



**Colorado
Legislative
Council
Staff**

HB16-1089

FISCAL NOTE

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-0338
Prime Sponsor(s): Rep. Moreno
Sen. Holbert

Date: January 28, 2016
Bill Status: House Finance
Fiscal Analyst: Kate Watkins (303-866-3446)

BILL TOPIC: ENDOWMENT OR INSTITUTIONAL FUND GIFT TAX CREDIT

Fiscal Impact Summary	FY 2015-2016 <i>(Current Year)</i>	FY 2016-2017	FY 2017-2018
State Revenue	<u>(\$4.8 million)</u>	<u>(\$9.9 million)</u>	<u>(\$10.3 million)</u>
General Fund	(\$4.8 million)	(\$9.9 million)	(\$10.3 million)
State Expenditures		<u>\$37,460</u>	<u>\$6,779</u>
General Fund		\$35,131	\$5,597
Centrally Appropriated Costs		\$2,329	\$1,182
TABOR Impact		(\$9.9 million)	(\$10.3 million)
FTE Position Change		0.2 FTE	0.1 FTE
Appropriation Required: \$35,131 - Department of Revenue (FY 2016-17)			
Future Year Impacts: Ongoing state revenue decreases and expenditure increases.			

Summary of Legislation

This bill creates an income tax credit for contributions made to an endowment of a Colorado charitable organization. Eligible endowment funds do not include donor advised funds or funds for a private foundation. The credit is equal to 25 percent of the contribution and the maximum credit allowed is \$25,000 per taxpayer per year. The credit is non-refundable, but can be carried forward for five years, and is available starting in tax year 2016.

Background

Charitable organizations can establish endowment funds that help support their charitable mission. Endowments are set up so that the principal in the fund is maintained over a long period of time, but earnings on the principal are used to support the ongoing operations of the charitable organization. Charitable contributions to endowments are deductible from federal taxable income and Colorado's taxable income is based upon federal taxable income. Under this bill, qualifying taxpayers would therefore receive a tax deduction as well as a tax credit for contributions to an endowment.

State Revenue

This bill will **reduce General Fund revenue by \$4.8 million (half-year impact) in FY 2015-16, \$9.9 million in FY 2016-17, and \$10.3 million in FY 2017-18.** The revenue impact is expected to grow over time with a rise in contributions consistent with Colorado personal income earnings.

Assumptions. Montana has a similar individual income tax credit that is determined by contributions to charitable endowments. In 2013, Montana taxpayers claimed income tax credits based on contributions of \$5.3 million to charitable endowments. This fiscal note assumes that Colorado taxpayers will contribute 6.14 times the amount contributed by Montana taxpayers based on the relative magnitudes of the two states' personal income earnings in 2014. This amount (\$33.2 million) was multiplied by the allowable credit percentage of 25 percent under this bill and estimates were grown annually by the five-year compound average annual growth rate of Colorado personal income to arrive at revenue impact estimates for FY 2015-16 and beyond.

TABOR Impact

This bill reduces state revenue to the General Fund, which will reduce the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. In FY 2016-17 and FY 2017-18, this bill is expected to reduce taxpayer refunds from the Six Tier Sales Tax refund mechanism by \$9.9 million and \$10.3 million, respectively. Since the bill reduces both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money available for the General Fund budget in the future during years the state does not collect money above the TABOR limit.

State Expenditures

This bill will increase General Fund appropriations by **\$37,460 and 0.2 FTE in FY 2016-17 and \$6,779 and 0.1 FTE in FY 2017-18** and future years to administer the tax credit. These costs include personal services, programming, and document management, as shown in Table 1 and described below.

Table 1. Expenditures Under HB 16-1089		
Cost Components	FY 2016-17	FY 2017-18
Personal Services	\$8,518	\$4,258
FTE	0.2	0.1
Operating Expenses and Capital Outlay Costs	\$190	\$95
Programming and Document Management	\$26,423	\$1,244
Centrally Appropriated Costs*	\$2,329	\$1,182
TOTAL	\$37,460	\$6,779

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

Department of Revenue. Based on the Montana tax credit, an estimated 3,300 taxpayers are expected to claim the Colorado credit under this bill each year. An estimated 10 percent of these taxpayers will contact the DOR call center and 15 percent of taxpayers are expected to be subject to review. Additionally, programming of the tax administration system (GenTax) will require testing to ensure that returns are processed correctly. These workload increases will require an additional allocation of 0.2 FTE in FY 2016-17 and an ongoing FTE allocation of 0.1 FTE beginning in FY 2017-18 for a Tax Examiner I. The DOR will also incur a one-time programming cost for contract work for GenTax modifications totaling \$24,000 (120 hours at \$200 per hour).

Department of Personnel and Administration. The Department of Personnel and Administration (DPA) processes tax returns and correspondence on behalf of DOR. Additionally, imaging equipment and software used to scan supporting tax documentation will need to be modified, requiring \$1,200 in FY 2016-7 for modifications to income tax form 104CR. Funds for these costs will be reappropriated from DOR to 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 2.

Table 2. Centrally Appropriated Costs Under HB 16-1089		
Cost Components	FY 2016-17	FY 2017-18
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$1,600	\$800
Supplemental Employee Retirement Payments	729	382
TOTAL	\$2,329	\$1,182

Effective Date

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

State Appropriations

In FY 2016-17, the Department of Revenue will require an allocation of 0.2 FTE and a General Fund appropriation of \$35,131, of which \$2,423 will be reappropriated to the Department of Personnel and Administration for document management.

State and Local Government Contacts

Office of Information Technology

Personnel

Revenue