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Fiscal Note

Drafting Number: LLS 23-0440
Prime Sponsors: Rep. Titone; Taggart
Date: February 7, 2023
Bill Status: House Education
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Bill Topic: **QUALIFIED HIGHER EDUCATION EXPENSES AVIATION TRAINING**

Summary of Fiscal Impact:

<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

For tax years 2024 through 2029, the bill expands the qualified higher education state income tax deduction to include aviation training expenses. The bill will decrease state revenue from FY 2023-24 through FY 2029-30, and increase state expenditures in FY 2024-25 and by minimal amounts in other years the deduction is available.

Appropriation Summary: No appropriation is required.

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

**Table 1
State Fiscal Impacts Under HB 23-1083**

		Budget Year FY 2023-24	Out Year FY 2024-25
Revenue	General Fund	(\$1.3 million)	(\$2.5 million)
Expenditures	General Fund	-	\$26,728
Transfers		-	-
Other Budget Impacts	TABOR Refund	(\$1.3 million)	(\$2.5 million)
	General Fund Reserve	-	\$4,009

Summary of Legislation

For tax years 2024 through 2029, this bill expands the definition of qualified education expenses to include commercial pilot training course expenses for fees, books, supplies, and equipment if the course complies with the requirements of federal law and the Federal Aviation Administration (FAA).

Under current law, Colorado allows individual taxpayers to claim a subtraction on their state income tax for payments or contributions made for qualified higher education expenses. These expenses include fees, book, supplies and equipment for participating in a qualified higher education program.

Assumptions

According to the FAA, there were 7,360 student pilots in Colorado in 2021, up more than 10 percent from the previous year. It is assumed that it takes, on average, 2.5 years for a student pilot to complete their instruction. The costs to become a commercial pilot vary on previous experience, type of aircraft, and the course plan for the future pilot. These costs can range from \$30,000 to \$90,000 to complete the program. These prices include ground and flight instruction, written exam fees, fuel, plane rental, and solo time. Aims Community College professional pilot associate degree program shows in-state tuition starting at \$81,000. It is assumed the number of student pilots will increase at the same rate as the U.S. Bureau of Statistics' expectation for pilot employment growth.

The fiscal note assumes that qualifying expenses will total approximately \$240 million annually beginning in 2024, based on \$81,000 in annual expenses for approximately 7,500 students prorated across 2.5 years each. Consistent with the percentage of tuition payments at state colleges and universities that are claimed as 529 contribution deductions, it is assumed that 24 percent of expenses will be deducted from taxable income each year. This amounts to annual deductions of \$58 million, reducing state income tax payments by \$2.5 million per year after applying the 4.4 percent state income tax rate.

To the extent the number of estimated taxpayers and the amount of claimed qualified expenses is higher than assumed, the state revenue impact described below will be higher, conversely, if the amount of expenses and number of taxpayers claiming the credit, the revenue reduction will be less.

State Revenue

The bill is expected to decrease General Fund revenue by \$1.3 million in FY 2023-24 (half-year impact) and \$2.5 million in FY 2024-25 and by similar amounts through FY 2028-29 with a half-impact in FY 2029-30, when the deduction is scheduled to expire. The bill reduces individual income tax revenue, which is subject to TABOR.

State Expenditures

The bill will increase General Fund expenditures by \$26,728 in FY 2024-25 and \$7,392 each year the deduction is available. These costs, which are incurred in the Department of Revenue, are summarized below.

Department of Revenue. This bill requires one-time costs in FY 2024-25 for development, programming, and testing for the department's GenTax software system, which includes maintenance and support of \$9,000 for 40 hours at \$225 per hour. Business user acceptance testing is necessary to ensure the changes made to the computer system work as intended, requiring \$32.00 per hour for 323 hours for a one-time cost of \$10,336. The Office of Research and Analysis, requires \$7,392 in FY 2024-25 and each year the deduction is available for funding to map new schedule data and fields for data reporting.

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 2023-24 and FY 2024-25. This estimate assumes the December 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25. 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 2023-24. Based on this fiscal note, the bill is expected to decrease the amount of General Fund held in reserve by the amounts shown in Table 1, 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. Changes to the deduction take effect in tax year 2024.

State and Local Government Contacts

Higher Education
Revenue

Information Technology
State Auditor

Personnel