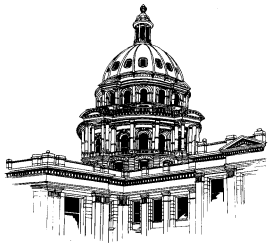

Colorado Legislative Council Staff

HB16-1292

FISCAL NOTE

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

Drafting Number:	LLS 16-0937	**Date:**	March 11, 2016
Prime Sponsor(s):	Rep. Kagan Sen. Donovan	**Bill Status:**	House Public Health Care and Human Services
		Fiscal Analyst:	Kate Watkins (303-866-3446)

BILL TOPIC: INCOME TAX CREDIT FOR SANDWICH GENERATION

Fiscal Impact Summary	FY 2015-2016 (Current Year)	FY 2016-2017	FY 2017-2018
State Revenue	**($52.8 million)**	**($106.4 million)**	**($107.9 million)**
General Fund	(52.8 million)	(106.4 million)	(107.9 million)
State General Fund Transfers		(130.0 million)	(166.2 million)
Highway Users Tax Fund		104.0 million	110.8 million
Capital Construction Fund		26.0 million	55.4 million
State Expenditures		**$418,782**	**$861,825**
General Fund		331,023	644,179
Centrally Appropriated Costs		87,759	217,646
TABOR Impact		($106.4 million)	($107.9 million)
FTE Position Change		5.1 FTE	12.5 FTE
Appropriation Required: $331,023 - Department of Revenue (FY 2016-17)			
Future Year Impacts: Revenue decrease and expenditure increase through FY 2018-19.			

Summary of Legislation

For tax years 2016, 2017, and 2018, this bill creates a $3,600 refundable income tax credit for taxpayers claiming both a child and a relative as dependents on their federal income tax return. To qualify, taxpayers must have a federal adjusted gross income at or below 200 percent of the national median household income of its size and claim both a child and relative as a dependent. Taxpayers will receive the full $3,600 if they qualify for the credit under this bill as refundable tax credits, which are not limited to a taxpayer's income tax liability.

Background

Federal tax law allows taxpayers to claim an income tax exemption for each person claimed as a dependent. Dependents may include both qualifying children and qualifying relatives. This includes a taxpayer's:

- child, stepchild, foster child, or descendant (e.g., grandchild). This includes legally adopted children;
- brother, sister, half-brother, half-sister, stepbrother, or stepsister;
- father, mother, stepfather, stepmother, grandparent, or other direct ancestor, but not foster parent;
- sibling's child or half-sibling's child;
- parent's siblings; and
- son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.

For tax year 2015, taxpayers may reduce their federal taxable income by $4,000 per dependent. The exemption amount is reduced for taxpayers with a federal adjusted gross income in excess of $258,250 for single filers and $309,900 for joint filers.

Qualifying median household income. Table 1 summarizes U.S. median household income by household size for calendar year 2014. To qualify for the tax credit under this bill, a taxpayer must have a federal adjusted gross income of less than 200 percent of this amount based on his or her household size.

Table 1. U.S. Median Household Income by Household Size

Household Size	2014 Estimate*	200% of Estimate
All Households	$53,657	$107,314
1-Person	28,309	56,618
2-Person	60,689	121,378
3-Person	68,816	137,632
4-Person	79,784	159,568
5-Person	73,401	146,802
6-Person	69,137	138,274
7+ Person	71,957	143,914

**Source: U.S. Census Bureau, American Community Survey 1-year estimates.*

State Revenue

This bill is estimated to **reduce General Fund revenue by $52.8 million in FY 2015-16 (half-year impact), $106.4 million in FY 2016-17, $107.9 million in FY 2017-18, and $54.3 million in FY 2018-19 (half-year impact).**

Data and assumptions. Actual Colorado taxpayer data from the 2012 statistics of income was used to estimate the number of taxpayers eligible for the credit. The estimate was restricted to taxpayers who claimed both child and adult dependents and whose federal adjusted gross income was below the national median household income for the taxpayer's household size. Taxpayer household size was inferred based on the total number of dependents claimed in the 2012 statistics of income data.

The estimate of the number of eligible taxpayers was grown by the State Demography Office's statewide population growth projections to arrive at estimates for tax year 2016 and beyond. The projections of eligible taxpayers for 2016, 2017, and 2018 were then multiplied by the refundable credit amount of $3,600 to arrive at a revenue estimate. These estimates are summarized in Table 2.

Table 2. Taxpayer and Revenue Estimates for HB16-1292		
Tax Year	**Number Taxpayers**	**General Fund**
2016	29,349	($105.7 million)
2017	29,745	(107.1 million)
2018	30,171	(108.6 million)

* *Revenue impacts are split across fiscal years. For example, the tax year 2016 impact is spread over FY 2015-16 and FY 2016-17.*

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. Table 3 shows the projected impact on the mechanisms used to refund the TABOR surplus in current law. Revenue is refunded in the year following the year in which it is collected. This bill is expected to reduce the TABOR surplus by $106.4 million in FY 2016-17 and $107.9 million in FY 2017-18, reducing the amount of revenue refunded through the Six Tier Sales Tax Refund by these amounts.

Table 3. Impact of HB 16-1292 on Current Refund Mechanisms		
	FY 2016-17 Surplus FY 2017-18 Refund Tax Year 2017	FY 2017-18 Surplus FY 2018-19 Refund Tax Year 2018
Current Law		
Revenue above the TABOR limit	$191.6 million	$384.0 million
Income Tax Rate Reduction	0	232.9 million
Sales Tax Refund	191.6 million	151.3 million
HB16-1045		
Revenue above the TABOR limit	85.2 million	276.3 million
Income Tax Rate Reduction	0	232.9 million
Sales Tax Refund	85.2 million	43.4 million
Change from Current Law		
Revenue above the TABOR limit	(106.4 million)	(107.9 million)
Income Tax Rate Reduction	0	0
Sales Tax Refund	(106.4 million)	(107.9 million)

Source: Legislative Council Staff December 2015 Forecast.

State Transfers

Senate Bill 09-228 requires transfers to the Highway Users Tax Fund (HUTF) and the Capital Construction Fund (CCF) to occur each year through FY 2019-20. When the TABOR surplus is between 1.0 percent and 3.0 percent of General Fund revenue, the transfers are halved; when the TABOR surplus exceeds 3.0 percent the transfers are suspended. This bill will reduce the TABOR surplus in FY 2016-17 and FY 2017-18, thereby triggering the full transfer amounts to the HUTF and CCF in FY 2016-17 and the halved transfer amounts in FY 2017-18. Relative to current law, this will increase the transfers to the HUTF by $104.0 million in FY 2016-17 and $110.8 million in FY 2017-18, and will increase the transfers to the CCF by $26.0 million in FY 2016-17 and $55.4 million in FY 2017-18.

State Expenditures

This bill will **increase state General Fund expenditures by $418,782 and 5.1 FTE in FY 2016-17, and by $861,825 and 12.5 FTE in FY 2017-18 and 2018-19 for the Department of Revenue.** Costs include personal services, operating expenses, programming, testing, and form change, and document management costs, as summarized in Table 4 and explained below.

Table 4. Expenditures Under HB16-1292

Cost Components	FY 2015-16	FY 2016-17	FY 2017-18
Personal Services		$226,767	$559,178
FTE		5.1 FTE	12.5 FTE
Operating Expenses and Capital Outlay Costs		28,360	49,499
Programming, Testing and Form Change Costs		40,877	
Document Management		32,664	33,114
Printing and Mailing		2,355	2,388
Centrally Appropriated Costs*		87,759	217,646
TOTAL		**$418,782**	**$861,825**

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

Department of Revenue. This bill requires changes to the Department of Revenue'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 $32,000 representing 160 hours of programming. GenTax testing for this bill will require the expenditures for contract personnel totaling $7,677, representing 160 hours of testing at a rate of $24 per hour.

This fiscal note assumes a 100 percent review rate for all taxpayers claiming the credit based on a higher credit amount relative to other tax credits under existing law and a higher tendency toward fraud and improper payment with refundable tax credits. This will require 5.1 FTE in FY 2016-17 and 12.5 FTE in FY 2017-18 and 2018-19 to review, audit, respond to taxpayer protests and answer phone inquiries regarding the credit.

Department of Personnel and Administration. Scanning and imaging software will require modification to implement changes to the deduction. This will require $1,200 for individual income tax form 104CR in FY 2016-17 reappropriated from the Department of Revenue to the document management line for the Department of Personnel and Administration. Review and auditing will also result in document management costs for an estimated 15 percent of filers totaling $33,664 in FY 2016-17. This amount is expected to grow with the number of filers claiming the credit.

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 5.

Table 5. Centrally Appropriated Costs Under HB16-1292			
Cost Components	**FY 2015-16**	**FY 2016-17**	**FY 2017-18**
Employee Insurance (Health, Life, Dental, and Short-term Disability)		$40,814	$100,040
Supplemental Employee Retirement Payments		19,405	50,106
Leased Space		27,540	67,500
TOTAL		**$87,759**	**$217,646**

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature. The credit is repealed, effective December 31, 2024.

State Appropriations

In FY 2016-17, the Department of Revenue will require a General Fund appropriation of $331,023 and allocation of 5.1 FTE. The Department of Personnel and Administration requires $33,864 in reappropriated funds for document management.

State and Local Government Contacts

Information Technology   Personnel and Administration   Revenue