



# Fiscal Note

|                         |                                      |                        |   |
|-------------------------|--------------------------------------|------------------------|---|
| <b>Drafting Number:</b> | LLS 24-0396Sen.                      | <b>Date:</b>           | January 31, 2024                                  |
| <b>Prime Sponsors:</b>  | Kolker; Hansen<br>Rep. Hamrick; Kipp | <b>Bill Status:</b>    | Senate Finance                                    |
|                         |                                      | <b>Fiscal Analyst:</b> | Louis Pino   303-866-3556<br>louis.pino@coleg.gov |

**Bill Topic:** PERA RETIREE REFUNDABLE INCOME TAX CREDIT

|                                  |   |  |
|----------------------------------|---|--|
| <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 |

For tax years 2024 and 2025 only, this bill creates a \$700 refundable state income tax credit for qualifying public service retirees. The bill increases state expenditures and reduces state revenue through FY 2025-26.

**Appropriation Summary:** For FY 2024-25, the bill requires an appropriation of \$172,163 to the Department of Revenue.

**Fiscal Note Status:** The fiscal note reflects the introduced bill, which was recommended by the Pension Review Commission.

**Table 1**  
**State Fiscal Impacts Under SB 24-044**

|                             |                           | <b>Current Year<br/>FY 2023-24</b> | <b>Budget Year<br/>FY 2024-25</b> | <b>Out Year<br/>FY 2025-26</b> |
|-----------------------------|---------------------------|------------------------------------|-----------------------------------|--------------------------------|
| <b>Revenue</b>              | General Fund              | (\$9.0 million)                    | (\$18.3 million)                  | (\$9.3 million)                |
|                             | <b>Total Revenue</b>      | <b>(\$9.0 million)</b>             | <b>(\$18.3 million)</b>           | <b>(\$9.3 million)</b>         |
| <b>Expenditures</b>         | General Fund              | -                                  | \$172,163                         | \$65,879                       |
|                             | Centrally Appropriated    | -                                  | \$23,535                          | \$15,095                       |
|                             | <b>Total Expenditures</b> | -                                  | <b>\$195,698</b>                  | <b>\$80,974</b>                |
|                             | <b>Total FTE</b>          | -                                  | <b>1.4 FTE</b>                    | <b>0.9 FTE</b>                 |
| <b>Transfers</b>            |                           | -                                  | -                                 | -                              |
| <b>Other Budget Impacts</b> | TABOR Refund              | (\$9.0 million)                    | (\$18.3 million)                  | (\$9.3 million)                |
|                             | General Fund Reserve      | -                                  | \$25,824                          | \$9,882                        |

## **Summary of Legislation**

For tax years 2024 and 2025 only, this bill creates a \$700 refundable state income tax credit for qualifying public employees' retirement association retiree. A qualifying public employees' retirement association retiree is:

- 65 years old or older at the close of the income tax year for which the credit is claimed; and
- has an annual gross income of no more than \$38,000 if filing as a single filer or \$76,000 if filing as a joint filer

The tax credit is refundable, meaning if the amount of the credit exceeds the taxpayer's state income tax liability, the balance is refunded to the taxpayer.

## **Assumptions**

According to the Department of Revenue (DOR), 22,374 taxpayers would have qualified for the income tax credit in 2020, the latest data available. The fiscal note utilizes the 2020 DOR estimate as a starting point and grows the number of qualified public service retirees by the State Demography Office's population estimates for those 65 years old or older. The fiscal note assumes that 25,656 public service retirees will qualify in tax year 2024 and 26,565 will qualify in tax year 2025. Finally, it is assumed that the fully refundable credit will incentivize all eligible retirees to claim the full \$700 tax credit in the bill. The revenue impact of the bill will be higher than estimated if there are more qualified public service retirees than estimated in the bill, or conversely, lower if the number of retirees claiming the credit is less.

## **State Revenue**

The bill is expected to decrease General Fund revenue by \$9.0 million in the current FY 2023-24 (half-year impact), \$18.3 million in FY 2024-25, and \$9.3 million in FY 2025-26 (half-year impact). The income tax credit is only available for only tax years 2024 and 2025. The bill reduces individual income tax revenue, which is subject to TABOR.

## **State Expenditures**

The bill will increase General Fund expenditures in the Department of Revenue by \$195,698 in FY 2024-25 and \$80,974 in FY 2025-26, when the credit is set to expire. Expenditures are summarized in Table 2 and detailed below.

**Table 2  
Expenditures Under Bill 2**

|   | FY 2024-25       | FY 2025-26      |
|---|------------------|-----------------|
| <b>Department of Revenue</b>              |                  |                 |
| Personal Services                         | \$77,414         | \$49,393        |
| Operating Expenses                        | \$1,792          | \$1,152         |
| Capital Outlay Costs                      | \$6,670          | \$6,670         |
| GenTax Programming and Testing            | \$77,603         | -               |
| Data Reporting                            | \$7,392          | \$7,328         |
| Document Management and Tax Form Changes  | \$1,292          | \$1,336         |
| Centrally Appropriated Costs <sup>1</sup> | \$23,535         | \$15,095        |
| FTE – Personal Services                   | 1.4 FTE          | 0.9 FTE         |
| <b>Total Cost</b>                         | <b>\$195,698</b> | <b>\$80,974</b> |
| <b>Total FTE</b>                          | <b>1.4 FTE</b>   | <b>0.9 FTE</b>  |

**Personal services.** The Department of Revenue will require resources to process income tax credits claimed under the bill. The majority of the personal services expenditure increase is for staffing in the Taxpayer Service Division to review tax credits claimed, identify and address taxpayer errors, and manage call and correspondence volume associated with the new tax credit. In general, refundable income tax credits have a higher rate of fraud and require additional documentation and review. Since there is not a third-party verification process to certify if the taxpayer qualifies as a qualifying public service retiree, expenditures assume that 100 percent of claimed credits will be reviewed, consistent with current department policy. Standard operating and capital outlay costs are included for new staff. For FY 2024-25, estimated personnel costs assume an October 1, 2024, start date to administer tax credits claimed on 2024 tax forms.

**Computer programming and testing.** For FY 2024-25 only, this bill requires expenditures of \$34,763 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at \$34,763, representing 150 hours of contract programming at a rate of \$231.75 per hour. Costs for testing at the department include \$29,400 for 840 hours of innovation, strategy, and delivery programming support at a rate of \$35 per hour, and \$13,440 for 420 hours of user acceptance testing at a rate of \$32 per hour. Expenditures in the Office of Research and Analysis 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.

**Data reporting.** Beginning in FY 2024-24, the Office of Research and Analysis (ORA) within DOR will expend \$7,392 to collect and report data on the new tax credit. ORA will also require \$7,328 in FY 2025-26.

**Document management and tax form changes.** For FY 2024-25, the bill requires changes to one tax form at a cost of \$1,292. 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 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 the current FY 2023-24, FY 2024-25, and FY 2025-26. This estimate assumes the December 2023 LCS revenue forecast. 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 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.

### **Technical Note**

The bill's definition of a PERA retiree can be interpreted to include any resident taxpayer 65 and up who meets the AGI requirement in the bill. This interpretation would significantly increase the taxpayer population eligible for the \$700 tax credit. The fiscal note assumes the bill will be amended to clarify that it only applies to PERA retirees meeting the income and age requirements in the bill. If the bill is not amended, the revenue and expenditure impacts will be significantly greater than estimated in Table 1.

### **Effective Date**

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

## **State Appropriations**

For FY 2024-25, the bill requires a General Fund appropriation of \$172,163 to the Department of Revenue, and 1.4 FTE. Of this amount, \$1,292 should be reappropriated to the Department of Personnel and Administration.

## **State and Local Government Contacts**

|  |                |               |
|--|----------------|---------------|
| Information Technology                   | Municipalities | Personnel     |
| Public Employees' Retirement Association | Revenue        | State Auditor |

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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](https://leg.colorado.gov/fiscalnotes).