


 Colorado *Legislative Council Staff*
STATE
CONDITIONAL FISCAL IMPACT

Drafting Number: LLS 06B-2074
Prime Sponsor(s): Rep. Benefield

Date: July 6, 2006
Bill Status: House Business Affairs & Labor
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TITLE: CONCERNING THE ELIMINATION OF A STATE INCOME TAX BENEFIT FOR A BUSINESS THAT PAYS A PERSON WHO IS NOT AN AUTHORIZED EMPLOYEE TO PERFORM LABOR SERVICES, AND, IN CONNECTION THEREWITH, PROHIBITING CERTAIN WAGES OR REMUNERATION PAID TO AN INDIVIDUAL FOR LABOR SERVICES FROM BEING CLAIMED AS A DEDUCTIBLE BUSINESS EXPENSE FOR STATE INCOME TAX PURPOSES UNLESS THE INDIVIDUAL IS AN AUTHORIZED EMPLOYEE OR OTHER SPECIFIED EXCEPTIONS APPLY AND, TO THE EXTENT SUCH A PAYMENT WAS CLAIMED AS A DEDUCTION IN DETERMINING THE BUSINESS' FEDERAL INCOME TAX LIABILITY, REQUIRING AN AMOUNT EQUAL TO THE PROHIBITED DEDUCTION TO BE ADDED TO THE BUSINESS' FEDERAL TAXABLE INCOME FOR THE PURPOSE OF DETERMINING STATE INCOME TAX LIABILITY.

Fiscal Impact Summary	FY 2006/07	FY 2007/08
State Revenues General Fund		potential increase*
State Expenditures General Fund		\$43,750**
FTE Position Change	0.0 FTE	0.0 FTE
Effective Date: Upon voter approval at the November 2006 general election. Applies to income tax years beginning January 1, 2008.		
Appropriation Summary for FY 2006/07: None required.		
Local Government Impact: None.		

* No estimate has been determined as of the morning of July 6, 2006. However, on-going discussions with the Department of Revenue are occurring in an effort to determine the most reliable estimate possible. A revised fiscal note will be provided upon receipt and analysis of information provided by the pertinent departments.

** If this expense is included in programming expenses that are included in the FY 2007-08 Long Bill appropriations to the Department of Revenue, the appropriation would not be required to implement the bill.

Summary of Legislation

This resolution would refer to voters a measure that would eliminate the ability of businesses to claim wages for certain employees as an expense for state income tax purposes. Under the measure, businesses would not be allowed to claim business expenses for wages paid to persons that are not "authorized employees." The definition of an authorized employee is one that qualifies under federal law regarding the employment eligibility of aliens. Furthermore, the employer must pay an individual at least \$600 in a year in order to be covered under the measure.

The measure does not apply to the following:

- employees hired prior to January 1, 2008;
- any workers not paid directly by the employer; or
- wages paid to an employee that presents a valid license or identification card issued by the Department of Revenue.

The measure allows the Executive Director of the Department of Revenue to prescribe forms and promulgate rules necessary to implement the provisions of the measure.

State Revenues

Because the resolution disallows the claiming of some expenses that may be occurring under federal law, it may increase the state taxable income of some business taxpayers. Therefore, the state would expect to receive additional corporate income tax revenue as a result of the passage of the referred measure. The actual amount of increased revenue has not yet been determined. It will depend on a variety of factors, ranging from the number of workers to which this may apply to the percentage of impacted businesses that have an income tax liability. Staff will continue to pursue relevant information in order to validate any assumptions made in calculating the revenue impact of the measure and will provide additional information on revised fiscal notes as it becomes available.

State Expenditures

An expenditure of \$43,750 for the Department of Revenue will be necessary for computer programming in order to add a line for an expense add-back on the corporate income tax form. If this expense is included in programming expenses that are included in the FY 2007-08 Long Bill appropriations to the Department of Revenue, the appropriation would not be required to implement the bill. It is unclear if any additional expenditures would be necessary to implement the measure. Additional information will be provided in revised fiscal notes as it becomes available.

Election Expenditure Impacts (For Informational Purposes Only)

The bill refers a measure to the voters at the November 2006 general election. This measure will be published in newspapers and an analysis of the measure will be included in the Blue Book mailed to all registered voter households prior to the election. Under current law, costs for these functions will be paid through a General Fund line item in the Long Appropriations Bill. The estimated costs for the 2006 Blue Book are outlined in Table 1.

Table 1. Estimated Costs of Producing the 2006 Blue Book and Distributing to All Registered Voter Households	
Printing	\$275,000
Postage	\$325,000
Translation	\$20,000
Newspaper Publication (English & Spanish)	\$600,000
Total Expenses (for an estimated 12 issues)	\$1,220,000
Average Expense Per Issue	\$101,667

State Appropriations

The fiscal note implies that no appropriation for FY 2006-07 is necessary to implement the bill. However, it should be noted that an expenditure of \$43,750 for the Department of Revenue will be necessary for computer programming in order to add a line for an expense add-back on the corporate income tax form. If this expense is included in programming expenses that are included in the FY 2007-08 Long Bill appropriations to the Department of Revenue, the appropriation would not be required to implement the bill.

Departments Contacted

Labor and Employment

Personnel and Administration

Revenue