



**Colorado
Legislative
Council
Staff**

HB16-1003

**REVISED
FISCAL NOTE**

(replaces fiscal note dated February 9, 2016)

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

Drafting Number: LLS 16-0206 **Date:** April 12, 2016
Prime Sponsor(s): Rep. Pettersen; Young **Bill Status:** House Finance
 Sen. Merrifield; Todd **Fiscal Analyst:** Kate Watkins (303-866-3446)

BILL TOPIC: MIDDLE CLASS COLLEGE SAVINGS ACT

| Fiscal Impact Summary | FY 2016-2017 | FY 2017-2018 | FY 2018-2019 |
|---|-------------------------|-------------------------|-------------------------|
| State Revenue | <u>\$461,000</u> | <u>\$942,000</u> | <u>\$983,000</u> |
| General Fund | 461,000 | 942,000 | 983,000 |
| State Expenditures | | <u>17,200</u> | |
| General Fund | | 17,200 | |
| TABOR Impact | \$461,000 | \$942,000 | Not estimated. |
| Appropriation Required: None. | | | |
| Future Year Impacts: Ongoing revenue increase. | | | |

This fiscal note is revised to correct an error made in the original note and to incorporate new information.

Summary of Legislation

This bill alters the income tax deduction for contributions to qualifying college savings accounts, and the deduction for interest earnings on or withdrawals from these savings accounts to the extent that they are used for qualifying higher education expenses and are not already excluded from federal taxable income. Beginning in tax year 2017, qualifying taxpayers may deduct a percentage of these qualifying contributions, interest earnings, and withdrawals from taxable income based on their adjusted gross income, as shown in Table 1.

| Adjusted Gross Income | Current Law | HB16-1003 |
|------------------------|-------------|-----------|
| Under \$150,000 | 100% | 200% |
| \$150,000 to \$250,000 | 100% | 150% |
| \$250,000 to \$500,000 | 100% | 15% |
| Over \$500,000 | 100% | 0% |

Background

Under Section 529 of the federal Internal Revenue Code (IRC), 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. Collegenest, which is a statutory public entity of the state, manages Colorado's program.

In addition to the federal exclusion, which carries through to state taxable income, Colorado taxpayers may deduct interest earnings and qualifying withdrawals to they extent that they are still included in federal taxable income. Additionally, contributions to Collegenest savings plans may be deducted from taxable income on state income tax returns.

State Revenue

This bill will **increase General Fund revenue by \$461,000 in FY 2016-17 (half-year impact), \$942,000 in FY 2017-18, and \$983,000 in FY 2018-19.** Because income thresholds are fixed under this bill, fewer filers will be able to claim the credit as incomes rise with inflation, resulting in a smaller General Fund increase over time. Revenue estimates do not reflect the impact of this bill on the deduction for interest on or withdrawals from qualifying savings accounts, as data are not available. The revenue impact from changes to these deductions under the bill are expected to be minimal as most interest earnings on and withdrawals are assumed to be excluded from federal taxable income.

Data and assumptions. Table 2 compares the deduction claimed under current law and the estimated deduction under HB 16-1003 using the actual deduction amounts claimed on 2012 individual tax returns.

| Federal Adjusted Gross Income | Actual Deductions Claimed | Deductions Allowed Under HB 16-1003 | Change in Deduction Amount | General Fund Revenue Impact* |
|--------------------------------------|----------------------------------|--|-----------------------------------|-------------------------------------|
| Under \$150,000 | \$76.9 million | \$153.8 million | \$76.9 million | (\$3.6 million) |
| \$150,000 to \$250,000 | 74.9 million | 112.4 million | 37.5 million | (1.7 million) |
| \$250,000 to \$500,000 | 72.1 million | 10.8 million | (61.3 million) | 2.8 million |
| Over \$500,000 | 69.1 million | \$0 | (69.1 million) | 3.2 million |
| Total | \$293.1 million | \$277.0 million | (\$16.1 million) | \$0.7 million |

* Calculated as the net increase in state taxable income as a result in the net reduction in the total deduction amount, multiplied by the state tax rate of 4.63 percent.

To arrive at a revenue impact estimate, the 2012 revenue impact shown in Table 2 was grown each year by the compound average annual growth rate for Colorado personal income earnings for the most recent five years of data available.

TABOR Impact

This bill increases state revenue to the General Fund, which will increase the amount required to be refunded under TABOR. TABOR refunds are paid from the General Fund. Since the bill increases 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. However, the bill will increase money available for the General Fund budget in the future during years the state does not collect money above the TABOR limit.

State Expenditures

This bill will **increase state General Fund expenditures by \$17,200 in FY 2017-18**. Costs include programming and form change costs, as summarized in Table 3.

| Cost Components | FY 2016-17 | FY 2017-18 | FY 2018-19 |
|------------------------|-------------------|-------------------|-------------------|
| Gentax Programming | | \$16,000 | |
| Form Change Costs | | 1,200 | |
| TOTAL | | \$17,200 | |

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

Department of Revenue (DOR). About 48,000 taxpayers are expected to claim the deduction in tax years 2016, 2017, and 2018. Reviewing and auditing returns from this population can be addressed within existing appropriations, as the deduction can be verified using federal tax data. The current deduction on the Colorado income tax form is the same for all taxpayers. 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 \$16,000, representing 80 hours of programming. All GenTax programming changes are tested by department staff. Testing for this bill can be accomplished within existing resources.

Department of Personnel and Administration (DPA). DPA receives, opens, prepares, scans, enters and shreds tax correspondence on behalf of DOR. DPA's scanning and imaging software need to be programmed to accept the altered CollegenInvest tax deduction form, which will require \$1,200 in FY 2017-18 reappropriated from the DOR to the document management line for DPA.

Statutory Public Entity Impact

Costs for **CollegenInvest will increase by \$322,269** in FY 2017-18. According to the Municipal Securities Rulemaking Board, a material change to plan benefits requires immediate communication with all account holders. This bill changes the tax benefits of the CollegenInvest accounts, which need to be communicated to account holders. This will require CollegenInvest to revise and resend Plan Disclosure Statements to 350,000 account holders. Account holders pay CollegenInvest fees to manage their investments, which will be used to pay for the additional expenses from this bill.

Effective Date

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Revenue

Personnel and Administration

Higher Education