



Legislative
Council Staff

Nonpartisan Services for Colorado's Legislature

FISCAL NOTE

Drafting Number: LLS 20-0240
Prime Sponsors:

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Bill Status: Bill Request
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Bill Topic: **WAGE AND SALARY EXPENSES TAX DEDUCTION**

**Summary of
Fiscal Impact:**

- State Revenue
- TABOR Refund
- State Expenditure
- Local Government
- State Transfer
- Statutory Public Entity

Beginning in tax year 2020, the bill repeals the state income tax deduction for wages and salary expenses due to Internal Revenue Code Section 280C. The bill increases state revenue beginning in the current FY 2019-20.

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

**Fiscal Note
Status:** The fiscal note reflects the bill draft requested by the Tax Expenditure Interim Study Committee.

**Table 1
State Fiscal Impacts Under Bill 17**

		FY 2019-20 <i>(current year)</i>	FY 2020-21	FY 2021-22
Revenue	General Fund	up to \$1.2 million	up to \$2.4 million	up to \$2.4 million
Expenditures		-	-	-
Transfers		-	-	-
TABOR Refund	General Fund	up to \$1.2 million	up to \$2.4 million	up to \$2.4 million

Summary of Legislation

Beginning in tax year 2020, the bill repeals the state income tax deduction for wages and salary expenses due to Internal Revenue Code (IRC) Section 280C.

Background

Since 1979, Colorado has allowed C-corporations and individuals with income from S-corporations to subtract wage and salary expenses that are not deductible for federal purposes due to IRC Section 280C from their federal taxable income. In general, IRC Section 280C requires taxpayers who claim certain federal employment tax credits to reduce the amount of wage and salary expense deductions they would have otherwise received by the amount of the credits claimed. Federal taxable income serves as the starting point for calculating Colorado taxable income.

State Revenue

This bill is expected to increase General Fund revenue by up to \$1.2 million (half-year impact) in the current FY 2019-20, and up to \$2.4 million per year thereafter beginning in FY 2020-21. The estimate is a maximum increase in state revenue from the bill based on the following assumptions.

Assumptions. Taxpayers claiming the state deduction for wages and salaries due to IRC Section 280C report the amount they are subtracting from their federal taxable income on the Other Subtractions line of the Colorado income tax form. The line is also used by taxpayers to report several other unrelated income tax deductions, and the data is not itemized. Instead, only an aggregate total is provided. Data are not available to determine the share of this deduction relative to the total amount of other subtractions.

In tax year 2015, taxpayers deducted \$51.4 million under the Other Subtractions income tax line, which implies this deduction and other deductions reduced total state income taxes by a maximum of \$2.4 million (\$51.4 million multiplied by the state income tax rate of 4.63 percent). To arrive at the revenue impact estimates, the 2015 data were adjusted by Legislative Council Staff's September 2019 wage and salary income forecast to obtain estimates for 2020, the first year the income tax credit is unavailable.

State Expenditures

Department of Revenue. The bill may minimally reduce workload for the Department of Revenue. No change in appropriation is required.

TABOR Refunds. The bill is expected to increase state General Fund obligations for TABOR refunds by up to \$1.2 million in FY 2019-20, up to \$2.4 million in FY 2020-21, and up to \$2.4 million in FY 2021-22. Under current law and the September 2019 Legislative Council Staff forecast, the measure will correspondingly increase the amount refunded to taxpayers, which will first be issued via reimbursements to local governments, followed by sales tax refunds made available on income tax returns for tax years 2020, 2021 and 2022, depending on the total amount to be refunded each year.

A forecast of state revenue subject to TABOR is not available for FY 2022-23 and subsequent years.

Effective Date

The bill takes effect August 5, 2020, if the General Assembly adjourns on May 6, 2020, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Information Technology

Personnel

Revenue

