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Revised Fiscal Note

(replaces fiscal note dated February 19, 2024)

Drafting Number: LLS 24-0715 Date: February 28, 2024
Prime Sponsors: Rep. Lindstedt; Vigil Bill Status: House Finance
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Bill Topic: EMPLOYEE-OWNED BUSINESS OFFICE AND INCOME TAX CREDIT

Summary of Fiscal Impact: [X] State Revenue [] State Transfer [] School District
[X] State Expenditure [X] TABOR Refund [] Statutory Public Entity

The bill codifies the Employee Ownership Office in the Office of Economic Development and International Trade and creates an income tax credit for certain costs incurred by new employee-owned businesses. It decreases state revenue through FY 2033-34 and increases state expenditures on an ongoing basis.

Appropriation Summary: For FY 2024-25, the bill requires an appropriation of \$145,847 to the Office of Economic Development and International Trade.

Fiscal Note Status: The fiscal note reflects the introduced bill, as amended by the House Business Affairs and Labor Committee, and has also been revised to reflect updated information.

Table 1
State Fiscal Impacts Under HB 24-1157

Table with 5 columns: Category, Sub-category, Budget Year FY 2024-25, Out Year FY 2025-26, Out Year FY 2026-27. Rows include Revenue (General Fund, Cash Funds, Total Revenue), Expenditures (General Fund, Cash Funds, Centrally Appropriated, Total Expenditures, Total FTE), Transfers, and Other Budget Impacts (TABOR Refund, General Fund Reserve).

Summary of Legislation

The bill codifies the Employee Ownership Office (office) within the Office of Economic Development and International Trade (OEDIT), and creates a refundable state income tax credit for specified costs incurred by new employee-owned businesses.

Employee Ownership Office. The office was created administratively by the Governor and is not currently codified in state law. The bill requires that the office support the development and advancement of employee-owned businesses, especially by providing technical support to small business owners looking to transition into employee ownership models.

Tax credit for employee-owned business costs. For tax years 2025 through 2033, the bill creates a refundable state income tax credit for specific costs incurred by businesses that have been partially or wholly owned by employees for fewer than seven years. Eligible costs will be detailed in the guidelines issued by the office and include accounting, legal, business advisory, and similar professional services. Tax credits are allowed for 50 percent of the qualifying costs, up to \$50,000 annually.

The office will certify tax credit applications submitted by businesses, and may charge an application fee of up to \$250 to offset a portion of the costs of the certification process. The total amount of tax credit certifications is limited to \$1.5 million annually, though any amount under the cap that is not certified in one tax year may be certified by the office in a subsequent tax year. The office is required to collect taxpayer identifying information from applicants and transmit this information to the Department of Revenue (DOR) to assist with DOR's tax credit review process.

Background

Employee Ownership Office. In 2020, the Governor administratively created the office within OEDIT. Since its creation, the office has been funded using term-limited federal funds made available during the COVID-19 pandemic. There is no ongoing funding source for the office in FY 2024-25 under current law, and continued funding for the office was not included in the Governor's FY 2024-25 budget request.

Employee Ownership Tax Credit. Under current law, businesses may claim a tax credit for costs incurred when they convert their ownership model to allow for employee ownership. The credit was created in House Bill 21-1311 and expanded in House Bill 23-1081. The credit is equal to 50 percent of the conversion costs for a business that converts to a worker-owned cooperative, an employee stock ownership plan, or an employee ownership trust. The tax credit is available for tax years 2022 through 2026. To date, the program has received 37 applications, with a total \$1,005,080 in reserved tax credits.

Assumptions

This fiscal note anticipates that 30 businesses will apply for the tax credit for tax year 2025, based on the assumption that most businesses with approved conversion costs credits will apply for the credit in this bill. This population is assumed to grow by about 12 firms annually, consistent with the annual number of new conversion credit applications.

The amount of the tax credit awarded to each applicant is estimated at \$30,000 in tax year 2025, reflecting lower costs to maintain employee ownership of a business than to conduct the initial conversion, and the 50 percent credit in the bill as opposed to the 25 percent credit for conversion costs for tax years 2021 through 2023. This estimate is grown by inflation for each subsequent tax year.

State Revenue

The bill is expected to decrease state revenue on net by \$446,250 in FY 2024-25, \$1,091,000 in FY 2025-26, and \$1,388,750 in FY 2026-27. The bill decreases General Fund tax revenue and increases cash fund fee revenue.

General Fund. The bill decreases income tax revenue, which is subject to TABOR. Based on the assumptions stated above, the bill is expected to decrease revenue by \$450,000 in FY 2024-25, \$1.1 million in FY 2025-26, and \$1.4 million in FY 2026-27. The revenue reduction is expected to be limited by the \$1.5 million cap in the bill in later fiscal years.

Cash Funds. The bill increases revenue to the Revolving Loan Program Cash Fund in OEDIT by \$3,750 in FY 2024-25, \$9,000 in FY 2025-26, and \$11,250 in FY 2026-27. This revenue is from tax credit application fees and is required to be spent for tax credit administration. This fee revenue is subject to TABOR.

Fee impact on businesses. Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. These fee amounts are estimates only, actual fees will be set administratively by OEDIT based on cash fund balance, program costs, and the number of tax credit applications subject to the fee. Table 2 below identifies the fee impact of HB 24-1157.

Table 2
Fee Impact of HB 24-1157 on Businesses

Fiscal Year	Type of Fee	Proposed Fee	Number Affected	Total Fee Impact
FY 2024-25	Tax Credit Application Fee	\$250	15	\$3,750
FY 2025-26	Tax Credit Application Fee	\$250	36	\$9,000

State Expenditures

The bill increases state expenditures by \$172,567 in FY 2024-25, \$223,959 in FY 2025-26, and \$183,531 in FY 2026-27 and later years. Expenditures are shown in Table 3 and detailed below.

**Table 3
Expenditures Under HB 24-1157**

	FY 2024-25	FY 2025-26	FY 2026-27
OEDIT			
Personal Services	\$111,647	\$144,719	\$144,719
Operating Expenses	\$1,280	\$1,664	\$1,664
Capital Outlay Costs	\$6,670	-	-
Software Licensing	\$30,000	-	-
Centrally Appropriated Costs ¹	\$22,970	\$29,821	\$29,821
FTE – Personal Services	1.0 FTE	1.3 FTE	1.3 FTE
OEDIT Subtotal	\$172,567	\$176,204	\$176,204
Department of Revenue			
Computer Programming (GenTax)	-	\$18,540	-
Computer Testing	-	\$19,243	-
Data Reporting	-	\$7,392	\$7,328
Document Management	-	\$2,581	-
DOR Subtotal	-	\$47,756	\$7,328
Total	\$172,567	\$223,960	\$183,532
Total FTE	1.0 FTE	1.3 FTE	1.3 FTE

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

OEDIT. Expenditures in OEDIT are for the addition of 1.0 FTE program manager to operate the Employee Ownership Office and 0.3 FTE program manager to review tax credit applications and certify tax credits, and for one-time software licensing. Costs are prorated to reflect a September 1, 2024, start date for the office personnel and a January 1, 2025, start date for staff to conduct tax credit reviews. Most costs will be paid from the General Fund; however, costs for tax credit certification are assumed to be paid in part from application fee revenue credited to the continuously appropriated Revolving Loan Program Cash Fund.

Department of Revenue. Beginning in FY 2025-26, expenditures will increase in DOR to administer the income tax credit, update and test GenTax computer programming, provide data reporting, and make changes to state income tax forms. DOR expenditures are paid from the General Fund.

- **Computer programming and testing.** For FY 2025-26 only, the bill requires expenditures of \$37,783 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at \$18,540, representing 80 hours of contract programming at a rate of \$231.75 per hour. Costs for testing at the department include \$13,195 for 377 hours of innovation, strategy, and delivery programming support at a rate of \$35 per hour, and \$6,048 for 189 hours of user acceptance testing at a rate of \$32 per hour.
- **Data reporting.** Beginning in FY 2025-26, expenditures in the Office of Research and Analysis in the DOR are required for changes in the 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, representing 231 hours for data management and reporting at \$32 per hour and are ongoing through FY 2033-34.
- **Document management and tax form changes.** For FY 2025-26, the bill requires changes to five tax forms at a cost of \$2,581. These costs also include testing of the scan system. For FY 2025-26, expenditures for form changes occur 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 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 2024-25 and FY 2025-26. This estimate assumes the December 2023 LCS revenue forecast, and estimates are not available after FY 2025-26.

The bill decreases General Fund revenue subject to TABOR, which will decrease the amount of General Fund revenue required to be refunded to taxpayers with no net impact on the amount available for the General Fund budget.

The bill increases cash fund revenue subject to TABOR, which will increase the amount of General Fund revenue required to be refunded to taxpayers, correspondingly decreasing the amount available for the General Fund budget.

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 2024-25. 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.

Technical Note

The bill allows OEDIT to assess an application fee for the new tax credit, but does not specify to what fund the fee revenue should be credited. This fiscal note assumes that the fee will be credited to the Revolving Loan Program Cash Fund in OEDIT, which is continuously appropriated.

State Appropriations

For FY 2024-25, the bill requires a General Fund appropriation of \$145,847 to OEDIT, and 1.0 FTE.

State and Local Government Contacts

Information Technology
Personnel

Office of Economic Development
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 the [General Assembly website](#).