

Colorado Legislative Council Staff Fiscal Note  
**STATE and STATUTORY PUBLIC ENTITY  
 FISCAL IMPACT**

**Drafting Number:** LLS 15-1029      **Date:** April 16, 2015  
**Prime Sponsor(s):** Rep. Pettersen; Young      **Bill Status:** House Education  
**Fiscal Analyst:** Larson Silbaugh (303-866-4720)

**BILL TOPIC:** MIDDLE CLASS COLLEGE SAVINGS ACT

Fiscal Impact Summary*	FY 2015-2016	FY 2016-17	FY 2017-2018
<b>State Revenue</b>	<b>(\$630,142)</b>	<b>(\$1,289,582)</b>	<b>(\$1,349,539)</b>
General Fund	(\$630,142)	(\$1,289,582)	(\$1,349,539)
<b>State Expenditures</b>		\$101,151	\$102,608
General Fund		\$84,987	\$80,354
Centrally Appropriated Costs**		\$16,164	\$22,254
<b>FTE Position Change</b>		1.4 FTE	1.9 FTE
<b>TABOR Set Aside</b>	<b>(\$630,142)</b>	<b>(\$1,289,582)</b>	<b>(\$1,349,539)</b>

**Appropriation Required:** None.

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

Adjusted Gross Income	Current Law	HB 15-1347
Under \$150,000	100%	200%
\$150,000 to \$250,000	100%	150%
\$250,000 to \$500,000	100%	50%
Over \$500,000	100%	0%

**Background**

CollegInvest 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 CollegInvest 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 **decrease General Fund revenue by \$630,142 in FY 2015-16, \$1,289,582 in FY 2016-17, and \$1,349,539 in FY 2017-18.**

**Assumptions.** This bill alters the deduction allowed for contributions to CollegenInvest for Colorado taxpayers. Table 2 shows the deduction claimed by adjusted gross income in 2011 and how HB 15-1347 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). An increase in the deduction amount represents a reduction in Colorado taxable income and therefore a reduction in Colorado income taxes.

<b>Federal Adjusted Gross Income</b>	<b>Deduction Claimed</b>	<b>Deduction Allowed HB 15-1347</b>	<b>Difference in Deduction</b>	<b>Difference in Tax Liability</b>
Under \$150,000	\$72,549,979	\$145,095,957	\$72,545,978	(\$3,358,879)
\$150,000 to \$250,000	\$65,037,147	\$97,555,720	\$32,518,573	(\$1,505,610)
\$250,000 to \$500,000	\$61,633,075	\$30,816,538	(\$30,816,537)	\$1,426,806
Over \$500,000	\$52,562,748	\$0	(\$52,562,748)	\$2,433,655
<b>Total</b>	<b>\$251,782,949</b>	<b>\$273,468,230</b>	<b>\$21,685,266</b>	<b>(\$1,004,028)</b>

The new deduction calculation is effective for tax year 2016. Assuming contributions for each income group grow at the compound average annual growth rate as personal income reported in the March 2015 Legislative Council Staff forecast, the deduction would be \$27.2 million higher in 2016, \$28.5 million higher in 2017, and \$29.8 million higher in 2018.

The state tax rate is 4.63 percent. Applying the tax rate to the deduction amounts, this bill will reduce income tax liability by \$1.3 million in 2016, \$1.3 million in 2017, and \$1.4 million in 2018.

Adjusting for state fiscal years, this will reduce individual income taxes by \$0.6 million in FY 2015-16, \$1.3 million in FY 2016-17, and \$1.3 million in FY 2017-18. The FY 2015-16 revenue impact reflects taxes paid on income received between January 1, 2016 and June 30, 2016.

**TABOR Impact**

This bill reduces state revenue from individual income taxes, which will reduce the amount required to be refunded under TABOR. Because TABOR refunds are paid from the General Fund, this revenue reduction will not affect the amount of money available in the General Fund for the state budget.

**State Expenditures**

This bill will increase state General Fund expenditures by \$101,151 and 1.4 FTE in FY 2016-17 and \$102,608 and 1.9 FTE in FY 2017-18. These costs are summarized in Table 3.

<b>Table 3. Expenditures Under HB 15-1347</b>			
<b>Cost Components</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
Personal Services		\$57,878	\$78,549
FTE		1.4	1.9
Operating Expenses and Capital Outlay Costs (DOR)		25,909	1,805
Operating Expenses (DPA)		1,200	0
Centrally Appropriated Costs*		16,164	22,254
<b>TOTAL</b>	<b>\$0</b>	<b>\$101,151</b>	<b>\$102,608</b>

\* 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 addition, the department's call center will answer taxpayer questions on the change in the deduction amounts. This additional workload will be accomplished through 1.4 additional FTE in FY 2016-17 and 1.9 FTE in FY 2017-18. Salaries and benefits for these FTE will be \$57,878 in FY 2016-17 and \$78,549 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 of \$8,389 in FY 2016-17 and \$1,805 in FY 2017-18 are also required.

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 will require the state's tax administration software to be modified to calculate the new deduction amounts. The software vendor will 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 require \$1,200 in FY 2016-17 reappropriated from the Department of Revenue to the document management line for DPA.

**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.

<b>Cost Components</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)		\$11,212	\$15,216
Supplemental Employee Retirement Payments		4,952	7,038
<b>TOTAL</b>		<b>\$16,164</b>	<b>\$22,254</b>

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

### **Statutory Public Entity Impact**

Costs for **CollegelInvest will increase by \$307,413** in FY 2015-16. 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 CollegelInvest accounts, which need to be communicated to account holders. This will require CollegelInvest to revise and resend Plan Disclosure Statements to 330,000 account holders. Account holders pay CollegelInvest fees to manage their investments, which will be used to pay for the additional expenses from this bill.

### **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. The deduction applies to contributions made beginning in tax year 2016.

### **State and Local Government Contacts**

Revenue

Personnel and Administration

Higher Education