

Colorado Legislative Council Staff Fiscal Note

**STATE
FISCAL IMPACT**

Drafting Number: LLS 15-0813
Prime Sponsor(s): Rep. Lee
 Sen. Scott

Date: April 1, 2015
Bill Status: House Finance
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BILL TOPIC: CHANGE WILDFIRE MITIGATION TAX DEDUCTION TO CREDIT

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017	FY 2017-2018
State Revenue	(at least \$416,468)	(at least \$840,015)	(at least \$854,295)
General Fund	(at least \$416,468)	(at least \$840,015)	(at least \$854,295)
State Expenditures		\$20,910	
General Fund		\$20,910	
FTE Position Change			
Tabor Set Aside	(at least \$416,468)	(at least \$840,015)	(at least \$854,295)
Appropriation Required: None.			

* This summary shows changes from current law under the bill for each fiscal year.

Summary of Legislation

This bill eliminates the wildfire mitigation income tax deduction and creates a wildfire mitigation state income tax credit. The tax credit will be available for tax years 2016 through 2018.

The amount of the credit is equal to 25 percent of the costs a taxpayer incurs performing wildfire mitigation on their property located in a wildland-urban interface. The amount of the credit per tax year cannot exceed \$2,500. Any amount above the limit can be carried forward for five years. Any remaining credit after five years is nonrefundable.

Background

A state income tax deduction is subtracted from taxable income, thus reducing the final tax bill by 4.63 percent of the amount deducted, whereas an income tax credit reduces a final tax bill dollar for dollar.

Under current law, a taxpayer is allowed a state income tax deduction for performing wildfire mitigation measures. The deduction, which is available through tax year 2024, is equal to 50 percent of the costs the taxpayer incurred while performing these measures. The tax deduction cannot exceed \$2,500 per income tax year or the total amount of the taxpayer's federal taxable income, whichever is less. A \$2,500 deduction will reduce state income taxes by \$115.75

To be eligible for the deduction, the taxpayer must own the property upon which the mitigation measures are performed, and the property must be in a wildland-urban interface. The wildland-urban interface includes any area where man-made improvements are built close to, or within, natural terrain and flammable vegetation, and where high potential for wildland fire exists. The Colorado State Forest Service defines the wildland-urban interface. It is estimated that more than two million Coloradans live in the wildland-urban interface.

State Revenue

For the three years the income tax credit is available, **this bill will reduce General Fund revenue by at least \$416,468 in FY 2015-16, at least \$840,015 in FY2016-17, at least \$854,295 in FY 2017-18, and at least \$430,748 in FY 2018-19.** The figures for FY 2015-16 and FY 2018-19 represent a half-year impact since the credit is available beginning in tax year 2016 and expires in after tax year 2018.

Assumptions. These estimates are based on 2013 state income tax returns. In 2013, 1,876 taxpayers deducted a total of \$1,747,056 under the wildfire mitigation income tax deduction which indicates a total of \$3,494,112 in out of pocket costs. This deduction reduced total state income taxes by \$80,889 in 2013. Since an income tax credit reduces a final tax bill dollar for dollar, state revenue would have been reduced by an additional \$792,639 under the bill, or the net difference between the value of the current income tax deduction (\$80,889) and 25 percent of the value of total out-of-pocket costs (\$873,528). The 2013 data was adjusted by population growth to obtain estimates for 2016, the first year the income tax credit is available.

It is important to note that the actual impact on state revenue may be higher than that estimated here because income tax credits are typically more attractive than income tax deductions, and the added value to taxpayers may increase wildfire mitigation efforts beyond the current level.

TABOR Impact

This bill reduces state revenue from the General Fund, which will reduce the amount required to be refunded under TABOR. TABOR refunds are paid from the General Fund.

State Expenditures

The bill increases General Fund expenditures by \$20,910 in FY 2016-17 for one-time programming costs for the Department of Revenue (DOR). The bill will require the DOR to remove the current wildfire deduction line from the Individual Income Tax Return (Form 104) and add a line for the credit on the Individual Credit Schedule (Form 104CR). It is estimated that 90 hours, paid at a rate of \$219 per hour, of computer programming of the GenTax system will be required to make these changes to the state income tax forms. In addition, the bill will result in imaging and scanning costs for the optical charter recognition software. These costs are estimated to be \$1,200.

Effective Date

The bill takes effect August 5, 2015, if the General Assembly adjourns on May 6, 2015, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Higher Education/Colorado State Forest Service

Revenue