "new" business facility. In addition, once a business facility qualifies as new business facility, it never loses that classification. However, it is likely some companies in the enterprise zone will become eligible for the credit because they do not meet the criteria under current law. Any additional companies that would become eligible and claim the tax credits will reduce General Fund revenue relative to current law. For example, if the credit is allowed for 5 employees working at businesses that would not otherwise qualify, General Fund revenue would decline \$5,500 in the year the taxpayer claims the credit.

**State Expenditure**

The Department of Revenue can implement the bill within existing resources.

**Departments Contacted**

Governor

Office of Economic Development

Revenue