Colorado Legislative Council Staff

HB16-1003

FISCAL NOTE

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

Drafting Number:	LLS 16-0206	**Date:**	February 9, 2016
Prime Sponsor(s):	Rep. Pettersen; Young Sen. Merrifield; Todd	**Bill Status:** **Fiscal Analyst:**	House Education Kate Watkins (303-866-3446)

BILL TOPIC: MIDDLE CLASS COLLEGE SAVINGS ACT

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019
State Revenue	**($461,000)**	**($942,000)**	**($983,000)**
General Fund	(461,000)	(942,000)	(983,000)
State Expenditures		**28,237**	
General Fund		25,908	
Centrally Appropriated Costs		2,329	
TABOR Impact	($461,000)	($942,000)	Not estimated.
FTE Position Change		0.2 FTE	
Appropriation Required: None.			
Future Year Impacts: Ongoing revenue decrease.			

Summary of Legislation

This bill alters the income tax deduction for contributions to qualifying college savings accounts, and the deduction for interest earnings on or withdrawals from these savings accounts to the extent that they are used for qualifying higher education expenses and are not already excluded from federal taxable income. Beginning in tax year 2017, qualifying taxpayers may deduct a percentage of these qualifying contributions, interest earnings, and withdrawals from taxable income based on their adjusted gross income, as shown in Table 1.

Table 1. Deduction Allowed Under Current Law and HB16-1003

Adjusted Gross Income	Current Law	HB16-1003
Under $150,000	100%	200%
$150,000 to $250,000	100%	150%
$250,000 to $500,000	100%	15%
Over $500,000	100%	0%

Background

Under Section 529 of the federal Internal Revenue Code (IRC), taxpayers may establish a "529" college savings plan for which investment earnings and withdrawals for qualified higher education expenses are excluded from federal taxable income. These 529 plans are administered at the state level. CollegeInvest, which is a statutory entity of the state, manages Colorado's program.

In addition to the federal exclusion, which carries through to state taxable income, Colorado taxpayers may deduct interest earnings and qualifying withdrawals to they extent that they are still included in federal taxable income. Additionally, contributions to CollegeInvest savings plans may be deducted from taxable income on state income tax returns.

State Revenue

This bill will **decrease General Fund revenue by $461,000 in FY 2016-17 (half-year impact), $942,000 in FY 2017-18, and $983,000 in FY 2018-19.** Revenue decreases are expected to grow with personal income growth. Because income thresholds are fixed under this bill, fewer filers will be able to claim the credit as incomes rise with inflation, resulting in a growing General Fund revenue reduction over time. Revenue estimates do not reflect the impact of this bill on the deduction for interest on or withdrawals from qualifying savings accounts, as data are not available. The revenue impact from changes to these deductions under the bill are expected to be minimal as most interest earnings on and withdrawals are assumed to be excluded from federal taxable income.

Data and assumptions. Table 2 compares the deduction claimed under current law and the estimated deduction under HB 16-1003 using the actual deduction amounts claimed on 2012 individual tax returns.

Table 2. CollegeInvest Tax Deduction Under Current Law and HB16-1003, Tax Year 2012

Federal Adjusted Gross Income	Actual Deductions Claimed	Deductions Allowed Under HB 16-1003	Deduction Difference	Tax Liability Difference*
Under $150,000	$76.9 million	$153.8 million	$76.9 million	$3.6 million
$150,000 to $250,000	74.9 million	112.4 million	37.5 million	1.7 million
$250,000 to $500,000	72.1 million	10.8 million	(61.3 million)	(2.8 million)
Over $500,000	69.1 million	$0	(69.1 million)	(3.2 million)
Total	**$293.1 million**	**$277.0 million**	**($16.1 million)**	**($0.7 million)**

** Calculated as the deduction difference multiplied by the state tax rate of 4.63 percent.*

To arrive at a revenue impact estimate, the 2012 tax liability reduction shown in Table 2 was grown each year by the compound average annual growth rate for Colorado personal income earnings for the most recent five years of data available.

TABOR Impact

This bill reduces state revenue to the General Fund, which will reduce the amount required to be refunded under TABOR. TABOR refunds are paid from the General Fund. 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 state General Fund expenditures by $28,237 and 0.2 FTE in FY 2017-18.** Costs include personal services, operating expenses, programming and form change costs, as summarized in Table 3.

Table 3. Expenditures Under HB16-1003			
Cost Components	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**
Personal Services		$8,518	
FTE		0.2 FTE	
Operating Expenses and Capital Outlay Costs		190	
Programming and Form Change Costs		17,200	
Centrally Appropriated Costs*		2,329	
TOTAL		**$28,237**	

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

Department of Revenue (DOR). About 48,000 taxpayers are expected to claim the deduction in tax years 2016, 2017, and 2018. Reviewing and auditing returns from this population can be addressed within existing appropriations, as the deduction can be verified using federal tax data. The current deduction on the Colorado income tax form is the same for all taxpayers. This bill requires changes to the DOR's GenTax software system. Changes are programmed by a contractor at a rate of $200 per hour. The changes in this bill are expected to increase General Fund expenditures by $16,000, representing 80 hours of programming. All GenTax programming changes are tested by department staff. Testing for this bill will require the addition of 0.2 FTE in the DOR's Taxpayer Service Division.

Department of Personnel and Administration (DPA). 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 2017-18 reappropriated from the DOR 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.

Table 4. Centrally Appropriated Costs Under HB16-1003			
Cost Components	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**
Employee Insurance (Health, Life, Dental, and Short-term Disability)		$1,600	
Supplemental Employee Retirement Payments		729	
TOTAL		**$2,329**	

Statutory Public Entity Impact

Costs for **CollegeInvest will increase by $322,269** in FY 2017-18. 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 350,000 account holders. Account holders pay CollegeInvest fees to manage their investments, which will be used to pay for the additional expenses from this bill.

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 and Local Government Contacts

Revenue Personnel and Administration Higher Education