

**STATE
FISCAL IMPACT**

Drafting Number: LLS 13-0559

Date: January 30, 2013

Prime Sponsor(s): Rep. Dore

Bill Status: House Finance

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TITLE: CONCERNING THE CREATION OF AN INCOME TAX CREDIT FOR SCHOOL-RELATED EXPENDITURES.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014	FY 2014-2015
State Revenue General Fund - (reduction)	(\$19.4 Million)	(\$39.9 Million)	(\$42.6 Million)
State Transfers Transfer from General Fund to State Education Fund (reduction)		(\$19.4 Million)	
State Expenditures General Fund		\$181,101	\$291,390
FTE Position Change		2.5 FTE	6.1 FTE
Effective Date: 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.			
Appropriation Summary for FY 2013-2014: See the State Appropriations section.			

Summary of Legislation

This bill would provide an income tax credit to residents of Colorado that incur expenses related to their child or dependant's school supplies or school fees. For income tax years beginning on and after January 1, 2013, the credit would be:

- 25 percent of the total expenditure for school fees or school supplies. The maximum allowable credit is equal to \$500 (25 percent of \$2,000 in school fees/supplies).
- 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 an estimated \$19.4 million in FY2012-13, \$39.9 million in FY 2013-14, and \$42.6 million in FY 2014-15. Based on data on total filers with tax liability and children under the age of 18 and average school supply purchases data, it is estimated that a state income tax credit for school expenditures would be claimed on 486,610 returns

in tax year 2013, 495,369 returns in tax year 2014, and 504,286 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 486,610 taxpayers are assumed to file this tax credit in 2013 at an average of \$318 spent per student on school supplies; 25 percent of that results in an average credit of \$80 per filer. Estimates for expenditures are based on the National Retail Federation's survey from where parents were asked how much they spent on various back to school supplies (book bag, highlighter, paper, etc.) and electronic-related purchases. It was assumed the entire population of estimated eligible filers would incur school supply expenditures annually, but that electronic-related purchases would occur only bi-annually. Because there are so many districts in Colorado with varying school fees, the amount of the tax credit attributable to school fees is based on an average of \$100 per student.

State Transfers

State Education Fund Transfer. HB 12-1338 transfers all the General Fund surplus in FY 2012-13 to the State Education Fund for expenditure in FY 2013-14. A \$19.4 million decrease in General Fund revenue in FY 2012-13 implies a corresponding reduction of \$19.4 in the amount that will be transferred to the State Education Fund in FY 2013-14.

State Expenditures

The bill would require the Department of Revenue to increase their review workload in order to verify the validity of the tax credits claimed. This fiscal note assumes the department audits 10 percent of the claims. This process would produce a portion of denied claims that would likely be contested and re-filed by the taxpayer. Completing this verification and re-processing associated with this credit will increase state General Fund expenditures by \$181,101 in FY 2013-14 and \$291,390 per year thereafter as reflected in Table 1. This effort will require 2.5 FTE in FY 2013-14 and 6.1 FTE per year thereafter. Although the Department of Revenue will also need to make a one-time change to add the credit line to the 104CR form, the department intends to absorb this cost.

Table 1. Expenditures Under HB13-1094		
Cost Components	FY 2013-14	FY 2014-15
Personal Services	\$105,814	\$257,371
FTE	2.5	6.1
Operating and Capital Expenses	\$75,287	\$34,019
TOTAL	\$181,101	\$291,390

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.

Table 2. Expenditures Not Included Under HB13-1094*		
Cost Components	FY 2013-14	FY 2014-15
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$16,788	\$40,962
Supplemental Employee Retirement Payments	\$8,222	\$22,698
TOTAL	\$25,010	\$63,660

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

State Appropriations

The Department of Revenue requires a General Fund appropriations of \$181,101 and 2.5 FTE in FY 2013-14.

Departments Contacted

Revenue