HB15-1366

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 15-0968	**Date:**	April 22, 2015
Prime Sponsor(s):	Rep. Pabon; Willett Sen. Balmer	**Bill Status:**	House Finance
		Fiscal Analyst:	Louis Pino (303-866-3556)

BILL TOPIC: EXPAND JOB GROWTH TAX CREDIT FOR HIGHER ED PROJECT

Fiscal Impact Summary*	FY 2015-16	FY 2016-2017
State Revenue General Fund	Indeterminate Reduction See State Revenue Section	
State Expenditures	See State Expenditure Section	
FTE Position Change		
Tabor Set-Aside	Indeterminate Reduction	
Appropriation Required: None.		

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

Data necessary to estimate the fiscal impact is still being collected; therefore, all estimates should be considered preliminary. The fiscal note will be revised when more information is available.

Summary of Legislation

This bill changes the job growth incentive tax credit for taxpayers who enter into a partnership with a state institution of higher education. In particular, this bill allows the credit to be refundable under certain conditions and relaxes the requirements to qualify for the credit.

Under current law, the credit is not refundable but may be carried forward for 10 years. HB15-1366 allows the credit to be refundable for any taxpayer who is a business with a qualified partnership, has been in business within the state for five or fewer years, and did not relocate from another state.

Under current law, the credit is available to taxpayers statewide, although it is easier for taxpayers located within enhanced rural enterprise zones to qualify for the credit than for taxpayers located outside these zones. HB15-1366 allows any taxpayer who enters into a partnership with a state institution of higher education to qualify under the easier standards applicable to taxpayers located within enhanced rural enterprise zones. In addition, taxpayers entering into a qualified partnership are not required to provide documentation that the credit is a major factor in the taxpayer's decision to locate the project in Colorado in order to receive the credit.

To qualify, the Colorado Economic Development Commission must determine that a taxpayer has an agreement with a state institution of higher education that aligns with or furthers the academic mission of the institution, results in positive benefits for the community and local economy, and allows the taxpayer to take advantage of certain resources of the institution. The taxpayer's project must also be located within one mile of the institution.

Background

The job growth incentive tax credit provides an income tax credit to firms that create jobs in Colorado within the following industries: aerospace; clean energy; technology; tourism; film; television production; and information technology. 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. Generally, 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 8 years after the credit is first received. Each year's credit may be carried forward for ten years and is non-refundable.

Firms must create at least 20 jobs with wages of at least 100 percent of the average wage within the county in which the new jobs are located, and retain those jobs for one year. If the jobs are created within an enhanced rural enterprise zone, firms must create at least five jobs with wages equal to 100 percent of the county-wide average, and retain them for one year.

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 eight 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, which 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

HB15-1366 will reduce income tax revenue to the General Fund beginning in FY 2015-16, although the impact is expected to be minimal in FY 2015-16 and FY 2016-17. Although the bill is effective with tax year 2015, there will be no revenue impact in FY 2014-15 because taxpayers must both apply for and receive authorization for the credit from the Economic Development Commission and subsequently retain any qualifying jobs for at least a year before claiming the credit on an income tax return. In addition, no credit may be claimed for any new employee until the requisite five jobs are created, which for startup firms may take longer than a year.

However, the revenue impact could increase significantly over time. The credit is refundable, so firms with qualifying partnerships will claim the credit faster than those who have already claimed the credit under current law. In addition, the value of the credit increases cumulatively each year because jobs added early in the credit period will generate a credit each year for up to eight years, the maximum credit period. The revenue impact will also increase as new partnerships are approved each year by the Economic Development Commission.

Among 47 qualifying state institutions of higher education in Colorado, 43 are located outside of enhanced rural enterprise zones and could therefore produce partnerships affected by the bill. Of these institutions, many are research universities that could be expected to produce multiple qualifying partnerships each year, including but not limited to: the School of Mines; the Boulder, Anschutz, Denver, and Colorado Springs campuses of the University of Colorado; the Fort Collins and Pueblo campuses of Colorado State University; and the University of Northern Colorado.

TABOR Impact

This bill reduces state revenue from General Fund which will reduce the amount required to be refunded under TABOR. TABOR refunds are paid from the General Fund.

State Expenditures

The Department of Revenue and Office of Economic Development (OEDIT) can implement the bill within existing resources. However, as the number of expected participants increase, the Departments may need additional resources in the out years. The Departments will monitor the program's growth and request additional resources through the budget process if needed. Finally, the DOR has indicated there may be one-time computer programing costs associated with the refundable credit. Potential costs are not available at this time.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Revenue Office of Economic Development