HB 22-1205

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 22-0019	**Date:**	April 14, 2022
Prime Sponsors:	Rep. Kennedy; Weissman Sen. Hansen; Coleman	**Bill Status:**	House Finance
		Fiscal Analyst:	Elizabeth Ramey | 303-866-3522 Elizabeth.Ramey@state.co.us

Bill Topic: **SENIOR HOUSING INCOME TAX CREDIT**

Summary of Fiscal Impact:

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

The bill creates a refundable income tax credit for senior taxpayers with adjusted gross income up to $75,000 who have not claimed a homestead property tax exemption. The bill decreases state revenue and increases state expenditures and workload from FY 2021-22 to FY 2023-24.

Appropriation Summary: For FY 2022-23, the bill requires a General Fund appropriation of $1.7 million to the Department of Revenue.

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

Table 1
State Fiscal Impacts Under HB 22-1205

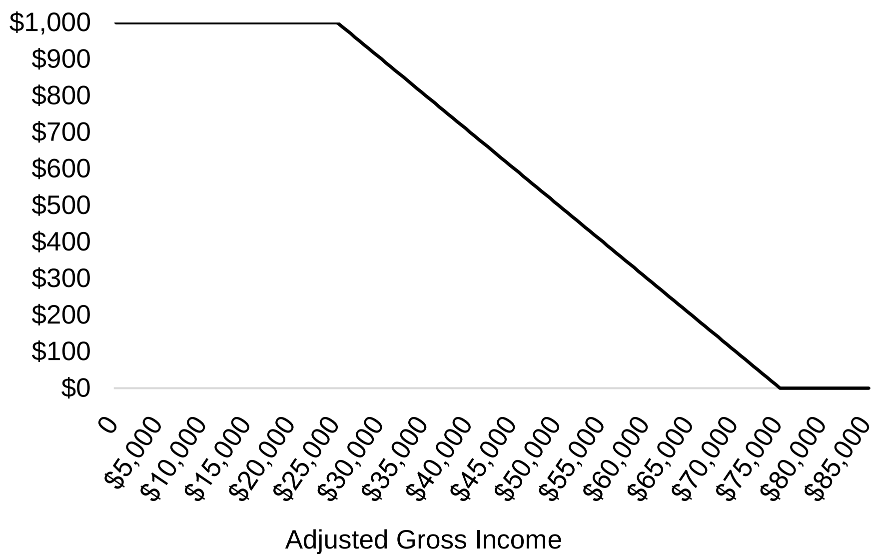
		Current Year FY 2021-22	Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	($51.8 million)	($51.8 million)	-
	Total Revenue	**($51.8 million)**	**($51.8 million)**	**-**
Expenditures	General Fund	-	$1,249,829	$357,282
	Centrally Appropriated	-	$68,666	$97,778
	Total Expenditures	**-**	**$1,318,495**	**$455,060**
Transfers		-	-	-
Other Budget Impacts	General Fund Reserve	-	$257,424	
	TABOR Refund	($51.8 million)	($51.8 million)	

Summary of Legislation

For income tax year 2022 the bill creates a refundable, means-tested income tax credit available to Colorado taxpayers who are at least 65 years old as of the end of the tax year, whose adjusted gross income falls below a cap, and who have not claimed a homestead property tax exemption for the 2022 property tax year. The credit is equal to $1,000 for taxpayers with incomes up to $25,000. For taxpayers with incomes above $25,000, the credit is reduced by $10 for every $500 above $25,000. The credit is not available for taxpayers with incomes of $75,000 and above.

Figure 1 shows credit values expected for tax year 2022 by taxpayer adjusted gross income. For example, the credit for a senior taxpayer with adjusted gross income of $50,000 would be $500, and the credit for a senior taxpayer with adjusted gross income of $65,000 would be $200.

Figure 1
2022 Credit Amounts Under HB 22-1205



Only one credit may be claimed for each address, and the credit is the same whether the taxpayer claiming the credit files jointly or singly. For taxpayers who are married and file separately, only one spouse may claim the credit. The amount by which the credit exceeds a taxpayer's income tax liability is refunded to the taxpayer, and the bill excludes the refunded amount from determination of the taxpayer's eligibility for public assistance benefits to the extent permitted by federal law.

The Department of Revenue (DOR) is required to establish an income tax form to allow a qualifying senior who does not file a federal income tax return to claim the credit.

The Property Tax Administrator is required to provide the DOR with reports on seniors and veterans with a disability homestead exemptions on November 1, 2022 and March 15, 2023.

Background

The senior homestead exemption reduces the actual value of a qualifying home for property taxation by 50 percent, up to a maximum of $100,000. To qualify for the senior homestead exemption, a taxpayer must be at least 65 years old as of January 1 of the tax year and must have occupied his or her home as a primary residence for at least 10 years. The state is required to reimburse local governments for the revenue reduction attributable to these exemptions. These reimbursements are made as expenditures from the state General Fund via the Department of the Treasury. Reimbursements to local governments for the property tax exemptions are the first of three TABOR refund mechanisms under current law. Applications for a senior homestead exemption must be made before July 15th of the property tax year, and once approved, seniors need not apply again unless ownership or occupancy changes.

Assumptions

Population. Based on State Demography Office estimates of the number of senior households, American Community survey data on characteristics of those households, Legislative Council Staff March 2022 inflation and homestead exemption forecasts, and Department of Revenue data on the senior taxpayer population, the fiscal note assumes a population of 175,400 potential claimants of the senior housing tax credit whose incomes are expected to fall under $75,000 in tax year 2022, consisting of senior homeowners with less than ten years' tenure in their homes, senior renters, and seniors newly eligible for the senior homestead exemption but claiming the income tax credit for tax year 2022 instead. Under current law, a portion of this population is expected not to file income tax returns, representing taxpayers with no state income tax liability. The bill is expected to induce a subset of this population to file tax returns in order to access the senior housing income tax credit. In total, about 80 percent of eligible taxpayers are expected to file returns and claim the credit.

Credit amounts. For tax year 2022, the bill is expected to allow full $1,000 credits to 60,976 taxpayers, reducing state income tax revenue by $61.0 million. The bill is expected to allow partial credits worth between $10 and $990 to 79,534 taxpayers and reducing state income tax revenue by $42.7 million, for a total revenue impact of $103.7 million in tax year 2022. This impact is accrued across FY 2021-22 and FY 2022-23.

State Revenue

The bill is expected to decrease state revenue by $51.8 million in the current FY 2021-22 and $51.8 million in FY 2022-23. The estimates represent half-year impacts for tax year 2022 on an accrual accounting basis. The bill reduces individual income tax revenue, which is subject to TABOR.

State Expenditures

The bill increases General Fund expenditures by $1.3 million in FY 2022-23 and by $455,060 in FY 2023-24. These costs represent the net impact of the reduction in homestead exemption reimbursements to local governments and administrative expenses in the Department of Revenue (DOR) to implement the new tax credit. Expenditures are shown in Table 2 and detailed below.

Table 2
Expenditures Under HB 22-1205

Cost Components	FY 2022-23	FY 2023-24
Department of the Treasury		
Homestead Exemption Reimbursements	($466,333)	-
Treasury Subtotal	**($466,333)**	**$0**
Department of Revenue		
Personal Services	$240,624	$341,837
Operating Expenses	$7,155	$9,045
Capital Outlay Costs	$43,400	$0
Computer Programming and Testing	$1,397,156	$6,400
Document Management	$27,827	$0
Centrally Appropriated Costs[1]	$68,666	$97,778
FTE – Personal Services	4.7 FTE	6.7 FTE
DOR Subtotal	**$1,784,828**	**$455,060**
Total	**$1,318,495**	**$455,060**
Total FTE	**4.7 FTE**	**6.7 FTE**

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

Senior homestead exemptions. In FY 2022-23, the bill reduces expenditures to reimburse local governments for their property tax loss attributable to the senior homestead exemption for property tax year 2022 by $466,333, assuming an estimated average exemption amount of $570 and 8,200 new senior homestead exemptions in 2022. The fiscal note assumes that a small proportion of seniors newly eligible for the senior homestead exemption will instead claim the new income tax credit under the bill, with negligible numbers of those already claiming the senior homestead exemption switching to the new income tax credit under the bill. Payments to local governments from the decreased exemption will be made by the State Treasurer, and, based on the March 2022 LCS Economic and Revenue Forecast, it is assumed that these decreased expenditures will increase the amount of money that must be set aside for TABOR refunds through other mechanisms in FY 2022-23.

Department of Revenue. The bill increases General Fund expenditures for the DOR to administer the income tax credit by $1.8 million and 4.7 FTE in FY 2022-23 and $0.5 million and 6.7 FTE in FY 2023-24.

Personal Services. The DOR will require additional staff to review and process tax returns claiming the new refundable credit under the bill. In FY 2022-23, the department will require 4.7 FTE for tax examiners, starting on October 1, 2022. Operating expenses include telephone, computers, and other supplies for these staff.

Computer programming and testing. The DOR will have costs of $1.4 million in FY 2022-23 to program, test, and update database fields in its GenTax software system. Programming costs are estimated at $900,000, representing 4,000 hours of contract programming at a rate of $225 per hour. Costs for testing at the department are estimated at $490,756, representing 10,310 hours for the Systems Support Office at $35 per hour and 5,155 hours of user acceptance testing at a rate of $25.50 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 $6,400, representing 200 hours for data management and reporting at a rate of $32 per hour.

Document management. The department will have costs of $27,827 in FY 2022-23 and $16,662 in FY 2023-24 for form changes and the creation of new forms. Funding for these services is reappropriated to the Department of Personnel and Administration.

Department of Local Affairs. Workload in the department's Division of Property Taxation (DPT) will increase to update procedures, forms, and manuals, and to adjust training materials and answer questions from taxpayers. Workload in DPT will also increase to develop new reports required by the bill. This workload increase is expected to be accomplished within existing appropriations.

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 $51.8 million for FY 2021-22 and $51.8 million for FY 2022-23. These estimates assume the March 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2023-24.

In addition, the bill will also decrease the portion of TABOR refunds paid in FY 2022-23 using the homestead exemption mechanism, which is the first of three mechanisms used under current law to issue refunds. Based on the size of the projected TABOR refund to be issued in FY 2022-23, based on FY 2021-22 surplus revenue, this will increase the amount required to be refunded by the six-tier sales tax refund mechanism, which is the third means of refunding money to taxpayers after the homestead exemption and the temporary income tax rate reduction.

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 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by $257,424 in FY 2022-23, which will decrease the amount of General Fund available for other purposes.

Local Government

Local government revenue is not expected to change on net; however, local government revenue from property taxes will increase, while revenue from state disbursements will decrease. By default, both sources of revenue are subject to local government TABOR limits. For jurisdictions where voters have exempted one of these sources of revenue, but not the other, local obligations for TABOR refunds may increase or decrease.

Preliminary Assessment of HB 22-1205 with Amendment L.001

Amendment L.001 would reduce costs in the DOR for implementing the bill, to those estimated as shown in Table 3 below. If Amendment L.001 is adopted, the fiscal note will be revised.

Table 3
Department of Revenue Expenditures Under HB 22-1205 with Amendment L.001

	FY 2022-23	FY 2023-24
Department of Revenue		
Personal Services	$240,624	$341,837
Operating Expenses	$7,155	$9,045
Capital Outlay Costs	$43,400	$0
Computer Programming and Testing	$105,439	$6,400
Document Management	$27,827	$0
Centrally Appropriated Costs[1]	$68,666	$97,778
FTE – Personal Services	4.7 FTE	6.7 FTE
Revenue Subtotal	**$493,111**	**$455,060**

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

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 2022-23, the bill requires a General Fund appropriation of $1,716,162 to the Department of Revenue with an allocation of 4.7 FTE. From this amount, $27,827 should be reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Information Technology	Local Affairs
Personnel	Property Tax Division
Revenue	