

**STATE**  
**REVISED FISCAL IMPACT**

(replaces fiscal note dated January 28, 2014)

**Drafting Number:** LLS 14-0196 **Date:** March 27, 2014  
**Prime Sponsor(s):** Rep. Exum **Bill Status:** House Appropriations  
 Sen. Nicholson **Fiscal Analyst:** Louis Pino (303-866-3556)

**SHORT TITLE:** CHANGE WILDFIRE MITIGATION TAX DEDUCTION TO CREDIT

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016	FY 2016-2017
<b>State Revenue</b>		<b>(at least \$321,839)</b>	<b>(at least \$648,828)</b>
General Fund		(\$321,839)	(\$648,828)
<b>State Expenditures</b>	<b>\$18,540</b>		
General Fund	\$18,540		
<b>FTE Position Change</b>			
<b>Appropriation Required:</b> \$18,540 - Department of Revenue (FY 2014-15)			

\* This summary shows changes from current law under the bill for each fiscal year. Parentheses indicate a decrease in funds.

**Summary of Legislation**

This bill, **as amended by the House Finance Committee**, is recommended by the **Wildfire Matters Review Committee**. Beginning with income tax year 2015, this bill eliminates the wildfire mitigation income tax deduction and creates a wildfire mitigation state income tax credit.

The amount of the credit is equal to 25 percent of the costs a taxpayer incurs performing wildfire mitigation on their property located in a wildland-urban interface (WUI). The amount of the credit per tax year cannot exceed \$2,500. Any amount above the limit can be carried forward for five years. Any remaining credit after five years is nonrefundable. The tax credit expires after tax year 2021.

**Background**

A state income tax deduction is subtracted from taxable income, thus reducing the final tax bill by 4.63 percent of the amount deducted, whereas an income tax credit reduces a final tax bill dollar for dollar.

Under current law, a taxpayer is allowed a state income tax deduction for performing wildfire mitigation measures. The deduction is equal to 50 percent of the costs the taxpayer incurred while performing these measures. The tax deduction cannot exceed \$2,500 per income tax year or the total amount of the taxpayer's federal taxable income, whichever is less. To be eligible for the deduction, the taxpayer must own the property upon which the mitigation measures are performed, and the property must be in a WUI. The WUI is any area where man-made improvements are built close to, or within, natural terrain and flammable vegetation, and where high potential for wildland fire exists. The Colorado State Forest Service defines the WUI.

### **State Revenue**

**This bill will reduce General Fund revenue by at least \$321,839 in FY 2015-16, and at least \$648,828 in FY 2016-17 and future years.**

These estimates are based on 2012 income tax returns. In 2012, 1,687 taxpayers deducted a total of \$1,355,421 under the wildfire mitigation income tax deduction. As a result, this deduction reduced total state income taxes by \$62,755. Since an income tax credit reduces a final tax bill dollar for dollar, state revenue would have been reduced by an additional \$1,292,665 under the bill, or the net difference between the value of the deduction (\$62,755) and the value of the credit (\$1,355,421), if it was available. The 2012 data were adjusted by population growth to obtain the 2015 estimates, the first year the income tax credit is available. The FY 2015-16 estimate is for one-half year on an accrual accounting basis. Finally, it is important to note that the actual impact on state revenue may be higher than the amount identified here because income tax credits are typically more attractive than income tax deductions, and the added value to taxpayers may increase wildfire mitigation efforts beyond the current level.

### **State Expenditures**

**The bill increases Department of Revenue General Fund expenditures by \$18,540 for one-time costs in FY 2014-15.**

**Programming costs.** This bill will require an estimated 90 hours of computer programming of the GenTax system, paid at a rate of \$206 per hour, or \$18,540 in one-time programming costs for FY 2014-15.

**Taxpayer Service Section.** The fiscal note assumes the number of income tax returns that will need to be verified will increase, but since the review will be similar to the review of the current tax deduction, no additional appropriations are required.

### **Effective Date**

The bill takes effect August 6, 2014, if the General Assembly adjourns on May 7, 2014, as scheduled, and no referendum petition is filed.

### **State Appropriations**

For FY 2014-15, The Department of Revenue requires a General Fund appropriation of \$18,540 for computer programming.

### **State and Local Government Contacts**

Natural Resources

Revenue