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Fiscal Note

Drafting Number: LLS 23-0940
Prime Sponsors: Rep. Marshall; Taggart

Date: April 7, 2023
Bill Status: House Finance
Fiscal Analyst: Emily Dohrman | 303-866-3687
emily.dohrman@coleg.gov

Bill Topic: REPORTING ADJUSTMENTS TO TAXABLE INCOME

Summary of Fiscal Impact:	<input checked="" type="checkbox"/> State Revenue	<input 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 makes several changes to income tax reporting requirements, including the information to be included on forms and the time when forms are due. It minimally increases state revenue on an ongoing basis and requires one-time expenditures for implementation.

Appropriation Summary: No appropriation is required.

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

Table 1
State Fiscal Impacts Under HB 23-1277

		Budget Year FY 2023-24	Out Year FY 2024-25
Revenue		-	-
Expenditures	General Fund	-	\$76,080
	Centrally Appropriated	-	\$9,870
	Total Expenditures	-	\$85,950
	Total FTE	-	0.6 FTE
Transfers		-	-
Other Budget Impacts	General Fund Reserve	-	\$11,412

Summary of Legislation

The bill makes three primary changes to income tax reporting for partnerships, S corporations, and C corporations.

Partnerships and S corporations are entities that pass income, losses, deductions, and credits on to their shareholders for tax purposes (“pass-through entities”). Under current law, partnerships and S corporations have three options for ensuring that the income taxes owed by the nonresident owners are paid. They may file a composite return on behalf of the nonresident owners, withhold an estimated payment, or file an agreement that the owners will file a separate option. The bill consolidates two of these options, the composite return and withholding estimated payments options, and clarifies how the payment is calculated.

The amount of income tax owed to the state is dependent on the amount of federal taxable income. If a taxpayer’s federal taxable income is adjusted after filing their return, the taxpayer is required to report the change to Colorado. The bill replaces the current statute regarding these adjustments with a model statute developed by the Multistate Tax Commission. The new language allows more time to report adjustments to federal taxable income and allows pass-through entities to handle these adjustments on behalf of their owners.

Finally, the bill moves the state income tax return deadline for C corporations from April 15 to May 15, and moves the extension deadline from October 15 to November 15.

State Revenue

The bill minimally increases General Fund revenue on an ongoing basis beginning in FY 2023-24. Adopting the Multistate Tax Commission’s standard language ensures that the Department of Revenue (DOR) will be able to collect tax in the event that the federal government adjusts federal taxable income for certain taxpayers. The revenue impact will depend on the adjustments made at the federal level, but is expected to be small.

State Expenditures

The bill increases General Fund expenditures by \$85,950 and 0.6 FTE in FY 2024-25 only. Expenditures are outlined in Table 2 and described below.

**Table 2
 Expenditures Under HB 23-1277**

	FY 2023-24	FY 2024-25
Department of Revenue		
Personal Services	-	\$34,827
Operating Expenses	-	\$810
User Acceptance Testing	-	\$16,506
GenTax Programming	-	\$23,175
DPA Form Changes	-	\$762
Centrally Appropriated Costs ¹	-	\$9,870
Total	-	\$85,950
Total FTE	-	0.6 FTE

Department of Revenue. The DOR will require temporary staff in FY 2024-25 only for development and testing in support of GenTax programming that will be required to update systems for reporting. The bill also requires expenditures to update computer systems. Programming costs are estimated at \$23,175, representing 100 hours at \$231.75 per hour. Costs for testing at the department are estimated at \$16,560, representing 655 hours of user acceptance testing at a rate of \$25.20 per hour. Lastly, the Department of Personnel and Administration will require \$762 to update forms using reappropriated funds from the DOR.

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.

Effective Date

The bill takes effect January 1, 2024.

State and Local Government Contacts

Information Technology

Personnel and Administration

Revenue

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit: leg.colorado.gov/fiscalnotes.