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Final Fiscal Note

Drafting Number: LLS 22-0444
Prime Sponsors: Rep. Pelton
Sen. Rankin

Date: August 19, 2022
Bill Status: Postponed Indefinitely
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Bill Topic: TAX CREDIT FOR RECYCLING AN OLD VEHICLE

Summary of Fiscal Impact:

- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

The bill would have created a refundable \$750 income tax credit for individuals that purchase a new motor vehicle while recycling their old vehicle. Beginning in FY 2022-23, the bill will decrease state revenue and increase state expenditures.

Appropriation Summary: For FY 2022-23, the bill would have required a General Fund appropriation of \$212,364 to the Department of Revenue.

Fiscal Note Status: The fiscal note reflects the introduced bill. This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

Table 1
State Fiscal Impacts Under HB 22-1124

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	(up to \$2.9 million)	(up to \$5.7 million)
	Total Revenue	(up to \$2.9 million)	(up to \$5.7 million)
Expenditures	General Fund	\$212,364	\$31,662
	Centrally Appropriated	\$12,793	\$7,212
	Total Expenditures	\$225,157	\$38,874
	Total FTE	0.9 FTE	0.5 FTE
Transfers		-	-
Other Budget Impacts	TABOR Refund	(up to \$2.9 million)	(up to \$5.7 million)
	General Fund Reserve	\$31,855	\$4,749

Summary of Legislation

Beginning in 2023, the bill creates a refundable \$750 income tax credit for any taxpayer that purchases a new motor vehicle and recycles their old motor vehicle with the same licensed motor vehicle dealer. The new motor vehicle must be a model year 2015 or newer, and the old motor vehicle must be model year 2009 or older. At the time of purchase, the purchaser must assign the tax credit to their financing entity and the full value of the tax credit is then deducted from the purchase price of the new motor vehicle. The credit expires at the end of 2027.

The purchaser's financing entity and licensed motor vehicle dealer must submit a report to the Department of Revenue containing information specified in the bill. Additionally, a licensed motor vehicle dealer that provides certification that it will recycle an old motor vehicle but fails to transfer the vehicle for recycling will be subject to a fine.

State Revenue

This bill will decrease state income tax revenue by up to \$2.9 million in FY 2022-23, by up to \$5.7 million in FY 2023-24, and by similar amounts in subsequent years through FY 2027-28. The bill reduces income tax revenue, which is subject to TABOR.

The fiscal note assumes that 7,650 taxpayers will claim this credit in each tax year that it is available. This estimate is based on the number of vehicles purchased in Colorado through the Car Allowance Rebate System in 2009, better known as "Cash for Clunkers," adjusted to reflect the lower relative tax credit value in this bill. To the extent that fewer taxpayers claim this credit, the reduction in revenue will be lower. To the extent that the new tax credit influences the volume of sales or sales price for new vehicles, the bill may also impact sales tax collections.

State Expenditures

The bill increases expenditures in the Department of Revenue by \$225,157 in FY 2022-23, \$38,874 in FY 2023-24, and by similar amounts in subsequent years until the tax credit expires in FY 2027-28. Expenditures are shown in Table 2 and detailed below.

**Table 2
Expenditures Under HB 22-1124**

	FY 2022-23	FY 2023-24
Department of Revenue		
Personal Services	\$42,168	\$24,587
Standard Operating	\$1,215	\$675
Capital Outlay	\$6,200	-
Computer Programming and Testing	\$152,764	-
Additional Support	\$3,617	-
Data Reporting	\$6,400	\$6,400
Centrally Appropriated Costs ¹	\$12,793	\$7,212
Total Cost	\$225,157	\$38,874
Total FTE	0.9 FTE	0.5 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

Department of Revenue. The Department of Revenue (DOR) will require an additional 0.9 FTE tax examiners in FY 2022-23 and 0.5 FTE tax examiners in FY 2023-24 and subsequent years. The tax examiners are necessary to process and review additional returns claiming the new tax credit and to resolve errors in returns.

- **Computer programming and testing.** For FY 2022-23 only, the bill will require changes to DOR's GenTax system, the DRIVES system, and additional computer and user acceptance testing. Changes are programmed by a contractor at a cost of \$225 per hour. Approximately 230 hours of computer programming will be required to make changes in the GenTax system, totaling \$51,750. An additional 60 hours of computer programming will be required to make changes in the DRIVES system, totaling \$13,500. Additional computer and user acceptance testing are required to ensure programming changes are functioning properly, resulting in an additional \$87,514 in expenditures by the department.
- **Additional support.** Business analysts from the DRIVES Development Support team work with the vendor FAST to develop requirements for the programming changes to the DRIVES system and perform initial testing of the changes at a cost of \$3,617 in FY 2022-23. Quality assurance testers from the Office of Information and Technology will provide additional testing of changes, including negative scenario testing, edge case testing, and support automated testing, at a cost of \$2,277 in FY 2022-23.
- **Data reporting.** Beginning in FY 2022-23, the Office of Research and Analysis within DOR will expend \$6,400 each year to collect and report data on the new tax credit.

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. These costs, which include employee insurance and supplemental employee retirement payments, are shown in Table 2.

Other Budget Impacts

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save.

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve beginning in FY 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by \$31,855 in FY 2022-23 and \$4,749 in FY 2023-24, which will decrease the amount of General Fund available for other purposes.

Local Government

To the extent that this bill induces additional motor vehicle purchases and recycling, it will increase workload for county clerks and recorders. To the extent that the tax credit influences the number of sales or sales price for new vehicles, the bill may also impact sales tax collections for local governments.

Effective Date

This bill was postponed indefinitely by the House Finance Committee on March 10, 2022.

State Appropriations

For FY 2022-23, the bill requires a General Fund appropriation of \$212,364 to the Department of Revenue, and 0.9 FTE. From this amount, \$2,277 is reappropriated to the Office of Information and Technology.

State and Local Government Contacts

Information Technology

Personnel

Revenue