



**Colorado  
Legislative  
Council  
Staff**

**HB17-1007**

**FINAL  
FISCAL NOTE**

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

**Drafting Number:** LLS 17-0505  
**Prime Sponsor(s):** Rep. Garnett  
Sen. Gardner

**Date:** June 1, 2017  
**Bill Status:** Postponed Indefinitely  
**Fiscal Analyst:** Kate Watkins (303-866-3446)

**BILL TOPIC:** TAX BENEFIT FOR EMPLOYER COLLEGEINVEST CONTRIBUTIONS

<b>Fiscal Impact Summary</b>	<b>FY 2017-2018</b>	<b>FY 2018-2019</b>	<b>FY 2019-2020</b>
<b>State Revenue</b>	<b>(\$124,319)</b>	<b>(\$276,700)</b>	<b>(\$334,990)</b>
General Fund	(124,319)	(276,700)	(334,990)
<b>State Expenditures</b>		<b>\$38,677</b>	
General Fund		\$38,677	
<b>TABOR Impact</b>	(\$124,319)	(\$276,700)	Not estimated
<b>Appropriation Required:</b> None.			
<b>Future Year Impacts:</b> Ongoing state revenue reduction.			

**NOTE:** This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

**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 CollegenInvest. 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 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 CollegenInvest 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. CollegenInvest, a division of the Colorado Department of Higher Education, manages Colorado's program.

Contributions to CollegenInvest 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.** CollegenInvest 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.

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

*\*Calculated as the total deductions claimed for all taxpayers, multiplied by the state income tax rate of 4.63 percent. Estimates are shown by tax year and will differ 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 \$38,677 in FY 2018-19 only**. Costs include programming, testing, and form change costs, as summarized in Table 2.

<b>Cost Components</b>	<b>FY 2018-19</b>
Programming and Testing	\$32,677
Form Change Costs	6,000
<b>TOTAL</b>	<b>\$38,677</b>

**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, which are programmed by a contractor at a rate of \$250 per hour and are expected to increase General Fund expenditures by \$25,000, representing 100 hours of programming. All GenTax programming changes are tested by department staff. 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 within existing appropriations. DPA's scanning and imaging software need to be programmed to accept the altered CollegenInvest 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.

**CollegenInvest.** The bill is expected to increase contributions to CollegenInvest 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 CollegenInvest that can be accommodated within existing resources within the Employer Plan Program.

**Effective Date**

The bill was postponed indefinitely by the House Education Committee on April 12, 2017.

**State and Local Government Contacts**

Higher Education  
Personnel

Information Technology  
Revenue