



**Colorado
Legislative
Council
Staff**

Bill 4

FISCAL NOTE

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-0273
Prime Sponsor(s):

Date: October 27, 2015
Bill Status: Wildfire Matters Review Interim
Committee Bill Request

Fiscal Analyst: Louis Pino (303-866-3556)

BILL TOPIC: CHANGE WILDFIRE MITIGATION TAX DEDUCTION TO CREDIT

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue	<u>(at least \$423,548)</u>	<u>(at least \$854,295)</u>
General Fund	(at least \$423,548)	(at least \$854,295)
State Expenditures		<u>\$19,200</u>
General Fund		\$19,200
TABOR Impact	(at least \$423,548)	(at least \$854,295)
FTE Position Change		
Appropriation Required: None		
Future Year Impacts: Income tax credit expires after tax year 2019.		

Summary of Legislation

This draft bill, **requested by the Wildfire Matters Review Committee**, 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 2017 through 2019.

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, 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 \$116.00

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, as defined by the Colorado State Forest Service, 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. 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 \$423,548 in FY 2016-17, \$854,295 in FY 2017-18, \$868,818 in FY 2018-19, and at least \$438,071 in FY 2019-20.** The figures for FY 2016-17 and FY 2019-20 represent a half-year impact since the credit is available beginning in tax year 2017 and expires after tax year 2019.

In 2013, 1,876 taxpayers deducted a total of \$1,747,056 under the wildfire mitigation income tax deduction which implies \$3,494,112 in total 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 were adjusted by population growth to obtain estimates for 2017, the first year the income tax credit is available.

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

TABOR Impact

This bill reduces state revenue from the General Fund, which will reduce the amount of money required to be refunded under TABOR. Tabor refunds are paid out of the General Fund. Since the bill reduces both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund budget.

State Expenditures

The bill increases General Fund expenditures by \$19,200 in FY 2017-18 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 80 hours, paid at a rate of \$225 per hour (80 hours times \$225 per hour = \$18,000), of computer programming 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, estimated at \$1,200.

Effective Date

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Higher Education/Colorado State Forest Service

Revenue