SB15-141

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 15-0579	**Date:**	February 11, 2015
Prime Sponsor(s):	Sen. Scheffel Rep. Thurlow	**Bill Status:**	Senate Finance
		Fiscal Analyst:	Alex Schatz (303-866-4375)

BILL TOPIC: INCOME TAX CREDIT FOR PROP TAXES PAID ELIGIBILITY

Fiscal Impact Summary*	FY 2014-2015 *current fiscal year*	FY 2015-2016	FY 2016-2017
State Revenue	**($2,982,552)**	**($6,043,546)**	**($6,202,491)**
General Fund	(2,982,552)	(6,043,546)	(6,202,491)
State Expenditures		**$51,507**	**$60,688**
General Fund		42,701	48,993
Centrally Appropriated Costs**		8,806	11,695
FTE Position Change		0.8 FTE	1.0 FTE
TABOR Set-Aside	**$0**	**($6,043,546)**	**($6,202,491)**
Appropriation Required: $42,701 - Department of Revenue (FY 2015-16)			

* *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

Under current law, a state income tax credit is available to qualified taxpayers from tax years 2015 to 2019, equal to the amount of personal property tax paid, less the value of the tax benefit received by the taxpayer from deducting these taxes from his or her federal taxable income. In 2015, the credit is available to taxpayers with an actual value of $15,000 or less of personal property. In tax years 2016 through 2019, the threshold is adjusted annually for inflation.

This bill increases eligibility for the credit to include all taxpayers up to a $25,000 threshold amount of personal property.

Background

Business Personal Property Tax. Personal property is subject to taxation by local governments in Colorado based on the assessed value of the property, which is 29 percent of actual or market value. Because household items are exempt, personal property taxes are primarily paid by businesses and commonly referred to as business personal property tax (BPPT). The total assessed value of business personal property was $13.0 billion in 2013, or 14.7 percent of total assessed property value.

Of Colorado's $13.0 billion in business personal property (BPP), a survey of county assessors and the DPT indicates approximately $100.0 million in assessed value will be contributed in 2015 by taxpayers with between $15,000 and $25,000 of personal property.

House Bill 14-1279. The five-year income tax credit for personal property taxes paid at the $15,000 threshold was enacted by HB 14-1279. Provisions of HB 14-1279 included administration of the tax credit and its eventual repeal. Certain costs to implement the income tax credit, such as computer programming, were included in the budget appropriations for HB 14-1279. An estimated 28,000 taxpayers were eligible to claim the income tax credit under HB 14-1279.

State Revenue

By increasing the threshold of business personal property (BPP) for which the income tax credit may be claimed, the bill reduces General Fund revenue by approximately $6 million per year once the bill takes effect.

The bill requires the Department of Revenue to apply the income tax credit starting with tax year 2015. This creates a half-year impact in FY 2014-15, on an accrual accounting basis. The bill therefore <u>reduces</u> state General Fund revenue by **$3.0 million in FY 2014-15** and by **$6.0 million in FY 2015-16**. In the following three years, General Fund revenue will fall by $6.2 million in FY 2016-17, $6.4 million in FY 2017-18, and $6.5 million in FY 2018-19 before a final half-year of the income tax credit in FY 2019-20 ($3.3 million).

Assumptions. The overall value of the income tax credit is estimated using the following assumptions:

- 100 percent of eligible taxpayers will claim an income tax credit under the bill. To the extent that some do not, the estimated reduction in state revenue could be lower.
- Based on data compiled from the Department of Revenue, the average federal marginal tax rate for eligible taxpayers is 18.6 percent.
- Based on information from the DPT, the average property tax mill levy across Colorado is 77.685 in 2013. However, mill levies are set by local taxing entities and will vary across taxing entities. Because future mill levies are unknown and the location of businesses is unknown, this analysis assumes a constant average mill levy.
- The actual value of personal property grows 2.63 percent annually.

Based on these assumptions and $100.0 million in assessed personal property value in 2015, the revenue impact of the bill is calculated as shown in Table 1. For each tax year, half the liability for the tax credit accrues to the fiscal year ending on June 30 of that calendar year, and the remaining half of the liability accrues to the next fiscal year. The income tax credit will be paid from the General Fund as a debit in the year the tax liability was accrued.

Table 1. Calculation of income tax credit under SB 15-141.					
Tax year	**Assessed value of qualified BPP**	**Mill levy***	**BPPT paid**	**Reduction for benefit received in taxable income deductions**	**Statewide maximum value of income tax credit**
2015	$100,000,564	77.685	$7,768,544	$1,803,439	$5,965,105
2016	102,630,579	77.685	7,972,857	1,850,869	6,121,987
2017	105,329,763	77.685	8,182,543	1,899,547	6,282,995
2018	108,099,936	77.685	8,397,744	1,949,505	6,448,238
2019	110,942,964	77.685	8,618,604	2,000,777	6,617,827

* *Mill levy will vary year-to-year. A constant average mill levy is assumed for illustrative purposes.*

TABOR Impact

This bill decreases state revenue, which will decrease by an equivalent amount the amount required to be refunded under TABOR when there is a TABOR surplus. Based on the December Legislative Council Staff forecast, a TABOR surplus is not expected in FY 2014-15. A surplus is expected beginning in FY 2015-16, so this bill will reduce the amount required to be refunded under TABOR in FY 2015-16 and future fiscal years the tax credit is available. TABOR refunds are paid from the General Fund.

State Expenditures

The bill increases costs in the Department of Revenue by **$51,507 and 0.8 FTE in FY 2015-16** and by **$60,688 and 1.0 FTE in FY 2016-17**. As summarized in Table 2, costs of the bill include personal services, standard operating expenses, and contractual costs. Personal services costs in FY 2015-16 are adjusted to reflect the bill's effective date and the General Fund paydate shift.

Table 2. Expenditures Under SB 15-141		
Cost Components	**FY 2015-16**	**FY 2016-17**
Personal Services	$31,006	$43,043
FTE	0.8	1.0
Operating Expenses and Capital Outlay Costs	5,495	950
Document management	6,200	5,000
Centrally Appropriated Costs*	8,806	11,695
TOTAL	**$51,507**	**$60,688**

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

Assumptions. The bill adds an additional 15,000 taxpayers to the population eligible to claim the income tax credit.

Department of Revenue. The Department of Revenue will require additional personal services to handle the increase in taxpayer inquiries, audits, and document processing related to 15,000 additional taxpayers eligible for the tax credit. Increased appropriations to account for this effort are equivalent to 1.0 FTE.

The bill also increases costs to process income tax documentation. The state's contractor will charge $1,200 for a one-time change to the relevant income tax form in FY 2015-16. Ongoing costs to process documentation submitted for verification of the credit are estimated at $5,000 per fiscal year. Income tax-related document management costs are reappropriated from the Department of Revenue to the Department of Personnel and Administration.

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 SB 15-141*

Cost Components	FY 2015-16	FY 2016-17
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$6,403	$8,012
Supplemental Employee Retirement Payments	2,403	3,683
TOTAL	**$8,806**	**$11,695**

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

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.

State Appropriations

For FY 2015-16, the bill requires a General Fund appropriation of $42,701 to the Department of Revenue, and an allocation of 0.8 FTE. Of this amount, $6,200 is reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Revenue	Local Affairs	Property Taxation
Education	Counties	Municipalities