



## Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

# Revised Fiscal Note

(replaces fiscal note dated February 9, 2023.)

<b>Drafting Number:</b>	LLS 23-0125	<b>Date:</b>	April 20, 2023
<b>Prime Sponsors:</b>	Rep. Bird Sen. Hansen; Kolker	<b>Bill Status:</b>	House Appropriations
		<b>Fiscal Analyst:</b>	Elizabeth Ramey   303-866-3522 elizabeth.ramey@coleg.gov

**Bill Topic:** EARNED INCOME & CHILD TAX CREDITS

<b>Summary of Fiscal Impact:</b>	<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

The bill expands the state earned income tax credit and child tax credit. It decreases state revenue beginning in FY 2023-24 and increases expenditures beginning in FY 2024-25. Through at least FY 2024-25, the bill decreases the state obligation for TABOR refunds to taxpayers.

**Appropriation Summary:** No appropriation is required.

**Fiscal Note Status:** The fiscal note reflects the introduced bill, which was recommended by the Legislative Oversight Committee Concerning Tax Policy. It has been revised to reflect the March 2023 LCS revenue forecast and updated vendor rates in the Department of Revenue.

**Table 1  
State Fiscal Impacts Under HB 23-1112**

		Budget Year FY 2023-24	Out Year FY 2024-25
<b>Revenue</b>	General Fund	(\$199.2 million)	(\$398.5 million)
	<b>Total Revenue</b>	<b>(\$199.2 million)</b>	<b>(\$398.5 million)</b>
<b>Expenditures</b>	General Fund	-	\$498,506
	Centrally Appropriated	-	\$84,458
	<b>Total Expenditures</b>	-	<b>\$582,964</b>
	<b>Total FTE</b>	-	<b>5.2 FTE</b>
<b>Other Budget Impacts</b>	TABOR Refund	(\$199.2 million)	(\$398.5 million)
	General Fund Reserve	-	\$74,776

**Summary of Legislation**

Beginning in tax year 2024, the bill expands the state earned income tax credit (EITC) and child tax credit (CTC), as discussed below.

**Earned income tax credit.** The Colorado EITC is available to taxpayers who claim the federal EITC, and to taxpayers who would otherwise be able to claim the federal EITC but who are ineligible because they do not have a valid social security number. The Colorado EITC is a refundable credit calculated as a percentage of the federal EITC. Beginning in tax year 2024, the bill increases the Colorado EITC from 25 percent of the federal EITC to 40 percent of the federal EITC.

**Child tax credit.** Starting in tax year 2022, the state CTC is available for single income tax filers with less than \$75,000 and for joint filers with less than \$85,000, in federal adjusted gross income (AGI), who claimed the federal CTC, or would otherwise be able to claim the federal CTC but who are ineligible because one or more of their qualifying children does not have a valid social security number.

Beginning in tax year 2024, the bill increases the amounts of the CTC, with the credit amount based on the taxpayer’s filing status and income as shown in Table 2. The tax credit is a refundable credit calculated as a percentage of the federal CTC. Two taxpayers who are married and may file taxes jointly, but choose to file separately, may only claim the credit on one return per year. If federal law is amended so that the expanded child tax credit available for tax year 2021 under the American Rescue Plan Act is extended to later tax years, then the bill reduces the state child tax credit percentages.

**Table 2  
 Amounts of the Colorado Child Tax Credit**

Single Filers			Joint Filers		
Federal AGI*	% of Federal Credit		Federal AGI*	% of Federal Credit	
	Current Law	Under HB 23-1112		Current Law	Under HB 23-1112
Up to \$25,000	60 percent	70 percent	Up to \$35,000	60 percent	70 percent
\$25,001 to \$50,000	30 percent	40 percent	\$35,001 to \$60,000	30 percent	40 percent
\$50,001 to \$75,000	10 percent	20 percent	\$60,001 to \$85,000	10 percent	20 percent

\* AGI = adjusted gross income; current income thresholds, not adjusted for inflation

The state CTC is available for eligible taxpayers’ children under the age of six. The bill expands the definition of “eligible child” to match that of the federal credit, which is available to eligible taxpayers’ children under the age of 17. Beginning in tax year 2024, the bill requires that DOR adjust the federal AGI thresholds for inflation, as measured by the Denver-Aurora-Lakewood consumer price index or its successor.

## Assumptions

**Economic forecast.** All revenue estimates assume future economic activity consistent with the March 2023 Legislative Council Staff forecast.

## State Revenue

The bill is expected to decrease state revenue by \$199.2 million in FY 2023-24, \$398.5 million in FY 2024-25, and similar amounts in future years. The bill decreases revenue from income taxes, which are subject to TABOR.

**Earned income tax credit.** Increasing the EITC is expected to decrease state revenue by \$60.0 million in FY 2023-24 (half-year impact), and \$120.1 million in FY 2024-25 and similar amounts in future years. Estimates are based on actual EITC claims, adjusted for expected increases in the eligible population. The estimate captures the impact of increasing the EITC from 25 percent of the federal credit under current law to 40 percent starting in 2024. It does not incorporate an adjustment to utilization rates. If the bill causes a greater share of eligible taxpayers to claim the credit than anticipated under current law, the revenue decrease will be greater than estimated.

**Child tax credit.** The state child tax credit is expected to decrease state revenue by \$139.2 million in FY 2023-24 (half-year impact), and \$278.4 million in FY 2024-25 and similar amounts in subsequent years. Estimates are based on an analysis of eligible Colorado taxpayers for tax year 2019, adjusted for increases in the eligible population. Consistent with current federal law, estimates assume that the credit percentages will be those shown in Table 2, as the expanded federal CTC amounts in the federal American Rescue Plan Act expired after 2021. The actual revenue decrease will depend on the rate at which the credit is utilized and could be greater or less than estimated.

## State Expenditures

The bill increases General Fund expenditures by \$582,964 and 5.2 FTE in FY 2024-25, by \$408,797 and 5.4 FTE in FY 2025-26 and by similar amounts in future years. These costs represent administrative expenses in the DOR to implement the new tax credit. Expenditures are shown in Table 3 and detailed below.

**Table 3**  
**Expenditures Under HB 23-1112**

	FY 2023-24	FY 2024-25	FY 2025-26
<b>Department of Revenue</b>			
Personal Services		\$290,358	\$306,048
Operating Expenses		\$7,560	\$7,290
Capital Outlay Costs		\$40,020	
Computer Programming and Testing		\$63,866	
Research and Analysis		\$7,392	\$7,328
Document Management		\$89,310	
Centrally Appropriated Costs <sup>1</sup>		\$84,458	\$88,131
<b>Total Cost</b>	<b>-</b>	<b>\$582,964</b>	<b>\$408,797</b>
<b>Total FTE</b>	<b>-</b>	<b>5.2 FTE</b>	<b>5.4 FTE</b>

<sup>1</sup>Centrally appropriated costs are not included in the bill's appropriation.

**Personal services.** The DOR will require additional staff to review and process additional tax returns claiming the expanded refundable child tax credit under the bill. In FY 2024-25, the department will require 5.2 FTE for tax examiners and program management. Operating expenses include telephone, computers, and other supplies for these staff.

**Computer programming and testing.** The DOR will have one-time costs of \$63,866 in FY 2024-25 for computer programming and testing. In FY 2024-25, programming costs are estimated at \$5,794 representing 25 hours of contract programming at a rate of \$231.75 per hour. Costs for user acceptance testing at the department are estimated at \$58,072, representing 1,220 hours for the Systems Support Office at \$35 per hour and 610 hours of user acceptance testing at a rate of \$25.20 per hour.

**Research and Analysis.** Expenditures in the Office of Research and Analysis are required for changes in related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$7,392, or 231 hours for data management and reporting at a rate of \$32 per hour starting in FY 2023-24 and similar amounts in future years.

**Document management.** The DOR will have one-time costs of \$89,310 in FY 2024-25 for form changes and the creation of new forms. These services are performed in the Department of Personnel and Administration using reappropriated DOR funds.

**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 3.

## 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. These estimates assume the March 2023 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.

## 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

Personnel

Revenue