



Legislative Council Staff *Nonpartisan Services for Colorado's Legislature*

Fiscal Note

Drafting Number: LLS 22-0562
Prime Sponsors: Rep. Woog

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Bill Status: House Finance
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Bill Topic: **INCOME TAX DEDUCTION FOR RENT**

Summary of Fiscal Impact:

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

Beginning in tax year 2023, this bill creates a state income tax deduction for rent paid on a rental residence in Colorado. It reduces state revenue and increases state expenditures beginning in FY 2022-23.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 22-1127

		Budget Year FY 2022-23	Out Year FY 2023-24	Out Year FY 2024-25
Revenue	General Fund	(\$248.8 million)	(\$500.7 million)	(506.8 million)
	Total Revenue	(\$248.8 million)	(\$500.7 million)	(\$506.8 million)
Expenditures	General Fund	-	\$4,084,886	\$6,184,409
	Total Expenditures	-	\$4,084,886	\$6,184,409
	Total FTE	-	47.4 FTE	90.7 FTE
Transfers		-	-	
Other Budget Impacts	TABOR Refund	(\$248.8 million)	(\$500.7 million)	(\$506.8 million)
	General Fund Reserve	-	\$506,709	\$724,875

Summary of Legislation

Beginning in tax year 2023, the bill creates a state income tax deduction up to \$17,500 for rent paid on a rental residence in Colorado. Taxpayers filing an individual income tax return with taxable income below \$40,000 for single filers or \$80,000 for joint filers qualify for the deduction. Tenants are required to attach a copy of their rental lease and certification from the landlord of the amount paid when filing their state income tax returns.

The bill also requires the Department of Revenue to account for the number of taxpayers that claimed the deduction in a tax year and provide the information to the General Assembly or the Office of the State Auditor upon request.

Background

At least 13 states provide renters with some form of state income tax credits or deductions. However, it is difficult to compare these programs across states because of differences in tax laws and economies. For example, California provides an income tax credit of \$120 for those filing jointly with a taxable income less than \$83,282, and \$60 for single filers with a taxable income less than \$41,641. In tax year 2018, almost 3 million taxpayers claimed \$249 million in credits.

This bill provides a state income tax deduction of up to \$17,500. For taxpayers who claim the maximum deduction, income tax liability will be reduced by \$796.25 ($\$17,500 \times 4.55$ percent).

State Revenue and Assumptions

The bill is expected to reduce General Fund revenue by \$248.8 million in FY 2022-23, \$500.7 million in FY 2023-24, and \$506.8 million in FY 2025-26. The amount of the revenue reduction is expected to increase in later years as the number of tenants grow and the price of rent increases. The estimate for FY 2022-23 represents a half-year impact on an accrual accounting basis. The bill reduces individual income tax revenue, which is subject to TABOR.

Taxpayers. Data from the 2019 American Community Survey (ACS) estimates that 469,620 taxpayers, both single and joint filers, will qualify for the state income tax deduction. The 2019 data were adjusted by population growth to obtain estimates for 2023 (488,377), the first year the income tax credit is available. Data for renter occupied housing units by county are also provided by the 2019 ACS. Approximately 35 percent of the state's total occupied units were renter occupied.

Rent prices and units. Based on available data from the 2019 ACS, the average rent for all residential property types and bedroom sizes in Colorado was \$1,186 per month in 2021. Boulder County reported the highest average monthly rent at \$1,902, with Conejos County showing the lowest at \$995. Seventeen counties or approximately 66 percent of qualified renters lived in county with an average monthly rent above \$1,458.33, the average monthly rent a taxpayer must pay to reach the maximum deduction allowed under the bill. The 2021 average rent was adjusted by the March 2022 Legislative Council Staff inflation forecast to obtain estimates for 2023 through 2024. A forecast of inflation is not available beyond 2024, so the 2024 estimate was used for future years.

The fiscal note assumes all qualified taxpayers will pay rent and will claim an income tax deduction up to the annual average rent paid in their county. In addition, the fiscal note assumes all qualified tenants will rent for 12 months. To the extent that fewer taxpayers claim the deduction, the revenue impact of the bill will be less than estimated.

State Expenditures

The bill will increase General Fund expenditures in the Department of Revenue by \$4.1 million in FY 2023-24 and by \$6.2 million in FY 2024-25, and by similar amounts in future years. Expenditures are summarized in Table 2 and detailed below.

**Table 2
 Expenditures Under HB 22-1127**

	FY 2022-23	FY 2023-24	FY 2024-25
Department of Revenue	-		
Personal Services	-	\$2,461,647	\$4,703,656
Operating Expenses	-	\$76,950	\$122,445
Capital Outlay Costs	-	\$706,800	-
GenTax Programming and Testing	-	\$57,695	-
Data Reporting	-	\$6,980	\$6,400
Document Management and Tax Form Changes	-	\$67,988	-
Employee Insurance/Supplemental PERA	-	\$706,826	\$1,351,908
FTE – Personal Services	-	47.4 FTE	90.7 FTE
Total Cost	-	\$4,084,886	\$6,184,409
Total FTE	-	47.4 FTE	90.7 FTE

Personal services. The Department of Revenue will require resources to process income tax deductions claimed under the bill. The majority of the personal services expenditure increase is attributable to staffing in the Taxpayer Service Division to review tax deductions claimed, identify and address taxpayer errors, and manage call and correspondence volume associated with the new tax credit. Since there is not a third-party verification process to certify if the taxpayer qualifies as a tenant and if the claimed expenses meet the criteria in the bill, expenditures assume that 100 percent of claimed deductions will be reviewed. This granular work is one reason the staffing requirement is high, as there is no way to automate this sort of review. For FY 2023-24, estimated personnel costs assume a January 1, 2024, start date to administer tax credits claimed on 2023 tax forms

Computer programming and testing. For FY 2023-24 only, the bill will require changes to DOR’s GenTax software system and additional testing. Changes are programmed by a contractor at a cost of \$225 per hour. Approximately 120 hours of computer programming will be required to implement this bill, totaling \$27,000. Additional computer and user acceptance testing are required to ensure programming changes are tested and functioning properly, resulting in an additional \$30,695 in expenditures by the department.

Document management and tax form changes. For FY 2023-24 only, the bill requires changes to one tax form at a cost of \$67,988. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated Department of Revenue funds.

Employee insurance and supplemental PERA payments. Pursuant to a Joint Budget Committee policy, when a bill increases staffing by more than 20 FTE, certain costs that are typically addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills are instead directly appropriated in the bill. These costs, which include employee insurance, supplemental employee retirement payments, and leased space, 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 for FY 2022-23 and for FY 2023-24. This estimate assumes the March 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2023-24.

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 decrease the amount of General Fund held in reserve by \$506,709 in FY 2023-24 and \$724,875 in FY 2023-24, which will increase the amount of General Fund available for other purposes.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State and Local Government Contacts

Information Technology
Revenue

Personnel
State Auditor