SB15-118

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 15-0731	**Date:**	February 9, 2015
Prime Sponsor(s):	Sen. Merrifield	**Bill Status:**	Senate Finance
		Fiscal Analyst:	Larson Silbaugh (303-866-4720)

BILL TOPIC: MOD QUALIFIED STATE TUITION PROGRAM TAX DEDUCTIONS

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017	FY 2017-18
State Revenue	**$1,589,748**	**$3,253,409**	**$3,404,671**
Revenue Change General Fund	$1,589,748	$3,253,409	$3,404,671
State Expenditures		**$83,590**	**$86,406**
General Fund		$70,888	$67,665
Centrally Appropriated Costs**		$12,702	$18,741
TABOR Set Aside	See TABOR Impact and Technical Note Section.		
FTE Position Change		1.1	1.6
Appropriation Required: None.			

* *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 information.*

Summary of Legislation

This bill alters the income tax deduction for contributions to qualifying college saving programs as shown in Table 1. This bill impacts tax year 2016 and future tax years.

Table 1: Deduction Allowed Under Current Law and SB 15-118.

Adjusted Gross Income	Current Law	SB 15-118
Under $75,000	100%	200%
$75,000 to $200,000	100%	150%
$200,000 to $250,000	100%	100%
Over $250,000	100%	0%

Background

CollegeInvest is a qualified college savings program that has several tax benefits. Investment earnings and withdrawals for qualified education expenses are not included in federal taxable income, which follows through to the Colorado income tax return. Contributions to CollegeInvest can also be deducted from income on the Colorado income tax return. This bill only impacts the deductions allowed for Colorado income taxes.

State Revenue

This bill will **increase General Fund revenue by $1,589,748 in FY 2015-16, $3,253,409 in FY 2016-17, and $3,404,671 in FY 2017-18.**

Assumptions. This bill alters the deduction allowed for contributions to CollegeInvest for Colorado taxpayers. Table 2 shows the deduction claimed by adjusted gross income in 2011 and how SB 15-118 impacts the deduction allowed by each group. The 2011 deduction represents the actual amount claimed by Colorado taxpayers on 2011 individual tax returns as reported by the Colorado Department of Revenue (DOR). Because the total deduction amount allowed under SB 15-118 is less than under current law, total Colorado taxable income would have been $54,713,500 higher for tax year 2011.

Table 2. Changes to CollegeInvest Tax Deduction Under SB 15-118, TY 2011

Federal Adjusted Gross Income	Deduction Claimed 2011	Deduction Allowed SB 15-118, 2011	Difference
Under $75,000	$16,763,323	$33,526,646	$16,763,323
$75,000 to $200,000	$85,438,000	$128,156,999	$42,719,001
$200,000 to $250,000	$35,383,803	$35,383,803	$0
Over $250,000	$114,195,823	$0	($114,195,823)
Total	**$251,780,949**	**$197,067,448**	**($54,713,501)**

SB 15-118 is effective beginning tax year 2016. Based on the December 2014 Legislative Council Staff revenue forecast, Colorado personal income is expected to grow 25.5 between 2011 and 2016. Assuming CollegeInvest contributions for each group of taxpayers grows at the same rate as personal income growth, this bill will increase taxable income by $68,671,619 in tax year 2016. The compound average annual growth rate for Colorado personal income between 2011 and the forecast for 2016 is 4.6 percent. If the deduction for each income group grows at the same rate, Colorado taxable income will increase by $71,864,406 in tax year 2017, and $75,205,638 in 2018.

After applying the state tax rate, the increase in taxable income will cause individual income taxes to increase $3,179,496 in 2016, $3,327,322 in 2017, and $3,482,021 in 2018. Adjusting for fiscal years, this will increase individual income tax revenue by $1,589,748 in FY 2015-16, $3,253,409 in FY 2016-17, and $3,404,671 in FY 2017-18.

TABOR Impact

A TABOR surplus is expected in FY 2015-16, FY 2016-17, and FY 2017-18, so this bill will increase the amount required to be refunded under TABOR in those years. See the technical note section.

State Expenditures

This bill will increase fee supported costs of CollegeInvest by $307,413 in FY 2015-16. This bill will increase state General Fund expenditures by $83,590 in FY 2016-17 and $86,406 in FY 2017-18. These costs are summarized in Table 3.

Table 3. Expenditures Under SB 15-118		
Cost Components	**FY 2016-17**	**FY 2017-18**
Personal Services	$45,475	$66,145
FTE	1.1	1.6
Operating Expenses and Capital Outlay (DOR)	6,693	1,520
Computer Programing (DOR)	17,520	
Operating Expenses (DPA)	1,200	
Centrally Appropriated Costs*	12,702	18,741
TOTAL	**$83,590**	**$86,406**

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

Department of Revenue. About 30,000 taxpayers will claim the deduction in tax years 2016, 2017, and 2018. In the first year of the changed deduction calculation, the department expects to review 50 percent of tax returns where the deduction is claimed. In the second year, 35 percent of returns will be reviewed. In addition, the department's call center will answer taxpayer questions on the change in the deduction amounts. This additional workload will be accomplished through 1.1 additional FTE in FY 2016-17 and 1.6 FTE in FY 2017-18. Salaries and benefits for these FTE will be $45,475 in FY 2016-17 and $66,145 in FY 2017-18. The General Fund payday shift has been applied in FY 2016-17. Standard operating costs and one-time capital outlay costs are also included.

The current deduction on the Colorado income tax form is the same for all taxpayers. This bill changes the deduction based on the taxpayer's income, which would require the state's tax administration software to be modified to calculate the new deduction amounts. The software vendor would perform 80 hours of testing and development to change the existing deduction, which will cost $17,520 in FY 2016-17.

Department of Personnel and Administration. The Department of Personnel and Administration (DPA) receives, opens, prepares, scans, enters and shreds tax correspondence on behalf of DOR. DPA's scanning and imaging software need to be programmed to accept the altered CollegeInvest tax deduction form, which will cost $1,200 in FY 2016-17.

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 4.

Table 4. Centrally Appropriated Costs Under SB 15-118*		
Cost Components	**FY 2015-16**	**FY 2016-17**
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$8,810	$12,813
Supplemental Employee Retirement Payments	3,892	5,928
TOTAL	**$12,702**	**$18,741**

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

Statutory Public Entity Impact

Costs for **CollegeInvest will increase $307,413** if this bill becomes law. According to the Municipal Securities Rulemaking Board, a material change to plan benefits requires immediate communication with all account holders. This bill changes the tax benefits of the CollegeInvest accounts, which need to be communicated to account holders. This will require CollegeInvest to revise and resend Plan Disclosure Statements to 330,000 account holders. Account holders pay CollegeInvest fees to manage their investments, which will be used to pay for the additional expenses from this bill.

Technical Note

This bill is projected to increase tax revenue to the state during years in which a TABOR surplus is expected. This tax policy change may need to be referred to voters.

Effective Date

The bill takes effect August 5, 2015, if the General Assembly adjourns on May 6, 2015, as scheduled, and no referendum petition is filed. It is effective starting tax year 2016, which begins January 1, 2016.

State and Local Government Contacts

Revenue Personnel and Administration Higher Education