



# Home Modification Tax Credit

OFFICE OF THE STATE AUDITOR

Tax Expenditure Evaluation • January 2023 • 2023-TE1

C O L O R A D O

The Home Modification Tax Credit provides up to a \$5,000 nonrefundable income tax credit to eligible taxpayers who modify an existing home to better accommodate a resident with an illness, impairment, or disability. Under statute, the credit’s purpose is “to make retrofitting a residence for health, safety, and welfare more affordable.”

**The credit has made home modifications more affordable for those who have claimed it, but its impact has been limited because relatively few taxpayers have used it and many recipients are unable to claim the full credit amount.**

- As of May 2022, the credits issued ranged between 4 percent and 100 percent of the total project cost. Over 40 percent of the credits issued covered more than half of the total project cost, and about one-third covered the entire project cost.
- Fewer taxpayers have been certified for the credit than expected. The fiscal note for the bill creating the credit anticipated an average of 260 credits would be issued each year compared to the average of 10 credits that the Department of Local Affairs has issued annually to date. It appears that a lack of awareness among potential beneficiaries has contributed to the credit’s limited use.
- Only half of the taxpayers who received the credit in 2019 had sufficient tax liability to claim their full credit amount after 3 years. Some of these taxpayers may not have sufficient tax liability to use the remaining credit amount within its 5-year carryforward period and will not receive the full financial benefit of the credit.

## Policy Considerations

The General Assembly may want to:

- Review the cost effectiveness of the credit.
- Consider making the credit refundable to make home modifications more affordable for taxpayers with lower incomes.

Tax Type:	<b>Income tax</b>	First Year Available:	<b>2019</b>
Expenditure Type:	<b>Credit</b>	Repeal/Expiration date:	<b>December 31, 2023</b>
Statutory Citation:	<b>Section 39-22-541, C.R.S.</b>	Revenue Impact:	<b>\$76,400 (through Tax Year 2021)</b>

Purpose given in statute or enacting legislation? **Yes**



# Home Modification Tax Credit

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## Background

**The Home Modification Tax Credit provides up to a \$5,000 nonrefundable income tax credit to eligible taxpayers who modify an existing home to better accommodate a resident with an illness, impairment, or disability.**

The amount of the credit is equal to the cost of the home modifications, up to \$5,000. The credit is not refundable, but it can be carried forward for up to 5 years, after which time any unused amount expires. To be eligible for the credit, taxpayers must have a taxable family income at or below \$153,000 in 2022, which is adjusted for inflation each year, and the home modifications must improve the ease of access to, safety of, and ability to age in place in the home for a taxpayer or their dependent who has an illness, impairment, or disability. The total amount of credits is capped at \$1 million each year, which is awarded on a first-come, first-served basis. The credit was first available in 2019 and can be claimed through Tax Year 2023. In 2019, House Bill 19-1135 modified statute to allow taxpayers to claim the credit if they have a dependent who has a disability that necessitates a home modification.

The Department of Local Affairs (DOLA) is responsible for determining eligibility and awarding credit certificates. As part of the eligibility determination, a healthcare or social service provider must determine that the taxpayer or their dependent have an illness, impairment, or disability that necessitates the home modification. In addition, DOLA requires the residence being modified to:

- Exist before the work begins (i.e., the work may not be completed during initial construction of the residence).
- Be the residence of the qualified individual and the person for whom the retrofit is required.
- Be located in Colorado.

DOLA requires the applicant to provide evidence of the completed project, such as pictures, and may conduct an inspection, after which it issues a certificate to the taxpayer. Taxpayers provide the certificate number to the Department of Revenue when they claim the credit on their income taxes.

We considered the intended beneficiaries to be individuals who require home modifications due to illness, impairment, or disability, including conditions associated with older age. According to the U.S. Census Bureau, in 2021, 8 percent of the population under age 65 in Colorado had a disability, and 15 percent of the State’s population was age 65 or older. These are two groups that are more likely to require home modifications in order to have improved functionality and physical access to the homes in which they reside. According to the U.S. Census Bureau, the average income of households in Colorado with individuals over age 65 was \$69,900 in 2021. Approximately 15 percent of individuals with disabilities in Colorado had income below the poverty level, which was about \$14,000 for an individual and \$28,000 for a family of four. Based upon the applications for the tax certificate, retrofitting a residence costs about \$15,700, on average, but ranged from about \$750 to more than \$130,000. Therefore, the cost of home modifications can constitute a significant portion of the income of some Coloradans who are eligible for the credit and it could be challenging for them to pay for home modifications without financial assistance.

There are six other states that offer a tax credit (Georgia, Maine, Missouri, Pennsylvania, and Virginia) or a deduction (Louisiana) similar to Colorado’s Home Modification Tax Credit. Other states’ credits or deductions range from \$500 to \$9,000.

**According to statute [Section 39-22-541(1), C.R.S.], the purpose of the expenditure is “to make retrofitting a residence for health, welfare, and safety reasons more affordable.”**

We developed the following performance measures to evaluate the credit:

- The extent to which the credit made retrofitting a residence for health, welfare, and safety reasons more affordable.
- The extent to which the credit has been used by eligible taxpayers.

## Evaluation Results

**The credit has made home modifications more affordable for those who have claimed it, but its impact has been limited because relatively few taxpayers have used it and many recipients are unable to claim the full credit amount.**

Between April 2019 and May 2022, DOLA issued 39 credits worth a total of about \$179,000. The average credit issued was about \$4,600, with the credits often offsetting a significant amount of project costs. For example, the credits issued ranged between 4 percent and 100 percent of the total project cost. Over 40 percent of the issued credits covered more than half of the total project cost, and about one-third covered the entire project cost. However, fewer taxpayers have been certified for the credit than expected at the time it was established. Specifically, the fiscal note for House Bill 18-1267, which created the credit, anticipated an average of 260 credits would be issued each year compared to the average of 10 credits that DOLA issued annually from 2019 through 2021.

It appears that a lack of awareness among potential beneficiaries has contributed to the credit’s limited use. We contacted three groups that represent elderly and disabled Coloradans, and all three groups indicated that they were not actively promoting the credit and that awareness of the credit is probably low. DOLA also reported that, due to the COVID-19 pandemic, it has not conducted as much outreach to potential taxpayers in recent years and plans to conduct more in future years.

Additionally, **many credit recipients have not been able to claim the full value of the credit due to a lack of taxable income.** For the 15 taxpayers who received certification for a credit in 2019, we reviewed the recipients’ annual income tax filings for Tax Year 2019 (the first year they could have claimed the credit) through Tax Year 2021 (the latest year they could claim the credit at the time of our evaluation). We found that only about half of the taxpayers had sufficient tax liability to claim their full credit amount after 3 years. Of the taxpayers who had not used their credits after 3 years, most had taxable incomes below \$33,000, which would result in these taxpayers having, at most, \$1,450 in potential state tax liability that could be offset by the credit. Due to their relatively low taxable incomes and the credit not being refundable, some of these taxpayers may not have sufficient tax liability to use the remaining credit amounts within the 5-year carryforward period.

Because many taxpayers have not been able to claim the full value of the credit, its revenue impact to the State has been less than the value of the total credits awarded by DOLA. Based on our review of credit recipients’ income tax returns in the Department of Revenue’s tax filing system, GenTax, as of May 2022, taxpayers claimed a total of \$76,400, or about 60 percent of the total amount DOLA certified in 2019, 2020, and 2021. Exhibit 1 shows a breakdown of the total amounts certified and claimed each year.

**Exhibit 1**  
**Amount Certified, Taxpayers, and Credits Claimed**  
**Calendar Years 2019 through 2021**

Calendar Year	Credits Certified	Taxpayers Receiving	
		Certified Credits	Credits Claimed
2019	\$65,700	15	\$26,900
2020	\$18,600	4	\$18,400
2021	\$47,800	10	\$31,100
<b>Total</b>	<b>\$132,100</b>	<b>29</b>	<b>\$76,400</b>

Source: Office of the State Auditor analysis of DOLA certification data and credit certificate recipients’ income tax filings.

While taxpayers with lower incomes may not be able to use the full value of the credit, other state programs are available to help lower income Coloradoans with the cost of home modifications. The Department of Health Care Policy and Financing administers the Home Modification Benefit for Medicaid-eligible individuals enrolled in a Home and Community-Based Services (HCBS) waiver. If they are part of the HCBS Brain Injury; Spinal Cord Injury; Community Mental Health Supports; or Elderly, Blind and Disabled waiver, the lifetime maximum benefit is \$14,000. If they are part of the HCBS Children's Extensive Support or Supported Living Services waiver, there is a \$10,000 limit over the 5-year life of the waiver. To be eligible for Medicaid, an adult must also have an income that is less than 133 percent of the Federal Poverty Level, which roughly equals a monthly income of \$1,500 per month or an annual income of \$18,000 for an individual. Therefore, the HCBS Home Modification Benefit may be able to cover lower income residents who might not be able to use the Home Modification Tax Credit due to their lower tax liability.

## Policy Considerations

**The General Assembly may want to review the cost effectiveness of the credit.** Currently, due to its limited use, the administration of the credit does not appear to be cost effective. DOLA reports that it spends approximately \$55,000 per fiscal year administering the credit, which is about twice the financial benefit that taxpayers have received each year. According to DOLA, its administrative activities related to the credit include reviewing applications and awarding the credit, inspecting projects to ensure they meet the requirements for receiving the credit, and conducting outreach. However, if additional taxpayers claim the credit in future years due to increased outreach by DOLA or the credit being made refundable (see the policy consideration below), the administrative costs relative to the taxpayer benefit might decrease.

Additionally, to the extent that it encourages home modification projects that would not have otherwise occurred, the Home Modification Tax Credit may provide some additional financial benefits to the State. A 2017 academic study from New Zealand found that home modifications can reduce accidents that can result in additional medical care, such as emergency room visits, especially among those with a previous history of accidents. For individuals who are uninsured or participate in public insurance programs, the State might bear the cost of additional medical care. Therefore, helping taxpayers to pay for home modifications might reduce the State's costs for these programs, although we could not quantify this impact.

**The General Assembly may want to consider making the credit refundable to make home modifications more affordable for taxpayers with lower incomes.** As discussed previously, we found that taxpayers with lower incomes often lack sufficient tax liability to receive the full value of the credit. For example, a taxpayer who is eligible for a \$5,000 credit would need to have a taxable income of roughly \$114,000 to have enough tax liability to claim the full amount in 1 year. Exhibit 2 shows the credit amount a taxpayer could potentially claim in 1 year at different income levels,

which is equivalent to their tax liability based on Colorado’s 4.4 percent income tax rate for Tax Year 2022 and assumes that they do not claim any other state tax credits.

**Exhibit 2**  
**Taxable Income Necessary to Claim a Tax Credit**

Annual Taxable Income	Maximum Tax Credit that Could Be Claimed Per Year Based on Tax Liability
\$22,700	\$1,000
\$45,500	\$2,000
\$68,200	\$3,000
\$90,900	\$4,000
\$113,600	\$5,000

Source: Office of the State Auditor analysis of Colorado’s individual income taxes.

Although taxpayers can carry forward the credit for up to 5 years, receiving the benefit at a later time likely reduces the credit’s impact and some taxpayers may not be able to fully claim the credit. We found that about half of the taxpayers certified for a credit in Calendar Year 2019 had not fully claimed their credits after 3 years. Most of these taxpayers had taxable incomes under \$33,000 and lacked sufficient tax liability to claim the full amount available. If the General Assembly made the credit refundable, it would allow taxpayers to claim the full amount of the credit in the first year and ensure they receive the full value of the credit. We identified one state, Missouri, that has a refundable home modification credit. However, making the credit refundable would likely increase its revenue impact. For example, about 40 percent (\$55,700) of credits issued by DOLA were not claimed by taxpayers from 2019 through 2021; a significant portion of these unclaimed credits would likely have been claimed if the credit was refundable.