HB05-1232

Colorado Legislative Council Staff

STATE FISCAL IMPACT

Drafting Number:	LLS 05-0432	**Date:**	February 13, 2005
Prime Sponsor(s):	Rep. Boyd Sen. Kester	**Bill Status:**	House Finance
		Fiscal Analyst:	Harry Zeid (303-866-4753)

TITLE: CONCERNING THE EARNED INCOME TAX CREDIT.

Fiscal Impact Summary	FY 2005/2006	FY 2006/2007	FY 2007/2008
State Revenues General Fund			
State Expenditures General Fund			
FTE Position Change	0.0 FTE	0.0 FTE	0.0 FTE
Impact on TABOR Refund Mechanisms: Increase in Earned Income Tax Credit Reduction in Six-Tier Sales Tax Refund	 $21,129,645 ($21,129,645)	 $41,060,707 ($41,060,707)	 $40,462,487 ($40,462,487)
Effective Date: August 10, 2005, unless a referendum petition is filed			
Appropriation Summary for FY 2005/2006: None Required			
Local Government Impact: None			

Summary of Legislation

Under current law, Colorado provides a TABOR refund mechanism equal to 10 percent of the federal earned income tax credit (EIC) in years in which the state is required to refund excess TABOR revenue. This bill increases the value of the state earned income tax credit to 15 percent for the 2005 income tax year, and to 20 percent beginning with the 2006 income tax year. Additionally, the bill makes the earned income tax credit permanent, except that in years in which the state is required to refund excess state revenue, the amount of the earned income tax credit claimed would constitute a method or refunding excess TABOR revenue.

State Revenues

Table 1 identifies the estimated number of Colorado resident tax returns eligible for the federal earned income credit, the average value of the federal credit, and the total value of the federal credit for all Colorado residents for income tax years 2005 through 2007. In addition, the table shows the estimated value of the current state EIC as a TABOR refund mechanism, and the increase in the value of the EIC, as proposed by HB05-1232.

Table 1. Estimated TABOR Refund Impact of HB05-1232

	2005	2006	2007
Number of Colorado Returns	265,033	251,957	242,901
Estimated Average Federal EIC	$1,677	$1,714	$1,752
Total Federal Credit for Colorado Residents	$422,592,892	$410,607,067	$404,624,874
Current State EIC (@10 percent)	42,259,289	41,060,707	40,462,487
Proposed State EIC*	63,388,934	82,121,413	80,924,975
Calendar Year Net Impact of HB05-1232	$21,129,645	$41,060,707	$40,462,487
Fiscal Year Impact as a TABOR Refund	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**
Earned Income Credit Increase	$21,129,645	$41,060,707	$40,462,487
Six-Tier Sales Tax Refund Decrease	($21,129,645)	($41,060,707)	($40,462,487)

**Based on 15 percent for 2005 and 20 percent beginning in 2006*

In addition to raising the percentage value of the state earned income credit, HB05-1232 makes the entire earned income tax credit permanent (including the current 10 percent state EIC), funded in some years from excess state revenues and in other years from a reduction in the collection of General Fund money. Based on the December, 2004 Legislative Council revenue forecast, Colorado is projected to be in a TABOR refund position during each relevant year of the forecast period. Therefore, the increase in the earned income credit identified in the fiscal note will raise the value of the EIC TABOR refund mechanism, and will lower the value of the six-tier sales tax refund method by a corresponding amount.

State Expenditures

In years in which there is a TABOR surplus, the Department of Revenue already tracks the value of the current 10 percent earned income tax credit. Making the credit a permanent credit and increasing the value of the credit to 15 percent of the federal credit for the 2005 tax year, and 20 percent of the federal credit thereafter, will not result in an additional expenditure impact on the Department of Revenue.

Other State Impacts

The bill would grant an earned income tax credit in years in which a TABOR surplus does not exist. In such a case, the TABOR base is "ratcheting" down. An earned income tax credit in this year would ratchet revenue down even further. The bill eliminates the threshold (trigger) for the earned income tax credit refund method, as compared to current law. For example, in a year in which excess TABOR revenue totaled $10 million, the full amount of the earned income tax credit would still be required. This could create a cash flow issue for the state during that fiscal year. The state could offset the subsequent TABOR surplus by the amount over-refunded.

State Appropriations

The fiscal note implies that no additional appropriation or spending authority is required in FY 2005-06 to implement the bill.

Departments Contacted

Revenue Legislative Council Staff