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Final Fiscal Note

Drafting Number: LLS 22-0936 Date: August 22, 2022
Prime Sponsors: Rep. Larson; Kipp Bill Status: Signed into Law
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Bill Topic: 529 ACCOUNT APPRENTICESHIP EXPENSES

- Summary of Fiscal Impact:
[X] State Revenue [X] TABOR Refund
[X] State Expenditure [] Local Government
[X] State Transfer [] Statutory Public Entity

The bill defines expenditures from a 529 account for certain apprenticeship programs as an eligible distribution, and therefore not subject to tax recapture under state law. Beginning in FY 2022-23, the bill decreases state revenue and increase state workload.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: The fiscal note reflects the enacted bill.

Table 1
State Fiscal Impacts Under HB 22-1310

Table with 4 columns: Category, Fund, Budget Year FY 2022-23, and Out Year FY 2023-24. Rows include Revenue (General Fund, Total Revenue), Expenditures, Transfers (General Fund, State Education Fund, Net Transfer), and Other Budget Impacts (TABOR Refund).

Summary of Legislation

Under current law, taxpayers may deduct contributions to a 529 account from their Colorado taxable income. Funds from a 529 account must be spent on certain qualified education expenses to be considered a qualified distribution. Non-qualified distributions from a 529 account are subject to recapture of the state tax deduction. This bill defines expenditures from a 529 account for fees, books, supplies, and equipment required for certain apprenticeship programs as a qualified distribution, and therefore not subject to tax recapture.

Background

Under federal law, a 529 account operates similar to a Roth retirement account. Contributions to a 529 account are not tax deductible, but are allowed to grow tax free in the account, as long as the funds are spent on qualified education expenses. In 2019, the federal SECURE Act included expenses for apprenticeship programs as a qualified education expense.

State Revenue

The bill will reduce income tax revenue by \$89,476 in FY 2022-23, by \$181,098 in FY 2023-24, and by increasing amounts in future years with the growth in the costs associated with apprenticeships and the number of eligible taxpayers. The bill decreases revenue from income taxes, which are subject to TABOR.

Data and assumptions. The fiscal note assumes that approximately 1,600 taxpayers will use a 529 account for apprenticeship programs in 2023 and 1,610 in 2024. This figure represents approximately 25 percent of the number of active apprenticeships in Colorado (6,304 in 2021), according to the Colorado Office of the Future of Work. The number of Colorado taxpayers currently using 529 accounts for higher education expenses is approximately 25 percent of the total higher education enrollment in Colorado. The fiscal note assumes that participation in 529 accounts for apprenticeship programs will similarly equal 25 percent of apprenticeship program participation. The number of participating taxpayers was adjusted to reflect growth in the number of eligible taxpayers using data from the Colorado Department of Local Affairs.

The fiscal note assumes that taxpayers will contribute an average of \$2,372 per year to their 529 accounts for apprenticeship programs in 2023 and \$2,419 in 2024. According to the Center for Employment Training, the average cost to obtain a degree from a trade school is approximately 25 percent of the cost to obtain a bachelor's degree. The average per taxpayer contribution to a 529 account in 2020 was about \$8,660. The fiscal note assumes that the average per taxpayer contribution to 529 accounts for apprenticeship programs will be 25 percent of the average contribution for higher education due to their lower cost, or about \$2,165 in 2020. The average contribution figure was increased by projected inflation consistent with the March 2022 LCS Economic Forecast.

State Transfers

Under current law, one third of one percent of taxable income, as adjusted by state law, is transferred from the General Fund to the State Education Fund. Because this bill decreases taxable income, the bill also decreases transfers from the General Fund to the State Education Fund by an estimated \$6,555 in FY 2022-23, by \$13,267 in FY 2023-24, and by increasing amounts in subsequent years. The bill's expanded deduction decreases taxable income by an estimated \$2.0 million in FY 2022-23 and by \$4.0 million in FY 2023-24.

State Expenditures

Beginning in FY 2022-23, the bill will increase workload in the Department of Revenue to process additional tax returns claiming apprenticeship expenses as a deduction. The estimated number of taxpayers claiming this deduction is small enough that this additional workload can be accomplished within existing appropriations.

Other Budget Impacts

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by \$82,921 million in FY 2022-23 and by \$167,831 million in FY 2023-24. This estimate assumes the March 2022 LCS revenue forecast, and is based on the decrease in revenue shown in the State Revenue section, after subtracting the amount of revenue transferred to the State Education Fund, which is not subject to TABOR. A forecast of state revenue subject to TABOR is not available beyond FY 2023-24. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save.

Effective Date

The bill was signed into law by the Governor on June 3, 2022, and takes effect on January 1, 2023, assuming no referendum petition is filed.

State and Local Government Contacts

Higher Education
Personnel

Information Technology
Revenue