HB 24-1142

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Revised Fiscal Note

(replaces fiscal note dated February 22, 2024)

Drafting Number:	LLS 24-0739	**Date:**	March 28, 2024
Prime Sponsors:	Rep. Holtorf	**Bill Status:**	House Appropriations
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Bill Topic: **REDUCE INCOME TAX SOCIAL SECURITY BENEFITS**

Summary of Fiscal Impact:

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

The bill removes the cap on the amount of social security income that individuals ages 55 to 64, with income below certain amounts, may deduct from their state income tax. It reduces state revenue on an ongoing basis and requires one-time expenditures for implementation.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: The fiscal note reflects the introduced bill, as amended by the House Finance Committee.

Table 1
State Fiscal Impacts Under HB 24-1142

		Budget Year FY 2024-25	Out Year FY 2025-26
Revenue	General Fund	($0.3 million)	($0.6 million)
Expenditures	General Fund	-	$17,229
Transfers		-	-
Other Budget Impacts	General Fund Reserve	-	$2,584
	TABOR Refunds	($0.3 million)	($0.6 million)

Summary of Legislation

Under current law, taxpayers ages 55 to 64 may deduct up to $20,000 of pension and annuity income, which includes federally taxable social security income, when calculating their Colorado taxable income. For taxpayers in this age range with adjusted gross income up to $75,000 if filing singly or $95,000 if filing jointly, the bill increases the limit so that all of their federally taxed social security income is deductible in Colorado. The current cap still applies to all other forms of pension and annuity income, and the cap may only be exceeded when social security income specifically is higher than the cap. For taxpayers whose social security income exceeds the $20,000 cap, the deduction is limited to their amount of social security income and additional other pension and annuity income cannot be deducted. Under current law, taxpayers over age 65 may already deduct the full amount of federally taxable social security income, or other forms of pension and annuity income up to $24,000.

State Revenue

The bill is expected to decrease state revenue by $0.3 million in FY 2024-25 (a half-year impact), by $0.6 million in FY 2025-26, and by similar amounts in future years. The bill is assumed not to increase the number of taxpayers claiming the state income tax deduction for pension and annuity income, only to increase deduction amounts for taxpayers who qualify. The bill only affects the portion of social security beneficiaries ages 55 to 64, with incomes below the threshold in the bill, who receive more than $20,000 in federally taxable social security benefits per year. The expanded deduction in the bill would have applied to about 2,000 taxpayers (1.6 percent of those claiming the existing deduction), had it been in effect for tax year 2019, the most recent year for which actual data are available. This population was adjusted for growth in the number of households headed by people ages 55 to 64, and the deduction amount was increased for inflation.

State Expenditures

The bill increases General Fund expenditures in the Department of Revenue (DOR) by about $17,000 in FY 2025-26. These costs are shown in Table 2 and detailed below.

Table 2
Expenditures Under HB 24-1142

	FY 2024-25	FY 2025-26
Department of Revenue		
Computer Programming and Testing	-	$9,837
Research and Analysis	-	$7,392
Total Cost	**-**	**$17,229**

Computer programming and testing. For FY 2025-26 only, the DOR will have one-time costs of $9,837 for computer programming and testing. Programming costs are estimated at $4,635, representing 20 hours of contract programming at a rate of $231.75 per hour. Costs for testing to ensure that programming changes are functioning properly are estimated at $5,202, representing 102 hours for the Innovation, Strategy, and Delivery section in the Executive Director's Office at $35 per hour and 51 hours of user acceptance testing at a rate of $32 per hour.

Research and Analysis. Expenditures in the Office of Research and Analysis are required for changes in 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, or 231 hours for data management and reporting at a rate of $32 per hour for FY 2025-26 and ongoing.

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 March 2024 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 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State and Local Government Contacts

Information Technology	Personnel	Revenue
State Auditor		

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.