HB 24-1221

Legislative Council Staff

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Fiscal Note

Drafting Number:	LLS 24-0300	**Date:**	February 29, 2024
Prime Sponsors:	Rep. Marshall; Soper Sen. Mullica	**Bill Status:**	House Finance
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Bill Topic: **INCOME TAX CREDIT FOR ELIGIBLE TEACHERS**

Summary of Fiscal Impact:

☒ State Revenue ☐ State Transfer ☐ Local Government
☒ State Expenditure ☒ TABOR Refund ☐ Statutory Public Entity

The bill creates an income tax credit for tax years 2024 and 2025 for licensed teachers who teach in public schools. The bill decreases state revenue and increases expenditures for FY 2024-25 through FY 2026-27.

Appropriation Summary: For FY 2024-25, the bill requires an appropriation of $274,312 to the Department of Revenue.

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

Table 1
State Fiscal Impacts Under HB 24-1221

		Current Year FY 2023-24	Budget Year FY 2024-25	Out Year FY 2025-26
Revenue	General Fund	($17.8 million)	($35.8 million)	($18.0 million)
	Total Revenue	**($17.8 million)**	**($35.8 million)**	**($18.0 million)**
Expenditures	General Fund	-	$274,312	$291,802
	Centrally Appropriated	-	$61,448	$80,272
	Total Expenditures	**-**	**$335,760**	**$372,074**
	Total FTE	**-**	**3.6 FTE**	**4.7 FTE**
Transfers		-	-	-
Other Budget Impacts	TABOR Refund	($17.8 million)	($35.8 million)	($18.0 million)
	General Fund Reserve		$41,147	$43,770

Summary of Legislation

For tax years 2024 and 2025, the bill creates a state income tax credit for public school teachers equal to $1,000 for teachers who teach in public schools for both semesters of the tax year, and $500 for teachers who teach for just one semester of the tax year. The tax credit is fully refundable.

Assumptions

Based on data from the Department of Education, there were 51,681 teachers in public schools in FY 2021-22. Of these, 18,727 worked hours indicating that they were full time employees for the whole year, while 32,954 were either part-time or worked for less than a full year. Data were not available on how many teachers only worked for one semester of the school year.

The fiscal note assumes that those who worked full-time for the full year would qualify for $1,000 credit, while those working less would claim the $500 credit. If the bill is administered differently than the assumptions used in this analysis, the revenue impact of the credit will be correspondingly greater or less.

The fiscal note assumes that the number of teachers eligible for this credit will grow by 0.7 percent each year from 2023 until tax year 2025. Beginning in tax year 2024, the first tax year the credit is available under the bill, the fiscal note assumes approximately 52,400 full-time and part time teachers will qualify for the credit, increasing to 53,000 by tax year 2026.

It is assumed that the fully refundable credit will incentivize almost all eligible teachers to claim the tax credit in the bill. If a taxpayer does not claim the full refundable credit amount allowed under this bill, revenue will be reduced by less than estimated.

State Revenue

The bill is expected to decrease General Fund revenue by $17.8 million in the current FY 2023-24 (half-year impact) and $35.8 million in FY 2024-25. Revenue will be reduced by a final half-year impact of $18.0 million in FY 2025-26, when the credit is repealed. The bill reduces individual income tax revenue, which is subject to TABOR.

State Expenditures

The bill will increase General Fund expenditures in the Department of Revenue by $336,000 in FY 2024-25 and $372,000 in FY 2025-26 only. Expenditures are summarized in Table 2 and detailed below.

Table 2
Expenditures Under HB 24-1221

		FY 2024-25	FY 2025-26
Department of Revenue			
Personal Services		$209,220	$273,668
Operating Expenses		$4,608	$6,016
Capital Outlay Costs		$33,350	-
GenTax Programming and Testing		$14,574	-
Office of Research and Analysis		$7,392	$7,392
Document Management and Tax Form Change		$5,168	$4,726
Centrally Appropriated Costs[1]		$61,448	$80,272
FTE – Personal Services		3.6 FTE	4.7 FTE
	Total Cost	**$335,760**	**$372,074**
	Total FTE	**3.6 FTE**	**4.7 FTE**

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

Tax credit administration. The department requires 4.7 FTE tax examiners to review tax credit documentation and communicate with taxpayers. Expenditures for FY 2024-25 are prorated to reflect an assumed October 2024 start date and reflect standard operating expenses and capital outlay costs.

Computer programming and testing. This bill requires expenditures of $14,574 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at $9,270, representing 40 hours of contract programming at a rate of $231.75 per hour. Costs for testing at the department include $3,640 for 104 hours of innovation, strategy, and delivery programming support at a rate of $35 per hour, and $1,664 for 52 hours of user acceptance testing at a rate of $32 per hour.

Data reporting. Expenditures in the Office of Research and Analysis are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at $7,392, representing 231 hours for data management and reporting at $32 per hour.

Document management and tax form changes. For FY 2024-25 only, the bill requires changes to one tax form at a cost of $5,168. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated funds.

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 and supplemental employee retirement payments, are shown in Table 2.

Other Budget Impacts

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate assumes the December 2023 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2025-26. 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.

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing the amount of General Fund available for other purposes.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

Technical Note

The Office of the State Auditor (OSA) is required to conduct recurring evaluations of each state tax expenditure according to metrics established when the tax expenditure is created or extended. The bill includes metrics to evaluate the performance of the tax expenditure; however, data may not be available in the future to evaluate the performance of this expenditure using these metrics. If data are unavailable, the OSA will evaluate the performance of the tax expenditure based on data available at the time.

State Appropriations

For FY 2024-25, the bill requires a General Fund appropriation of $274,312 to the Department of Revenue, and 3.6 FTE.

State and Local Government Contacts

State Auditor	Revenue	Personnel
Information Technology		