SB 24-146

Legislative Council Staff

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Fiscal Note

Drafting Number:	LLS 24-0801	**Date:**	February 20, 2024
Prime Sponsors:	Sen. Kolker; Hansen Rep. Garcia	**Bill Status:**	Senate Finance
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Bill Topic: **TAX CREDIT FOR QUALIFIED RENTERS**

Summary of Fiscal Impact:

☒ State Revenue ☐ State Transfer ☐ Local Government
☒ State Expenditure ☒ TABOR Refund ☐ Statutory Public Entity

The bill creates an income tax credit for Coloradans who rent their primary residence. It decreases state revenue and increases state expenditures through FY 2026-27.

Appropriation Summary: For FY 2024-25, the bill requires an appropriation of $749,356 to the Department of Revenue.

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

Table 1
State Fiscal Impacts Under SB 24-146

		Current Year FY 2023-24	Budget Year FY 2024-25	Out Year FY 2025-26
Revenue	General Fund	($60.3 million)	($133.9 million)	($171.9 million)
	Total Revenue	**($60.3 million)**	**($133.9 million)**	**($171.9 million)**
Expenditures	General Fund	-	$749,356	$979,255
	Centrally Appropriated	-	$175,317	$262,624
	Total Expenditures	**-**	**$924,673**	**$1,241,879**
	Total FTE	**-**	**10.2 FTE**	**15.3 FTE**
Transfers		-	-	-
Other Budget Impacts	TABOR Refunds	($60.3 million)	($133.9 million)	($171.9 million)
	General Fund Reserve	-	$112,403	$146,888

Summary of Legislation

For income tax years 2024 through 2026, the bill creates a state income tax credit Coloradans who rent their primary residence. The credit is available to single filers with a federal adjusted gross income (AGI) less than or equal to $75,000 or joint filers with AGI less than or equal to $150,000.

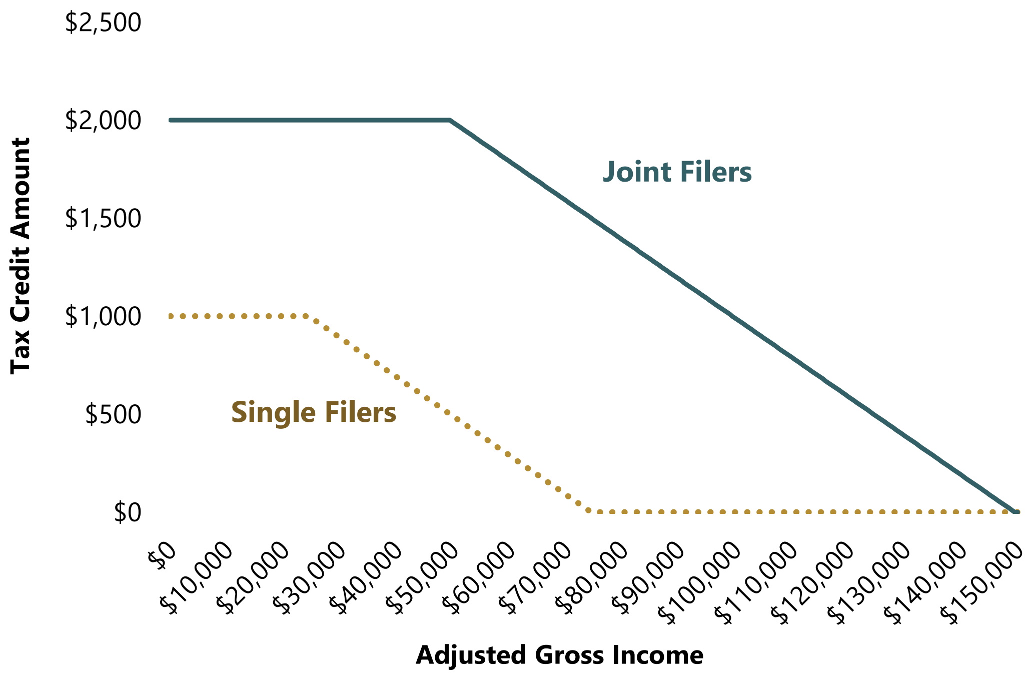
The amount of the credit is:

- $1,000 for single filers with AGI of $25,000 or less, reduced by $10 for every $500 of AGI above $25,000; or

- $2,000 for joint filers with AGI of $50,000 or less, reduced by $10 for every $500 of AGI above $50,000.

Figure 1 shows the amount of credit allowed for taxpayers depending on their AGI.

Figure 1
SB 24-246 Tax Credit Amounts by Adjusted Gross Income and Filing Status



The credit is nonrefundable and cannot be carried forward to subsequent tax years. Any amount by which the credit exceeds the taxpayer's tax liability cannot be claimed.

Assumptions

Eligible population. Based on American Community Survey (ACS) data, there were approximately 800,000 renter-occupied households in Colorado in 2021. Using renter-reported income data from the ACS, and adjusting for population and income growth since 2021, it is assumed that there will be approximately 547,500 renter taxpayers who will meet the income eligibility criteria to claim the credit in tax year 2024, including 349,000 taxpayers filing single returns and 198,500 taxpayers filing joint returns. The eligible population is expected to grow in later years, as the increase in the renter population will more than offset the share of taxpayers who will become ineligible due to rising incomes.

Utilization. Broadly available state tax credits, such as the Colorado earned income tax credit, have historically been claimed by relatively low shares of eligible taxpayers. This fiscal note assumes that about 248,400 renter taxpayers will claim the credit for tax year 2024, including 60 percent of taxpayers eligible for the maximum credit amount, and 40 percent of taxpayers eligible for reduced credit amounts. The fiscal note assumes growing utilization in later years, with 313,700 taxpayers claiming the credit for tax year 2025, and 427,000 taxpayers claiming the credit for tax year 2026.

Utilization rates are difficult to predict. Higher utilization would cause a larger state revenue reduction and greater increase in state expenditures than estimated in this fiscal note. Lower utilization would cause a smaller revenue reduction and lesser increase in expenditures than shown.

State Revenue

Based on the assumptions above, the bill is expected to decrease General Fund revenue by $60.3 million in FY 2023-24 (half-year impact), $133.9 million in FY 2024-25, $171.9 million in FY 2025-26, and $98.2 million in FY 2026-27 (final half-year impact). The bill reduces income tax revenue, which is subject to TABOR.

If all eligible taxpayers claim the credit, the revenue decrease for a full fiscal year would near $300 million. However, the utilization rate of the credit is expected to be somewhat lower, especially in the first year, based on utilization rates for other state income tax credits.

State Expenditures

The bill increases General Fund expenditures by $0.9 million in FY 2024-25 and $1.2 million in FY 2025-26, with similar amounts in FY 2026-27 only. Expenditures are shown in Table 2 and detailed below.

Table 2
Expenditures Under SB 24-146

		FY 2024-25	FY 2025-26
Department of Revenue			
Personal Services		$605,754	$904,882
Operating Expenses		$13,056	$19,584
Capital Outlay Costs		$80,040	$20,010
Computer Programming and Testing		$20,972	-
Data Analysis and Reporting		$7,392	$7,328
Document Management		$22,142	$27,451
Centrally Appropriated Costs[1]		$175,317	$262,624
	Total Cost	**$924,673**	**$1,241,879**
	Total FTE	**10.2 FTE**	**15.3 FTE**

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

Department of Revenue. 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.

- **Tax credit administration.** The department will require personnel to review tax credit claims and communicate with taxpayers. The workload demand for this tax credit is elevated due to the large population of eligible taxpayers, and because department staff will be required to review eligibility documentation for all taxpayers, as there is no other certifying entity. The fiscal note includes costs for 12.3 FTE in FY 2024-25, prorated to reflect a September 1 start date, and an additional 3.0 FTE in FY 2025-26, when the volume of claims is expected to increase.
- **Computer programming and testing.** For FY 2024-25 only, the bill requires expenditures of $20,972 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 user acceptance testing total $2,432 for 76 hours of testing at a rate of $32 per hour.
- **Data reporting.** 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 in FY 2024-25, representing 231 hours for data management and reporting at $32 per hour, with similar costs in late years.
- **Document management and tax form changes.** Document management costs to make changes to paper tax forms and process paper returns are estimated at $22,142 in FY 2024-25 and $27,451 in 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. This estimate assumes the December 2023 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2025-26. 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. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing the amount of General Fund available for other purposes.

Effective Date.

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2024-25, the bill requires a General Fund appropriation of $749,356 to the Department of Revenue, and 10.2 FTE. From this amount, $22,142 is reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Information Technology	Personnel	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.