HB14-1014

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 14-0345	**Date:**	February 3, 2014
Prime Sponsor(s):	Rep. DelGrosso; Kraft-Tharp Sen. Heath; Scheffel	**Bill Status:**	House Business, Labor, Economic, and Workforce Development
		Fiscal Analyst:	Louis Pino (303-866-3556)

SHORT TITLE: MODIFY JOB GROWTH INCENTIVE TAX CREDIT

Fiscal Impact Summary*	FY 2013-2014	FY 2014-2015	FY 2027-28***
State Revenue	**($1,179)**	**($27,135)**	**($55.2 million)**
General Fund **	($1,179)	($27,135)	($55.2 million)
State Expenditures			
FTE Position Change			
Appropriation Required:			

* *This summary shows changes from current law under the bill for each fiscal year. .*

** *Because the degree to which jobs may be created expressly due to the bill is unknown, the fiscal impact stated above does not incorporate increased revenue from potential job creation. To the extent this tax credit is the sole determining reason that jobs are created in the state, sales and income tax revenue from those jobs would serve to partially offset the estimated loss of state revenue.*

*** *Phased in over 14 years. See state revenue section.*

Summary of Legislation

Beginning with tax year 2014, HB14-1014 modifies the job growth incentive tax credit in the following ways:

- extends the period for which an employer may receive credits from 60 months (five years) to 96 months (eight years);
- lowers the requirement that wages for jobs generating the credit be at least 110 percent of the average wage in the county within which the jobs are created to 100 percent of the county's average wage; and
- alters the burden of proof that the credit was instrumental to the creation of said jobs; rather than stating that without the credit the jobs would likely not have been located in Colorado, the bill requires employers to state that without the credit the probability of locating the jobs in Colorado would be reduced.

Background

The job growth incentive tax credit provides an income tax credit to firms that create jobs in Colorado within an enterprise zone. The credit is equal to one-half of the amount the employer is required to pay in federal social security and Medicare taxes on the created jobs. In most cases, this is equal to 3.825 percent of a job's annual wage. For each job created, firms receive the credit each year the job is retained for up to sixty months (five years) after the credit is first received. Each year's credit may be carried forward for ten years and is non-refundable. Employers must receive initial authorization for the credit no later than tax year 2019. The credit is repealed after tax year 2029.

If the jobs are created within an enhanced rural enterprise zone, firms must create at least 5 jobs and retain them for one year. If the jobs are not being created within an enhanced rural enterprise zone, at least 20 jobs must be created and retained for one year. In order to qualify for the credit, the jobs must bring wages of at least 110 percent of the average wage in the county in which the new jobs are located.

Firms are required to file an initial application to the Colorado Economic Development Commission (commission) outlining the number of jobs they expect to create over a period of up to five years and must provide documentation indicating that, if not for the credit, the jobs would have been created in a competing state. Once an initial credit application has been approved, firms are required to file an annual application for each year's credit with documentation on the actual number of jobs created and retained during that year. Each year, the commission is required to issue a tax credit certificate stating the amount of the credit for that year for the firm, who in turn must submit the certificate with its income tax return to the Department of Revenue. No firm may receive more in tax credits than was initially agreed upon by the commission.

State Revenue

As shown in Figure 1 on page 4, the bill will reduce General Fund revenue by $1,179 in FY 2013-14, $27,135 in FY 2014-15, and by increasing amounts through FY 2027-28, when the revenue impact is estimated at $55.2 million. Reasons for the 14-year phase-in of the revenue impact are outlined in the assumptions below.

Assumptions. The estimates are based on data from the Office of Economic Development and International Trade. The commission authorized $44.1 million in job growth incentive tax credits eligible to be claimed over a five-year period in tax year 2013 and expects to authorize an additional $47.1 million for 20 projects in tax year 2014. This amount is expected to increase steadily as the economy continues to improve. It is assumed that 60 percent of the amount initially authorized each year will eventually be certified by the Commission, as some companies do not generate the full number of anticipated jobs.

It is assumed that the Commission will approve all projects for the full credit period under both current law (for five years) and the bill (for eight years). The value of the credit to the firm increases cumulatively each year because jobs added early in the credit period will generate a credit each year until the end of the credit period. Therefore, it is assumed that most of the amount authorized for the full credit period will not be certified until the second half of the period.

In addition, it is assumed that firms will not have enough tax liability to fully utilize the credits as they are certified. Based on an analysis of historical data from the Department of Revenue, it is assumed that, on average, firms will use six out of the ten years for which a carry forward is allowed to fully utilize each year's certified credit. Therefore, the full amount authorized over the eight-year period will require a total of 14 years to be fully utilized. On average, firms are assumed to have used 10 percent of each year's certified credit by the second year of the carry forward period, half by the fourth, and all of the credit by the seventh year.

There are three ways HB14-1014 will reduce income tax revenue to the General Fund. Each of these are explained below and shown in Figure 1.

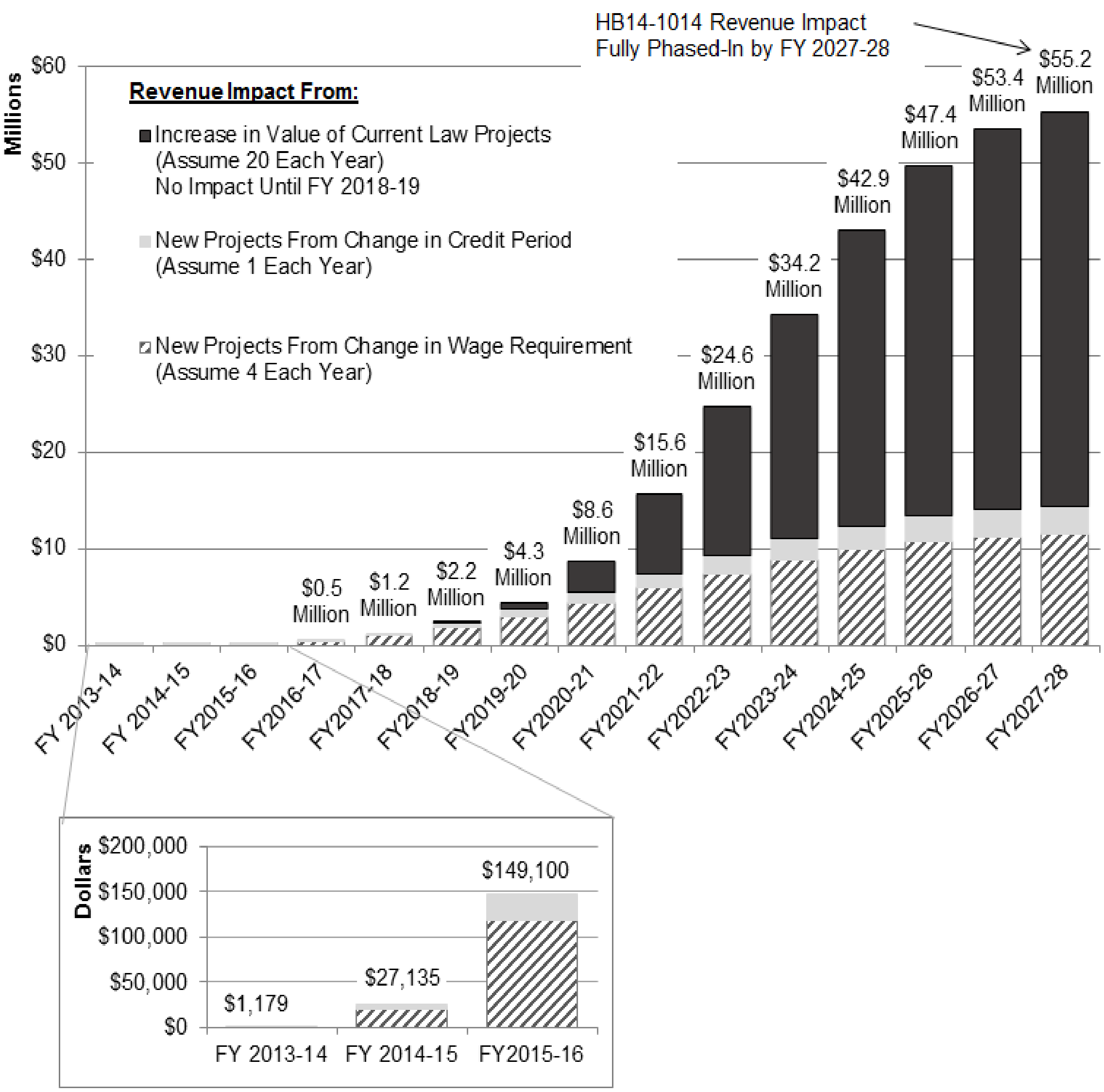
1. *The value of the credit will increase for all projects.* The expansion of the credit period from five to eight years will increase the maximum value of the credit for all projects approved by the Commission, including those that would have been approved under current law. Based on the expectations of the Office of Economic Development, it is assumed that 20 projects per year will be approved under current law and that the value of the credit for each project will increase by an average of 80 percent as a result of the expanded credit period. For example, assume a firm is approved for $2 million in tax credit in the first year of the credit period, $5 million in the second year, and $10 million for the remaining three years for a total of $37 million over the five year credit period. If the credit period is extended by three years as under this bill, the taxpayer would be allowed to claim three additional years at $10 million per year for an 80 percent increase ($30 million / $37 million)

2. *New projects will be approved as a result of the expanded credit period.* The Office of Economic Development expects to attract one additional project per year for the credit as a result of the expanded credit period and the reduced burden of proof necessary to qualify for the credit.

3. *New projects will be approved as a result of the reduced wage requirement.* The Office of Economic Development expects to attract four additional projects per year for the credit as a result of the reduction in the wage requirement from an average of 110 percent to 100 percent of county wages within which the project is located.

While it is assumed that the bill will induce 5 new firms a year to seek a credit than would have otherwise occurred under current law, it is still unknown whether the decision these firms made to create new jobs within Colorado is expressly the result of the credit. Therefore, because the degree to which jobs may be created expressly due to the bill is unknown, the revenue impact does not incorporate increased revenue from potential job creation. To the extent this tax credit is the sole deter mining reason that jobs are created in the state, sales and income tax revenue from those jobs would serve to partially offset the estimated loss of state revenue.

Figure 1
HB14-1014 Revenue Impact by Type of Impact



State Expenditures

The Department of Revenue and Office of Economic Development and International Trade can implement the bill within existing resources.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature. Changes to the credit begin with tax year 2014.

State and Local Government Contacts

Office of Economic Development
Revenue