



Legislative Council Staff
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Final Fiscal Note

Drafting Number: LLS 24-0452 Date: July 31, 2024
Prime Sponsors: Rep. Woodrow Bill Status: Deemed Lost
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Bill Topic: INCOME TAX OWED BY MINORS ON EARNED INCOME

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

The bill would have removed earned income of a minor from Colorado taxable income starting in tax year 2025. It would have reduced state revenue and increase state expenditures on an ongoing basis.

Appropriation Summary: No appropriation was required.

Fiscal Note Status: The final fiscal note reflects the introduced bill. The bill was deemed lost in the House Appropriations Committee on May 9, 2024; therefore, the impacts identified in this analysis do not take effect.

Table 1
State Fiscal Impacts Under HB 24-1243

Table with 5 columns: Category, Sub-category, Budget Year FY 2024-25, Out Year FY 2025-26, Out Year FY 2026-27. Rows include Revenue (General Fund), Expenditures (General Fund, Centrally Appropriated, Total Expenditures, Total FTE), Transfers, and Other Budget Impacts (TABOR Refunds, General Fund Reserve).

Summary of Legislation

Under current law, the income of a minor, aged 17 or younger, is subject to the state income tax of 4.40 percent. Starting in tax year 2025, the bill allows the earned income of a minor to be subtracted from federal taxable income, which is used to calculate Colorado taxable income. An employer is not required to deduct income tax from the wages of a minor.

State Revenue

The bill is expected to decrease state revenue by \$2.0 million in FY 2024-25 (a half-year impact), by \$3.9 million in FY 2025-26, and by similar amounts in future years. The income tax deduction in the bill would have applied to about 10,300 taxpayers, accounting for \$3.2 million in total tax revenue, had it been in effect in tax year 2022, the most recent year for which actual data are available. The population and revenue impact were adjusted to reflect historical patterns in income tax returns filed by and state income tax owed by minors.

State Expenditures

The bill increases General Fund expenditures in the Department of Revenue (DOR) by \$761,738 in FY 2025-26, \$223,078 in FY 2026-27 and similar amounts in future years. These costs are shown in Table 2 and detailed below.

**Table 2
Expenditures Under HB 24-1243**

	FY 2024-25	FY 2025-26	FY 2026-27
Department of Revenue			
Personal Services	-	\$493,799	\$161,680
Operating Expenses	-	\$10,880	\$3,840
Capital Outlay Costs	-	\$66,700	-
Computer Programming and Testing	-	\$36,649	-
Research and Analysis	-	\$7,392	\$7,328
Document Management	-	\$1,252	\$211
Centrally Appropriated Costs ¹	-	\$145,066	\$50,018
Total Cost	-	\$761,738	\$223,078
Total FTE	-	8.5 FTE	3.0 FTE

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

Staff. The DOR will require an additional 8.5 FTE for tax examiners starting in FY 2025-26, and 3.0 FTE in FY 2026-27 and ongoing. Standard operating and capital outlay costs are included. Staff costs assume a July 2025 start date. Tax examiner workload is required to process and review additional returns claiming the new tax credit and to resolve errors in returns.

Computer programming and testing. For FY 2025-26 only, the DOR will have one-time costs of \$36,649 for computer programming and testing. Programming costs are estimated at \$27,810, representing 120 hours of contract programming at a rate of \$231.75 per hour. Costs for testing to ensure that programming changes are functioning properly are estimated at \$8,839, representing 173 hours for the Innovation, Strategy, and Delivery section in the Executive Director's Office at \$35 per hour and 87 hours of user acceptance testing at a rate of \$32 per hour.

Research and analysis. Expenditures in the Office of Research and Analysis are required for changes in 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, or 231 hours for data management and reporting at a rate of \$32 per hour FY 2025-26 and ongoing.

Tax form changes. For FY 2025-26, the bill requires \$1,252 in expenditures to implement tax form changes and manage paper returns. These expenditures will take place in the Department of Personnel Administration using reappropriated funds from the DOR.

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 3.

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.

Technical Note

The bill does not include a statement of purpose or metrics required to evaluate the performance of the tax expenditure, which are required in order for the Office of the State Auditor (OSA) to conduct its statutorily required recurring evaluations of state tax expenditures.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State and Local Government Contacts

Personnel

Revenue

State Auditor

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).