HB14-1072

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 14-0161	**Date:**	February 4, 2014
Prime Sponsor(s):	Rep. Pettersen; Exum Sen. Kefalas	**Bill Status:**	House Finance
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SHORT TITLE: INCOME TAX CREDIT FOR CHILD CARE EXPENSES

Fiscal Impact Summary*	FY 2013-14	FY2014-15	FY 2015-16	FY 2016-17
State Revenue	**($3.4 million)**	**($9.0 million)**	**($15.2 million)**	**($20.1 million)**
Revenue Change General Fund	(3.4 million)	($9.0 million)	($15.2 million)	($20.1 million)
State Expenditures		**$88,379**	**($94,482)**	**($160,901)**
General Fund		$76,421	($71,895)	($122,370)
Centrally Appropriated Costs**		$11,958	($22,587)	($38,531)
FTE Position Change		0.9	1.7	2.9
Appropriation Required: $76,421 - 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.*

** *These costs are not included in the bill's appropriation. See the State Expenditures section for more infmation.*

Summary of Legislation

This bill is recommended by the ***Economic Opportunity Poverty Reduction Task Force***. The bill creates a new child care tax credit for Colorado taxpayers who have a federal adjusted gross income (FAGI) of $25,000 or less. The credit is equal to 25 percent of the taxpayer's child care expenses with a maximum amount of $500 for a single dependent or $1,000 for two or more dependents. The tax credit is refundable, which means the amount of the credit that exceeds the taxpayer's income tax liability must be refunded to the taxpayer. The taxpayer may claim the credit beginning in tax year 2014.

Background

Under current law, a Colorado taxpayer may claim a refundable state income tax credit for expenses incurred in the care of children 12 years and younger. The taxpayer must have received the federal child care credit in order to qualify for the Colorado child care credit. The amount of the state child care credit is a percentage of the child care credit claimed on the federal tax return, which varies based on the taxpayer's federal adjusted gross income and is nonrefundable. Table 1 shows the allowable percentage a Colorado taxpayer can claim based on federal adjusted gross income.

Table 1 . Colorado Child Care Tax Credit	
If the taxpayers's FAGI is:	**The Colorado Child Care Credit will be:**
$25,000 or less	50 percent of the federal child care credit
From $25,001 to $35,000	30 percent of the federal child care credit
From $35,001 to $60,000	10 percent of the federal child care credit
$60,001 or more	No Colorado child care credit is allowed

HB14-1072 repeals the qualifications for the state child care credit for taxpayers with a FAGI of $25,000 or less and creates a new child care tax credit for this income cohort. Under the bill, taxpayers qualify for the new state child care tax credit if their FAGI is $25,000 or less, the dependent is age 12 and under, and the expense would be allowed under the federal definition for child care costs. The credit is equal to 25 percent of the amount the taxpayer spent on qualifying child care expenses with a maximum amount of $500 for a single dependent or $1,000 for two or more dependents.

State Revenue

This bill will reduce General Fund revenue by $3.4 million in FY 2013-14, $9.0 million in FY 2014-15, $15.2 million in FY 2015-16, and $20.1 million in FY 2016-17 and thereafter. The FY 2013-14 estimate is for one-half year on an accrual accounting basis

Based on 2012 Census data, an estimated 55,542 households with at least one dependent had a FAGI of less than $25,000 and were in the labor force (if the household had two parents both must be in the labor force).

Data from the Department of Revenue for tax year 2009 shows there were 5,432 returns with FAGI of $25,000 or less that claimed the Colorado child care credit. The average state credit was $187, which equates to approximately $1,060 for the Federal child care credit. These returns are thus assumed to generate the maximum credit.

For all other households receiving the credit, it is assumed those with one child will receive the maximum credit of $500 and those with two or more dependents will receive $750 (75 percent of the maximum credit allowed). These estimates are based on information showing that this income cohort is more likely to receive subsidized child care, which would not be eligible for child care expenses. The fiscal note also assumes a phase-in schedule for participating in the credit of 13 percent in 2014, the first year the new credit is available, 20 percent in 2015, and a 50 percent in 2016 and each year thereafter. The phase-in schedule is based on information from other states that suggest a ramp-up of participation for similar legislation.

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State Expenditures

Department of Revenue — General Fund expenditures will increase by $88,379 in FY 2014-15, $94,482 in FY 2015-16, and $160,901 in FY2016-17, the first fiscal year the credit will be fully phased-in.

Income Tax and Audit Sections. The income tax and audit sections will require $37,207 and 0.9 FTE in FY 2014-15, $70,280 and 1.7 FTE in FY 2015-16, and $119,890 and 2.9 FTE in FY 2016-17, the year the credit is fully phased-in, for auditing and verification costs. Based on the experience of the Internal Revenue Service, refundable tax credits have a higher rate of fraud and carry higher auditing requirements. Assuming an estimated 12,554 households will incur qualifying child care expenses under HB 14-1072 in the first tax year the credit is available, the income tax and audit section expects to review 25 percent of this amount, or about 3,139 returns, before authorizing the credits. By 2016, the first tax year the fiscal note assumes the maximum participation rate, the section is expected to audit over 8,000 returns.

Call Center. It is expected that, of the 55,542 potentially eligible households, 10 percent will contact the department to better understand the credit. These phone calls are expected to average 6 minutes each. This is expected to require 0.3 FTE in FY 2014-15 ,0.3 FTE in 2015-16, and another 0.3 FTE in FY 2016-17

Programming costs. HB14-1072 will require $24,720 in one-time Colorado Integrated Tax Architecture (CITA) programming costs for FY 2014-15. The costs are estimated at 120 hours at $206 per hour.

Table 2. Expenditures Under HB14-1072

Cost Components	FY 2014-15	FY 2015-16	FY 2016-17
Personal Services - Income Tax and Auditing Services	$37,207	$70,280	$119,890
FTE	0.9	1.7	2.9
Operating Expenses and Capital Outlay Costs	$14,494	$1,615	$2,480
Programming Costs	$24,720	0	0
Centrally Appropriated Costs*	$11,958	$22,587	$38,531
TOTAL	**$88,379**	**$94,482**	**$160,901**

** Centrally appropriated costs are not included in the bill's appropriation.*

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3.

Table 3. Centrally Appropriated Costs Under HB14-1072*

Cost Components	FY 2014-15	FY 2015-16	FY2016-17
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$9,374	$17,706	$30,205
Supplemental Employee Retirement Payments	$2,584	$4,488	$8,326
TOTAL	**$11,958**	**$22,587**	**$38,531**

**More information is available at: http://colorado.gov/fiscalnotes*

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. Tax changes are effective beginning tax year 2014.

State Appropriations

For FY 2014-15, the Department of Revenue will require a General Fund appropriation of $76,421 for credit audits, call center requests, and computer programming.

State and Local Government Contacts

Revenue