



Legislative
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HB 20B-1021

FINAL FISCAL NOTE

Drafting Number: LLS 20B-0039
Prime Sponsors: Rep. Saine

Date: December 7, 2020
Bill Status: Postponed Indefinitely
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Bill Topic: REPEAL CERTAIN PORTIONS OF HOUSE BILL 20-1420

Summary of Fiscal Impact:

| | |
|---|--|
| <input checked="" type="checkbox"/> State Revenue | <input type="checkbox"/> TABOR Refund |
| <input checked="" type="checkbox"/> State Expenditure | <input type="checkbox"/> Local Government |
| <input type="checkbox"/> State Transfer | <input type="checkbox"/> Statutory Public Entity |

Beginning in 2021, HB 20-1420 allows taxpayers who use an individual taxpayer identification number to claim the Colorado earned income tax credit. This bill would have repealed this provision, so that only taxpayers with a social security number would be able to claim the credit. It would have increased state revenue and decreased state expenditures on an ongoing basis.

Appropriation Summary: For FY 2021-22, the bill would have decreased the required appropriation for the Department of Revenue by \$386,831.

Fiscal Note Status: This fiscal note reflects the introduced bill. This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

**Table 1
State Fiscal Impacts Under HB 20B-1021**

| | | FY 2020-21 <i>(current year)</i> | FY 2021-22 | FY 2022-23 |
|---------------------|------------------------|-------------------------------------|-----------------------|-----------------------|
| Revenue | General Fund | \$5.6 million | \$14.3 million | \$17.5 million |
| | Total | \$5.6 million | \$14.3 million | \$17.5 million |
| Expenditures | General Fund | - | (\$386,831) | (\$345,994) |
| | Centrally Appropriated | - | (\$128,969) | (\$141,448) |
| | Total | - | (\$515,800) | (\$487,442) |
| | Total FTE | - | (6.1 FTE) | (6.7 FTE) |
| Transfers | | - | - | - |
| TABOR Refund | | - | - | - |

Summary of Legislation

Taxpayers who claim the federal earned income tax credit (EITC) may also claim Colorado's EITC. To claim the federal EITC, a taxpayer must have a valid social security number. For 2021 and future tax years, state law enacted in HB 20-1420 broadens eligibility for the Colorado EITC to include taxpayers who would have been eligible for the federal EITC if they had a valid social security number but who instead use an individual taxpayer identification number. HB 20B-1021 repeals this provision in HB 20-1420, limiting eligibility to claim the Colorado EITC to only taxpayers with a valid social security number. This change is summarized in Table 2.

Table 2
Eligibility for the Federal EITC and Colorado EITC under Current Law and HB 20B-1021

| | Tax Year 2020 | Beginning Tax Year 2021 |
|---|----------------------|------------------------------------|
| Federal EITC | SSN only | SSN only |
| Colorado EITC Under Current Law (HB 20-1420) | SSN only | SSN or ITIN |
| Colorado EITC Under HB 20B-1021 | SSN only | SSN only |

SSN = social security number. ITIN = individual taxpayer identification number.

The Colorado EITC is equal to 10 percent of the federal EITC through tax year 2021. Beginning in tax year 2022, current law increases the value of the Colorado EITC to 15 percent of the federal EITC for all claimants. HB 20B-1021 does not change the value of the Colorado EITC for taxpayers who remain eligible.

State Revenue

The bill increases General Fund revenue by \$5.6 million in the current FY 2020-21, \$14.3 million in FY 2021-22, and \$17.5 million in FY 2022-23 and future years. The estimate for FY 2020-21 represents a half-year impact for tax year 2021 on an accrual accounting basis. The estimate for FY 2021-22 represents a half-year impact at 10 percent of the federal EITC for tax year 2021 and a half-year impact at 15 percent of the federal EITC for tax year 2022. The estimate for FY 2022-23 represents a full-year impact at 15 percent of the federal EITC. The bill increases income tax revenue, which is subject to TABOR.

Assumptions. The estimates are based on Colorado returns filed by taxpayers using an individual taxpayer identification number for tax year 2017, whose incomes would have qualified them for the federal EITC. The number of eligible claimants is assumed to have remained constant between 2017 and 2019 and to grow beginning in 2020, consistent with Colorado EITC claims during and following the 2008 recession. The value of the federal credit for the average eligible taxpayer is assumed to grow by 0.8 percent per year.

State Expenditures

The bill will decrease expenditures for the Department of Revenue by \$515,800 and 6.1 FTE in FY 2021-22 and by \$487,442 and 6.7 FTE in FY 2022-23 and future years. Expenditures are summarized in Table 3 and detailed below.

**Table 3
Expenditures Under HB 20B-1021**

| | FY 2020-21 (current year) | FY 2021-22 | FY 2022-23 |
|----------------------------------|------------------------------|--------------------|--------------------|
| Department of Revenue | | | |
| Personal Services | - | (\$306,247) | (\$334,087) |
| Operating Expenses | - | (\$9,045) | (\$9,045) |
| Capital Outlay Costs | - | (\$37,200) | - |
| Computer Programming and Testing | - | (\$32,035) | (\$557) |
| Data Reporting | - | (\$2,304) | (\$2,304) |
| Centrally Appropriated Costs* | - | (\$128,969) | (\$141,448) |
| Total Cost | - | (\$515,800) | (\$487,442) |
| Total FTE | - | (6.1 FTE) | (6.7 FTE) |

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

Department of Revenue. Personnel needs in the department's taxpayer services section will decrease by an estimated 6.1 FTE in FY 2021-22 and 6.7 FTE in FY 2022-23. Expenditures for staff are required under current law to review EITC claims by an estimated 35,000 to 40,000 taxpayers who use individual taxpayer identification numbers, and to communicate with taxpayers about the expanded credit. Most of the expenditure decrease identified in Table 3 is associated with the reduced personnel need. The department will also require fewer expenditures to program and test software systems to accommodate the expanded credit, and to collect and report data.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance, supplemental employee retirement payments, and leased space, are estimated to be \$128,969 in FY 2020-21 and \$141,448 in FY 2021-22.

TABOR refunds. The bill increases state revenue subject to TABOR beginning in the current FY 2020-21. The September 2020 LCS forecast anticipates that state revenue subject to TABOR will remain below the TABOR limit through at least FY 2022-23; therefore, the bill is not expected to affect TABOR refunds paid from the General Fund.

Effective Date

The bill was postponed indefinitely by the House Finance Committee on November 30, 2020.

State Appropriations

For FY 2021-22, the bill requires that the General Fund appropriation to the Department of Revenue be decreased by \$386,831, with a reduction of 6.1 FTE.

State and Local Government Contacts

Information Technology

Personnel

Revenue