Colorado Legislative Council Staff

HB17-1007

FISCAL NOTE

FISCAL IMPACT: ☒ State ☐ Local ☒ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 17-0505	**Date:**	February 16, 2017
Prime Sponsor(s):	Rep. Garnett Sen. Gardner	**Bill Status:**	House Education
		Fiscal Analyst:	Kate Watkins (303-866-3446)

BILL TOPIC: TAX BENEFIT FOR EMPLOYER COLLEGEINVEST CONTRIBUTIONS

Fiscal Impact Summary	FY 2017-2018	FY 2018-2019	FY 2019-2020
State Revenue	**($124,319)**	**($276,700)**	**($334,990)**
General Fund	(124,319)	(276,700)	(334,990)
State Expenditures		**$33,677**	
General Fund		$33,677	
TABOR Impact	($124,319)	($276,700)	Not estimated
Appropriation Required: None.			
Future Year Impacts: Ongoing state revenue reduction.			

Summary of Legislation

This bill creates a new income tax deduction beginning in tax year 2018 for employers who contribute to an employee's qualifying college savings plan administered by CollegeInvest. Under current law, a deduction may be claimed for contributions on individual income tax forms. This bill allows deductions, on both individual and corporate income tax forms, for employers who contribute to employee's 529 plans. Even if employers claim a federal deduction for these contributions, they may claim an additional state deduction under this bill.

Background

Tax benefits for CollegeInvest savings plans. Under Section 529 of the federal Internal Revenue Code, taxpayers may establish a "529" college savings plan for which investment earnings and withdrawals for qualified higher education expenses are excluded from federal taxable income. These 529 plans are administered at the state level. CollegeInvest, which is a statutory public entity of the state, manages Colorado's program.

Contributions to CollegeInvest savings plans may be deducted from taxable income on state individual income tax returns, regardless of the beneficiary or origin of these contributions. Contributions are typically made by relatives, such as parents or grandparents of the beneficiary of the savings plan. This bill allows a deduction for both individual and corporate income tax filers who provide contributions to employees.

Qualifying withdrawals. CollegeInvest account withdrawals may be used to fund education-related expenses while attending a program eligible for Title IV funding at a community college, four-year college or university, graduate or post-graduate program, or vocational or trade school. The interest earnings on non-qualified withdrawals are subject to tax penalties.

State Revenue

This bill will **reduce General Fund revenue by $124,319 (half-year impact) in FY 2017-18, $276,700 in FY 2018-19, and $334,990 in FY 2019-20.** Contributions are expected to grow over time with inflation and awareness of the deduction. The revenue impact may be smaller to the extent that corporations have low or no income tax liability.

Assumptions. For federal taxable income, this fiscal note assumes that employers may deduct contributions as a business-related expense and that contributions are taxable as income for employees. Because employers who file taxes on individual income tax forms may claim a deduction under current law, the revenue impact for this fiscal note is limited to the impact for corporate filers. In tax year 2018, 5 percent of corporate filers are expected to claim a deduction under the bill for 3 percent of their employees, averaging $1,050 per contribution. These assumptions are based on available data for employers currently offering 529 plan employer-match programs. Contributions are expected to grow over time with inflation and awareness of the deduction. Table 1 summarizes the estimated taxpayer and General Fund impact resulting from the bill.

Table 1. Estimated Taxpayer and Revenue Impacts under HB17-1007 by Tax Year

	2018	2019	2020	2021
Number of Taxpayers	852	874	896	918
Average Deduction per Taxpayers	$6,300	$7,534	$8,808	$10,137
General Fund Revenue Impact*	($248,319)	($304,762)	($365,218)	($430,829)

**Estimates are shown by tax year and will differ slightly from fiscal year revenue estimates.*

TABOR Impact

This bill reduces state revenue from the General Fund, which will reduce the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. TABOR refund obligations are not expected for FY 2016-17.

This bill is expected to reduce the TABOR refund obligation by $124,319 in FY 2017-18 and $276,700 in FY 2018-19, reducing the six-tier sales tax refund by equal amounts. Since the bill reduces both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget in FY 2017-18 and FY 2018-19. The bill will reduce money available for the General Fund budget in years when the state does not collect money above the TABOR limit.

State Expenditures

This bill will **increase state General Fund expenditures by $33,677 in FY 2018-19 only.** Costs include programming, testing, and form change costs, as summarized in Table 2.

Table 2. Expenditures Under HB17-1007	
Cost Components	**FY 2018-19**
GenTax Programming	$20,000
GenTax Testing	7,677
Form Change Costs	6,000
TOTAL	**$33,677**

Department of Revenue (DOR). About 852 taxpayers are expected to claim the deduction beginning in tax year 2018. Reviewing and auditing returns from this population can be addressed within existing appropriations. This bill requires changes to the DOR's GenTax software system. Changes are programmed by a contractor at a rate of $200 per hour. The changes in this bill are expected to increase General Fund expenditures by $20,000, representing 100 hours of programming. All GenTax programming changes are tested by department staff. Gentax testing for this bill will require expenditures for contract personnel totaling $7,677, representing 320 hours of testing at a rate of $24 per hour.

Department of Personnel and Administration (DPA). DPA receives, opens, prepares, scans, enters and shreds tax correspondence on behalf of DOR. This bill is expected to result in ongoing document manage costs year beginning in fiscal year FY 2018-19 that may be accommodated under existing resources. DPA's scanning and imaging software need to be programmed to accept the altered CollegeInvest tax deduction form, which will require changes to five forms at a cost of $1,200 per form in FY 2018-19 only. These expenditures will be reappropriated from the DOR to the document management line for DPA.

Statutory Public Entity Impact

The bill is expected to increase contributions to CollegeInvest savings accounts and the number of account holders, resulting in reduced administrative fees for account holders. The bill may result in a workload increase to CollegeInvest that can be accommodated under existing resources within the Employer Plan Program.

Effective Date

The bill takes effect August 9, 2017, if the General Assembly adjourns on May 10, 2017, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Higher Education	Information Technology	Labor and Employment
Revenue	Personnel and Administration	