



# STATE FISCAL IMPACT

**Drafting Number:** LLS 13-0763**Date:** February 13, 2013**Prime Sponsor(s):** Sen. Hill**Bill Status:** Senate Education**Fiscal Analyst:** Keshia Duncan (303-866-6289)

**TITLE:** CONCERNING THE CREATION OF AN INCOME TAX CREDIT FOR COSTS INCURRED IN PROVIDING A SUPPLEMENTAL EDUCATION SERVICE TO A DEPENDENT CHILD.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014	FY 2014-2015
<b>State Revenue</b> General Fund (reduction)	(\$14.1 Million)	(\$28.5 Million)	(\$29.3 Million)
<b>State Transfers</b> Transfer from the General Fund to the State Education Fund (reduction)		(\$14.1 Million)	
<b>State Expenditures</b> General Fund		\$233,456	\$171,632
<b>FTE Position Change</b>		4.6 FTE	4.0 FTE
<b>Effective Date:</b> August 7, 2013, if the General Assembly adjourns on May 8, 2013, as scheduled, and no referendum petition is filed. The income tax credit is effective beginning tax year 2013.			
<b>Appropriation Summary for FY 2013-2014:</b> See the State Appropriations section			

## Summary of Legislation

This bill provides an income tax credit to residents of Colorado who incur expenses related to their child or dependent's supplemental education. Supplemental education service is any educational or academic service used in order to enhance the student's school education. In order to claim the credit, the parent or guardian must submit, along with the tax return, a recommendation letter from a licensed educator, mental health professional, or physician that states the child requires supplemental education services. For income tax years beginning on and after January 1, 2013, the credit would be the lesser of:

- the total amount of expenditures for a supplemental education service per taxpayer; or
- \$500 per taxpayer.

The credit is not refundable, but can be carried forward for 3 years from the income tax year the credit was claimed.

## **State Revenue**

**General Fund revenue will be reduced by an estimated \$14.1 million in FY 2012-13, \$28.5 million in FY 2013-14, and \$29.3 million in FY 2014-15.** Based on data from the Colorado Department of Education (CDE) and the National Center for Education Statistics, it is estimated that a state income tax credit for supplemental education services would be claimed on 72,168 returns in tax year 2013, 73,467 returns in tax year 2014, and 74,789 returns in tax year 2015. On an accrual accounting basis, one-half of the value of the first year of the credit is reflected in FY 2012-13. Although the tax credit is non-refundable, taxpayers may carry the credit forward 3 years from the income tax year in which the credit was originally claimed.

An estimated 72,168 taxpayers were assumed eligible for this tax credit in 2013; 68 percent of the taxpayers would have a tax liability that would allow them to claim the entire \$500 credit, while 32 percent would have a tax liability that would allow them to claim an average credit of \$153 per return. Estimates for parents with children eligible to receive the credit are based on the CDE's total number of students participating in special education programs, which was adjusted upward to account for students with disabilities outside of special education programs. Data from the National Center for Education Statistics on students with emotional disturbances and students receiving tutoring services were added to the estimates. Supplemental education includes, but is not limited to, programs such as tutoring, counseling, and therapy, which can help a student gain confidence and accelerate in their primary education. Because of the wide range of eligible programs, it was assumed the entire estimated population would incur the maximum supplemental education cost of \$500.

## **State Transfers**

***State Education Fund Transfer.*** HB 12-1338 transfers all of the General Fund surplus in FY 2012-13 to the State Education Fund for expenditure in FY 2013-14. A \$14.1 million decrease in General Fund revenue in FY 2012-13 implies a corresponding reduction of \$14.1 million in the amount that will be transferred to the State Education Fund in FY 2013-14.

## **State Expenditures**

**General Fund expenditures will increase by \$233,456 in FY 2013-14 and \$171,632 per year thereafter as reflected in Table 1.** The bill will require 4.6 FTE in FY 2013-14 and 4.0 FTE per year thereafter. The Department of Revenue will need to increase their review workload in order to verify the validity of the tax credits claimed. This fiscal note assumes the department audits 40 percent of the claims annually; additionally, an increase of inquiries made to the call center for this credit is expected to be higher in the first year and decrease in subsequent years. A one-time change will also have to be made to the department's GenTax system and the tax return forms.

<b>Table 1. Expenditures Under SB13-131*</b>		
<b>Cost Components</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
Personal Services	\$197,376	\$171,632
FTE	4.6	4.0
Operating and Capital Expenses	\$26,080	
<b>TOTAL</b>	<b>\$233,456</b>	<b>\$171,632</b>

### **Expenditures Not Included**

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 summarized in Table 2.

<b>Table 2. Expenditures Not Included Under SB13-131*</b>		
<b>Cost Components</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$30,806	\$26,788
Supplemental Employee Retirement Payments	\$12,115	\$11,919
<b>TOTAL</b>	<b>\$42,921</b>	<b>\$38,707</b>

*\*More information is available at: <http://colorado.gov/fiscalnotes>*

### **State Appropriations**

The Department of Revenue requires a General Fund appropriation of \$233,456 and 4.6 FTE in FY 2013-14.

### **Departments Contacted**

Revenue