



**Colorado  
Legislative  
Council  
Staff**

**SB17-287**

**FISCAL NOTE**

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

**Drafting Number:** LLS 17-1103  
**Prime Sponsor(s):** Sen. Priola  
Rep. Garnett

**Date:** April 6, 2017  
**Bill Status:** Senate Finance  
**Fiscal Analyst:** Kate Watkins (303-866-3446)

**BILL TOPIC:** INCOME TAX CREDIT FOR DONATION TO ENDOWMENT FUND

Fiscal Impact Summary	FY 2016-2017 <i>(Current Year)</i>	FY 2017-2018	FY 2018-2019	FY 2019-20
<b>State Revenue</b>	<b><u>(\$5.5 million)</u></b>	<b><u>(\$11.2 million)</u></b>	<b><u>(\$11.6 million)</u></b>	<b><u>(\$5.9 million)</u></b>
General Fund	(5.5 million)	(11.2 million)	(11.6 million)	(5.9 million)
<b>State Expenditures</b>		<b><u>\$8,513</u></b>	<b><u>\$1,805</u></b>	<b><u>\$1,805</u></b>
General Fund		8,513	1,805	1,805
<b>TABOR Impact</b>		(\$11.2 million)	(\$11.6 million)	Not estimated.
<b>Appropriation Required:</b> \$8,513 - Department of Revenue (FY 2017-18).				
<b>Future Year Impacts:</b> Decreasing revenue reduction and expenditure impacts through FY 2024-25.				

**Summary of Legislation**

This bill creates an income tax credit for contributions made to an endowment of a Colorado charitable organization. Eligible endowment funds do not include donor advised funds or funds for private foundations, which are typically funded by a single primary donor instead of the general public. The credit is equal to 25 percent of the contribution up to a maximum of \$25,000 per taxpayer per year. The credit is non-refundable, but can be carried forward for five years, and is available in tax years 2017, 2018, and 2019.

**Background**

Charitable organizations can establish endowment funds that help support their charitable mission. Endowments are set up so that the principal in the fund is maintained over a long period of time, while earnings on the principal are used to support the ongoing operations of the charitable organization. Charitable contributions to endowments are deductible from federal taxable income and Colorado's taxable income is based upon federal taxable income. Under this bill, qualifying taxpayers would therefore receive a tax deduction as well as a tax credit for contributions to an endowment.

**State Revenue**

This bill will **reduce General Fund revenue by \$5.5 million (half-year impact) in FY 2016-17, \$11.2 million in FY 2017-18, \$11.6 million in FY 2018-19, and \$5.9 million in FY 2019-20 (half-year impact)**. Revenue reductions may occur through FY 2024-25 to the extent that taxpayers carry forward tax credits remaining after their income tax liabilities into future years.

**Data and assumptions.** Montana has a similar individual income tax credit for contributions to charitable endowments. In 2015, Montana taxpayers claimed income tax credits based on contributions of \$6.2 million to charitable endowments. This fiscal note assumes that Colorado taxpayers will contribute 6.53 times the amount contributed by Montana taxpayers based on the relative magnitudes of the two states' personal income earnings in 2016. This amount (\$40.2 million) was multiplied by the allowable credit percentage of 25 percent under this bill and estimates were grown annually by the five-year compound average annual growth rate of Colorado personal income to arrive at revenue impact estimates for FY 2016-17 and beyond. The credit cap of \$25,000 per year is not expected to impose a significant limitation on taxpayers; tax credits per taxpayer are expected to average \$2,900 per year.

**TABOR Impact**

This bill reduces state General Fund revenue, which will reduce the amount of money required to be refunded under TABOR for FY 2017-18 and FY 2018-19. TABOR refunds are paid out of the General Fund. TABOR refund obligations are not expected for FY 2016-17. This bill is expected to reduce the TABOR refund obligation by at least \$11.2 million in FY 2017-18 and by at least \$11.6 million in FY 2018-19, reducing the six-tier sales tax refund by equal amounts. 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 for the budget. However, the bill will reduce money available for the General Fund budget in the future during years when the state does not collect money above the TABOR limit.

**State Expenditures**

This bill will increase General Fund expenditures for the Department of Revenue by **\$8,513 in FY 2017-18 and \$1,805 in FY 2018-19 and FY 2019-20** to administer the tax credit. These costs include programming, testing, form change, and document management costs, as shown in Table 1 and described below.

<b>Table 1. Expenditures Under SB17-287</b>			
<b>Cost Components</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>
Programming, Testing, and Form Change Costs	\$6,738		
Document Management and Postage Costs	1,775	1,805	1,805
<b>TOTAL</b>	<b>\$8,513</b>	<b>\$1,805</b>	<b>\$1,805</b>

**Department of Revenue.** The Department of Revenue's GenTax software system requires changes to implement the bill, which will be programmed by a contractor at a rate of \$200 per hour. The changes are expected to increase expenditures by \$1,700, representing 8.5 hours of

programming. All GenTax programming changes are tested by department staff. Testing for this bill will require expenditures for contract personnel totaling \$3,838, representing 160 hours of testing at a rate of \$24 per hour. An estimated 3,800 taxpayers are expected to claim the Colorado credit under this bill each year. This will increase workload to answer taxpayer inquiries and review and audit returns, which can be accomplished within existing appropriations.

***Department of Personnel and Administration.*** Agency scanning and imaging software will be modified to implement the deduction. This will require \$1,200 for individual income tax form 104CR in FY 2017-18 reappropriated from the Department of Revenue to the document management line for the Department of Personnel and Administration. Review and auditing will also result in document management costs for an estimated 15 percent of filers totaling \$1,775 in FY 2017-18 and \$1,805 in FY 2018-19 and FY 2019-20. These amounts will be reappropriated from the Department of Revenue to the document management line for the Department of Personnel and Administration.

**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 \$8,513, of which \$2,975 will be reappropriated to the Department of Personnel and Administration.

**State and Local Government Contacts**

Information Technology

Personnel

Revenue