



**Colorado
Legislative
Council
Staff**

SB17-149

FISCAL NOTE

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

Drafting Number: LLS 17-0857
Prime Sponsor(s): Sen. Kagan

Date: February 7, 2017
Bill Status: Senate Finance
Fiscal Analyst: Kate Watkins (303-866-3446)

BILL TOPIC: MULTIPLE METHODS FOR RECEIPT OF INCOME TAX REFUNDS

| Fiscal Impact Summary | FY 2017-2018 | FY 2018-2019 | FY 2019-2020 |
|---|------------------------|------------------------|------------------------|
| State Revenue | | | |
| State Expenditures | <u>\$91,915</u> | <u>\$70,918</u> | <u>\$35,242</u> |
| General Fund | 86,775 | 53,493 | 28,387 |
| Centrally Appropriated Costs | 5,140 | 15,425 | 6,855 |
| FTE Position Change | 0.3 FTE | 0.9 FTE | 0.4 FTE |
| Appropriation Required: \$86,775 - Department of Revenue (FY 2017-18). | | | |
| Future Year Impacts: Decreasing state expenditures over time. | | | |

Summary of Legislation

The bill allows taxpayers to determine how they receive their income tax refunds. Beginning with tax year 2017, the Department of Revenue (DOR) is required to provide taxpayers the opportunity to split their tax refund, if at least \$25, among up to four of the following methods:

- 1) paper check;
- 2) direct deposit into one or more savings accounts;
- 3) direct deposit into one or more checking accounts; and
- 4) direct deposit to one or more CollegenInvest savings accounts.

Background

Currently, taxpayers may elect to receive income tax refunds via paper check or through either a savings account, checking account, or CollegenInvest savings account, but may not split their refund among these methods. Under Section 529 of the federal Internal Revenue Code (IRC), taxpayers may establish a "529" college savings plan for which investment earnings and withdrawals for qualified higher education expenses are excluded from federal taxable income. These 529 plans are administered at the state level. CollegenInvest, which is a statutory public entity of the state, manages Colorado's program.

State Expenditures

This bill will increase state General Fund expenditures by \$91,915 and 0.3 FTE for FY 2017-18, \$70,918 and 0.9 FTE for FY 2018-19, and \$35,242 and 0.4 FTE in FY 2019-20 for the Department of Revenue. Costs include personal services, operating expenses, programming, testing, form change, and document management costs, as summarized in Table 1 and explained below. State expenditure increases required by this bill will be limited to document management costs beginning in FY 2020-21.

| Table 1. Expenditures Under SB17-149 | | | |
|---|-------------------|-------------------|-------------------|
| Cost Components | FY 2017-18 | FY 2018-19 | FY 2019-20 |
| Personal Services | \$13,032 | \$39,099 | \$17,376 |
| FTE | 0.3 FTE | 0.9 FTE | 0.4 FTE |
| Operating Expenses and Capital Outlay Costs | | 5,558 | |
| Programming and Testing Costs | 60,677 | | |
| Form Change Costs | 2,400 | | |
| Document Management Costs | 10,665 | 10,836 | 11,009 |
| Centrally Appropriated Costs* | 5,141 | 15,425 | 6,855 |
| TOTAL | \$91,915 | \$70,918 | \$35,242 |

* Centrally appropriated costs are not included in the bill's appropriation.

Department of Revenue (DOR). In FY 2015-16, DOR issued 2,039,194 income tax refunds to Colorado taxpayers. This fiscal note assumes that 10 percent, or 203,919 taxpayers will elect to distribute refunds to multiple accounts. In the first two years, 5 percent of these taxpayers are expected to contact the DOR call center with inquiries as a result of this bill, and fewer taxpayers are expected to call with inquiries in subsequent years. This will require an allocation of 0.3 FTE in FY 2017-18, accounting for the General Fund pay date shift, 0.9 FTE in FY 2018-19, and 0.4 FTE in FY 2019-20.

This bill requires changes to DOR's GenTax software system. Changes are programmed by a contractor at a rate of \$200 per hour. The changes in this bill are expected to increase General Fund expenditures by \$53,000 representing 265 hours of programming. GenTax testing for this bill will require the expenditures for contract personnel totaling \$7,677, representing 320 hours of testing at a rate of \$24 per hour.

Personnel and Administration (DPA). Scanning and imaging software will require modification to implement changes under the bill. This bill will require a new schedule for taxpayers opting for refunds to multiple accounts, requiring \$2,400 in form change costs in FY 2017-18. Document management costs will increase to enter data from paper documents into the GenTax system at a cost of \$10,665 in FY 2017-18. This amount will grow with the population of filers. Funds for form change and document management costs will be reappropriated from DOR to the document management line for DPA.

Centrally appropriated costs. 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 estimated in the fiscal note for informational purposes and summarized in Table 2.

| Table 2. Centrally Appropriated Costs Under SB17-149 | | | |
|--|-------------------|-------------------|-------------------|
| Cost Components | FY 2017-18 | FY 2018-19 | FY 2019-20 |
| Employee Insurance (Health, Life, Dental, and Short-term Disability) | \$2,352 | \$7,061 | \$3,138 |
| Supplemental Employee Retirement Payments | 1,168 | 3,504 | 1,557 |
| Leased Space | 1,620 | 4,860 | 2,160 |
| TOTAL | \$5,140 | \$15,425 | \$6,855 |

Statutory Public Entity Impact

The bill may increase contributions to CollegeInvest savings accounts, which may result in reduced administrative fees for account holders.

Effective Date

The bill takes effect August 9, 2017, if the General Assembly adjourns on May 10, 2017, as scheduled, and no referendum petition is filed.

State Appropriations

In FY 2017-18, the Department of Revenue requires a General Fund appropriation of \$86,775 and an allocation of 0.3 FTE. Of this amount, the Department of Personnel and Administration requires \$13,065 in reappropriated funds.

State and Local Government Contacts

Higher Education Information Technology Personnel Revenue