



**Colorado
Legislative
Council
Staff**

HB16-1372

FISCAL NOTE

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

Drafting Number: LLS 16-1149
Prime Sponsor(s): Rep. Primavera

Date: March 31, 2016
Bill Status: House Public Health Care and Human Services
Fiscal Analyst: Kate Watkins (303-866-3446)

BILL TOPIC: COLORADO WORK OPPORTUNITY INCOME TAX CREDIT

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019
State Revenue	<u>(\$11.4 million)</u>	<u>(\$24.0 million)</u>	<u>(\$25.2 million)</u>
General Fund	(11.4 million)	(24.0 million)	(25.2 million)
State Expenditures		<u>\$110,877</u>	
General Fund		110,877	
TABOR Impact	(\$11.4 million)	(\$24.0 million)	Not estimated
Appropriation Required: None.			
Future Year Impacts: Ongoing revenue decrease through FY 2024-25.			

Summary of Legislation

This bill creates the Colorado Work Opportunity Tax Credit (WOTC), a state income tax credit similar to the federal WOTC. For tax years 2017, 2018, and 2019, the credit is available to businesses who hire certain targeted employees who often encounter obstacles in obtaining employment and who typically claim one or more forms of government support. Employers may receive a tax credit per targeted employee hired, based on the employee's first-year (and in limited cases second-year) wages up to certain amounts. The credit is nonrefundable, meaning it is limited to a taxpayer's income tax liability. Any credits above the taxpayer's liability may be claimed in future tax years for up to five years.

To receive the credit, businesses must be eligible for the federal WOTC and provide, with their income tax return, certification of eligibility from the WOTC coordinator at the Colorado Department of Labor and Employment (CDLE).

Background

The federal WOTC was extended through tax year 2019 with the passage of the Protecting Americans from Tax Hikes Act of 2015. Target employee groups under the federal WOTC and under this bill include the following:

- unemployed and disabled veterans;
- individuals receiving long-term unemployment benefits;
- long- and short-term Temporary Assistance for Needy Families (TANF) recipients;
- food stamp (SNAP) recipients;
- vocational rehabilitation referred individuals;
- ex-felons;
- supplemental security income (SSI) recipients;
- designated community residents living in empowerment zones or rural renewal counties; and
- summer youth employees living in empowerment zones.

Based on current designations, no areas of Colorado are designated as empowerment zones, but Cheyenne, Kiowa, and San Juan counties are designated as rural renewal counties.

Table 1 summarizes the allowable federal WOTC and the credit under HB16-1372. Both credits are calculated as a percentage of up to a certain amount of an employee's first-year wages based on the duration of employment. In the case of long-term TANF recipients, the credit may be claimed for both first- and second-year wages.

Table 1. Allowable Tax Credits Under Federal Law and HB16-1372		
Target Group	Federal Credit	HB16-1372 Credit
Veterans	Percent of Employee's First Year Wages	
120 to 400 hours worked	25% of up to \$24,000*	25% of up to \$4,800
400+ hours worked	40% of up to \$24,000*	40% of up to \$4,800
Cap per employee	Up to \$9,600*	Up to \$1,920
All Other Targeted Employees	Percent of Employee's First Year Wages	
120 to 400 hours worked	25% of up to \$6,000	25% of up to \$4,500
400+ hours worked	40% of up to \$6,000	40% of up to \$4,500
Cap per employee	Up to \$2,400**	Limited to \$1,800
Long-Term TANF Recipients	Percent of Employee's First and Second Year Wages	
120 to 400 hours worked	None	25% of up to \$10,000
400+ hours worked	50% of up to \$18,000	50% of up to \$10,000
Cap per employee	Up to \$9,000	Up to \$5,000

* Credit limitations differ depending on a veteran's disability and unemployment status.

** The credit is limited to \$1,200 for summer youth.

State Revenue

This bill is estimated to reduce General Fund revenue by \$11.4 million in FY 2016-17 (half-year impact), \$24.0 million in FY 2017-18, \$25.2 million in FY 2018-19, and \$12.6 million in FY 2019-20 (half-year impact). To the extent that credits exceed taxpayers' income tax liabilities and these amounts are carried forward, the revenue impact may be carried forward through FY 2024-25.

Data and assumptions. Data from the CDLE show that for calendar year 2015, 2,528 employers obtained certifications for 23,240 employees under the federal WOTC. Veterans represent 24.9 percent of these certified employees and long-term TANF recipients represent 6.9 percent. This fiscal note makes the following assumptions:

- The number of employers claiming the credit will grow to 2,800 in tax year 2017 and to 3,100 in tax years 2018 and 2019. Employers will average 9.2 certified employees during these years, the same average as the data show for 2015;
- The maximum allowable credit is assumed for two-thirds of certified employees. This assumption accounts for employees who do not fulfill the retention requirement of the federal credit or who work fewer than 400 hours at a low hourly wage; and
- Employers' income tax liabilities will limit the amount claimed by a factor of 72 percent. This assumption accounts for the assumed composition of employers claiming the credit (corporate versus other types of filers) and the average income tax liabilities of these filers.

Using these assumptions, credit amounts were calculated for first year wages for veterans and non-veterans, and for second year wages for long-term TANF recipients separately using the population shares of these respective populations from data for 2015. Table 2 summarizes the number of employers, certified employees, and credit amounts projected for tax years 2017, 2018 and 2019.

Tax Year	Qualifying Employers	Certified Employees	Total Credits Claimed	Average Credit per Employer
2017	2,800	25,741	\$22.8 million	\$8,136
2018	3,100	28,498	\$25.2 million	\$8,136
2019	3,100	28,498	\$25.2 million	\$8,136

TABOR Impact

This bill reduces state revenue to 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. Table 3 shows the projected impact on the mechanisms used to refund the TABOR surplus in current law. Revenue is refunded in the year following the year in which it is collected. 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. However, the bill will reduce money available for the General Fund budget in the future during years the state does not collect money above the TABOR limit. This bill is expected to reduce the TABOR surplus by \$11.4 million in FY 2016-17 and \$24.0 million in FY 2017-18, reducing the amount of revenue refunded through the Six Tier Sales Tax Refund by equal amounts.

Table 3. Impact of HB 16-1372 on Current Refund Mechanisms		
	<i>FY 2016-17 Surplus FY 2017-18 Refund Tax Year 2017</i>	<i>FY 2017-18 Surplus FY 2018-19 Refund Tax Year 2018</i>
Current Law		
Revenue above the TABOR limit	\$59.3 million	\$246.1 million
Income Tax Rate Reduction	0	230.1 million
Sales Tax Refund	59.3 million	16.0 million
HB16-1372		
Revenue above the TABOR limit	47.9 million	222.1 million
Income Tax Rate Reduction	0	0
Sales Tax Refund	47.9 million	222.1 million
Change from Current Law		
Revenue above the TABOR limit	(11.4 million)	(24.0 million)
Income Tax Rate Reduction	0	0
Sales Tax Refund	(11.4 million)	(24.0 million)

Source: Legislative Council Staff March 2016 Forecast.

State Expenditures

This bill will **increase state General Fund expenditures by \$110,877 in FY 2017-18 only for the Department of Revenue.** The state may experience savings to certain programs that could offset the fiscal impact of this bill to the extent that a person is hired into a qualifying job, would not have otherwise found employment, and is able to be removed from state programs solely because of the passage of this bill. Costs to administer this bill include programming, testing, form change costs, as summarized in Table 4 and explained below.

Table 4. Expenditures Under HB16-1372			
Cost Components	FY 2016-17	FY 2017-18	FY 2018-19
GenTax Programming		\$98,400	
GenTax Testing		7,677	
Form Change Costs		4,800	
TOTAL		\$110,877	

Department of Revenue (DOR). This bill requires changes to 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 \$98,400 representing 492 hours of programming. GenTax testing for this bill will require the expenditures for contract personnel totaling \$7,677, representing 320 hours of testing at a rate of \$24 per hour. This fiscal note assumes a 15 percent review rate for all taxpayers claiming the credit that will be accomplished within existing appropriations. This assumes that DOR will be able to coordinate verification of eligibility with CDLE without significant workload demands.

Personnel and Administration (DPA). Scanning and imaging software will require modification to implement changes under the bill. This will require \$1,200 per income tax form for four forms (104CR, 106CR, 112CR, and a new schedule for employee information), totaling \$4,800

in FY 2017-18. These funds will be reappropriated from DOR to the document management line for DPA. Review and auditing will also result in document management costs for an estimated 15 percent of filers. These costs are expected to be accomplished within existing appropriations.

Department of Labor and Employment (CDLE). Each state is allocated federal funds to administer the federal WOTC. The Colorado WOTC coordinator is located in the CDLE. While this bill may increase the number of employers claiming the federal credit, this fiscal note assumes any additional workload created can be accomplished within existing appropriations. To the extent that this fiscal note underestimates the number of employers or certified employees, an FTE allocation may be required if additional federal funds are not provided. Should this occur, this analysis assumes CDLE will request FTE through the annual budget process.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature. This credit is repealed, effective December 31, 2024.

State and Local Government Contacts

Information Technology
Personnel and Administration

Labor and Employment
Revenue