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Fiscal Note

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Prime Sponsors: Rep. Bird; Taggart Bill Status: House Education
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Bill Topic: INCENTIVES FOR POST-SECONDARY EDUCATION

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

The bill creates two state refundable income tax credits to encourage enrollment in a Colorado higher education institution. The bill decreases state revenue beginning in the current FY 2023-24 through FY 2029-30, and increases state expenditures beginning in FY 2024-25 through FY 2029-30.

Appropriation Summary: For FY 2024-25, the bill requires a General Fund appropriation of \$580,886 to multiple agencies.

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

Table 1
State Fiscal Impacts Under HB 24-1340

Table with 5 columns: Category, Sub-category, Current Year FY 2023-24, Budget Year FY 2024-25, Out Year FY 2025-26, Out Year FY 2026-27. Rows include Revenue (General Fund, Total Revenue), Expenditures (General Fund, Centrally Appropriated, Total Expenditures, Total FTE), Transfers, and Other Budget Impacts (TABOR Refunds, General Fund Reserve).

Summary of Legislation

The bill creates two state refundable income tax credits to encourage enrollment in Colorado higher education institutions.

Top Jobs Tax Credit. The first incentive provides a state income tax credit for a student, or a taxpayer claiming the student as a dependent, that graduates from a Colorado higher education institution in an instructional program that supports an occupation identified as a “Top Job” from the 2023 Talent Pipeline Report prepared by the Colorado Workforce Development Council (CWDC). The amount of the state income tax credit is equal to:

- \$250 for a certification program less than one year in duration;
- \$500 for a certification program between one year and two years in duration;
- \$1,500 for a graduate of an associate’s degree program; or
- \$3,000 for a graduate of a bachelor’s degree program.

The state credit is available for income tax years 2024 through 2029 and is refundable, meaning if the taxpayer’s state tax liability is less than the amount of the credit allowed, the remaining amount is refunded to the taxpayer. The qualifying student must have completed the program during the income tax year the credit is claimed. By July 31, 2024, the Department of Higher Education (CDHE) must create a list of eligible programs based on the 2023 Colorado Talent Pipeline Report.

College Pathways Tax Credit. The second incentive provides a state income tax credit for a student, or a taxpayer claiming the student as a dependent, that transfers credits from a two-year Colorado higher education institute, or qualified college courses completed in high school, to a four-year Colorado higher education institute. The amount of the incentive is equal to \$50 per credit hour transferred, up to 60 credit hours, or \$3,000. To qualify, a student must subsequently complete at least 15 credit hours at the four-year institution.

The credit is available for income tax years 2026 through 2029 and is refundable.

Credit limitation, qualification, and notification. For both state credits, availability of the incentive is dependent on the amount of excess state revenues (TABOR refund) projected for the ending fiscal year by either Legislative Council Staff (LCS) or the Office of State Planning and Budgeting (OSPB) in their quarterly June revenue forecast. If the forecasts show the amount of the TABOR refund is between \$500 million and \$750 million, the amount of the credit is reduced by 50 percent for that income tax year. If the amount of the TABOR refund is projected to be less than \$500 million, the credit is not allowed for that income tax year.

A private institution of higher education may qualify for the purpose of the credits in this bill if they enter into an agreement with the CDHE.

Finally, the CDHE must develop standard language to notify students about the income tax credits, assist the State Auditor on their tax evaluation reports, and provide the Department of Revenue with social security numbers and incentive amounts by November 1 of each tax year the credit is available. If a social security number is not available, the CDHE must provide a student identification number.

Background

Colorado Talent Pipeline Report. The Colorado Workforce Development Council (CWDC) provides an annual report identifying areas of growing demand and opportunity, key features of the current labor force, and strategies to balance the supply and demand equation for talent. It also highlights the Top Jobs in Colorado, jobs with high annual openings, above average growth, and a good wage.

On December 15, 2023, the CWDC published their [2023 Talent Pipeline Report](#). Table 2 on pages 23 through 26 of the report shows the 2023 Top Jobs and their industries.

Assumptions

Top Jobs Tax Credit

Data from the National Center for Education Statistics shows approximately 37,407 students completed a credential in a qualified Colorado Higher Education Institution (both private and public) in school year 2021-22 (the latest data available) that is consistent with the Top Jobs industry categories as identified in the 2023 Talent Pipeline Report.

The estimates in Table 2 in the State Revenue section below were adjusted by Legislative Council Staff's 2024 Higher Education Forecast. For 2024, the first year the income tax credit is available, the fiscal assumes approximately 38,500 students will qualify for the credit. Consistent with other tax credits, the fiscal note assumes a slightly faster growth rate through the period the credit is available as taxpayers become aware of the benefit. Finally, the fiscal note assumes just over 40,000 students will qualify for the credit by tax year 2029.

College Pathways Tax Credit

Transfers from community colleges. Data from the CDHE shows approximately 5,780 students transferred from a two-year Colorado higher education institute to a four-year Colorado higher education institute (this does not include private institutions of higher education). The fiscal note assumes the majority of these students will transfer about 60 credits and meet the 15 credit hours minimum at the four-year Colorado institution of higher education to claim the credit in the first year. For example, a transfer student in tax year 2026 with 60 hours of two-year credits will meet the 15 credit hours minimum by November 1, 2026, and be eligible for the income tax credit in that year.

Concurrent and dual programs. In school year 2020-21, the latest data available, approximately 51,383 Colorado high school students were enrolled in a concurrent or dual program earning credit towards a postsecondary institution. It is assumed that about 43 percent of these students will transfer to a four-year higher education institution. Of these, approximately 22 percent will graduate high school with an associate's degree with the remainder transferring a range of credits.

AP and IB courses. Data from the CDE shows approximately 68,840 students were earning college credit for the Advanced Placement (AP) or International Baccalaureate (IB) exams in school year 2019-20. Of these, about 19,300 students scored a three or higher on their exams. In Colorado, a score of three or higher is guaranteed to transfer credit, but may not apply to degree requirements. On average, each course represented 3 class credits or about 59,000 qualifying credits for the state income tax credit. This amount has adjusted by a three-year historical average of the number of Colorado high school students earning college credit through the AP or IB exams.

TABOR Outlook

The March 2024 TABOR outlook for both LCS and OSPB project state revenue subject to TABOR to exceeded the Referendum C cap in the current FY 2023-24 through FY 2025-26, the last year of the forecast, by more than \$750 million. The fiscal note assumes the full amount for both credits will be available during this period.

State Revenue

Based on the assumptions above, the bill is expected to decrease General Fund revenue by \$44.8 million in the current FY 2023-24 (half-year impact), \$89.8 million in FY 2024-25, \$114.2 million in FY 2025-26, \$138.9 million in FY 2026-27, the first full fiscal year both income tax credits are expected to be available. The bill reduces income tax revenue, which is subject to TABOR.

To the extent more students complete the eligible credentials as assumed above, the state revenue estimates below will be higher. Conversely, if the number of qualified students is lower than assumed above, the state revenue estimates below will be lower. Finally, if the TABOR outlook indicates excess state revenue of less than \$750 million in the June revenue forecast from LCS and OSPB, the amount of revenue estimated below will be less.

Table 2
Revenue Under HB 24-1340*
 Dollars in Millions

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Top Jobs Tax Credit	(\$44.8)	(\$89.8)	(\$90.0)	(\$90.3)	(\$90.6)
College Pathways Tax Credit	-	-	(\$24.2)	(\$48.6)	(\$49.2)
Transfers from Community Colleges	-	-	(\$9.1)	(\$18.4)	(\$18.6)
Concurrent and Dual Programs	-	-	(\$13.5)	(\$27.2)	(\$27.5)
AP and IB Courses	-	-	(\$1.5)	(\$3.1)	(\$3.1)
Revenue Impact	(\$44.8)	(\$89.8)	(\$114.2)	(\$138.9)	(\$139.7)

* Totals may not sum due to rounding.

The Top Jobs Tax Credit is available beginning in tax year 2024, which reduces state revenue for the 2024 tax year and represents a half-year impact of \$44.8 million for the current FY 2023-24. In FY 2025-26, when the College Pathways Tax Credit becomes available, the revenue estimate shows a half-year impact from the College Pathways Tax Credit and full revenue impact from the Top Jobs Tax Credit. The estimate for FY 2027-28 is a full year impact and for both income tax credits and is similar to the impact expected for later years, with fluctuations for economic circumstances and policy changes.

State Expenditures

The bill increases General Fund expenditures by about \$697,000 in FY 2024-25, \$606,000 in FY 2025-26, \$1.2 million in FY 2026-27, and \$1.1 million in FY 2027-28 through FY 2029-30. Expenditures are shown in Table 3 and detailed below.

**Table 3
Expenditures Under HB 24-1340**

	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Department of Revenue (DOR)				
Personal Services	\$207,942	\$197,519	\$561,331	\$550,002
Operating Expenses	\$4,608	\$4,352	\$12,416	\$12,160
Capital Outlay Costs	\$33,350	\$20,010	\$53,360	\$40,020
GenTax Programming and Testing	\$36,729	-	\$36,729	-
Data Reporting	\$7,392	\$7,328	\$14,720	\$14,656
Document Management and Tax Form	\$3,875	\$3,368	\$9,954	\$9,466
Centrally Appropriated Costs ¹	\$61,328	\$58,027	\$165,342	\$161,956
FTE – Personal Services	3.6 FTE	3.4 FTE	9.7 FTE	9.5 FTE
DOR Subtotal	\$355,223	\$290,604	\$853,852	\$788,260
Department of Higher Education				
Personal Services	\$255,830	\$255,830	\$255,830	\$255,830
Operating Expenses	\$4,480	\$4,480	\$4,480	\$4,480
Capital Outlay Costs	\$26,680	-	-	-
Centrally Appropriated Costs ¹	\$55,167	\$55,167	\$55,167	\$55,167
FTE – Personal Services	3.5 FTE	3.5 FTE	3.5 FTE	3.5 FTE
CDHE Subtotal	\$342,157	\$315,477	\$315,477	\$315,477
Total Cost	\$697,380	\$606,081	\$1,169,328	\$1,103,737
Total FTE	7.1 FTE	6.9 FTE	13.2 FTE	13.0 FTE

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

Department of Revenue. Expenditures will increase in DOR to administer the two income tax credits in the bill. These costs include personnel to review tax credit claims, update and test GenTax computer programming, provide data reporting, and make changes to state income tax forms. Costs are expected to begin in FY 2024-25 and be ongoing through FY 2029-30. DOR expenditures are paid from the General Fund.

- **Tax credit administration.** For FY 2024-25 and the Top Jobs Tax Credit, the department requires 3.6 FTE tax examiners to review tax credit claims, staff call centers and manage correspondence associated with the income tax credit, prorated for an October 2024 start date. In FY 2025-26, this personnel reduces to 3.4 FTE. For FY 2026-27 and the College Pathways Tax Credit, the department requires another 6.3 FTE to administer the credit, prorated for an October 2026 start date. In FY 2027-28, this personnel reduces to 6.1 FTE.
- **Computer programming and testing.** For FY 2024-25 and FY 2026-27, the DOR will program, test, and update database fields in the DOR's GenTax software system for the tax credits. Costs include programming estimated at \$23,775, representing 100 hours of contract programming at a rate of \$237.75 per hour. Costs for user acceptance testing total \$4,064

for 127 hours of testing at a rate of \$32 per hour, and \$8,890 for 254 hours of program design implementation.

- **Data reporting.** Expenditures in the Office of Research and Analysis in the DOR 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 in FY 2024-25, representing 231 hours for data management and reporting at \$32 per hour, with similar costs in later years. In FY 2026-27, these costs include data reporting expenditures for the College Pathways Tax Credit.
- **Document management and tax form changes.** Document management costs to make changes to paper tax forms and process paper returns are estimated at \$3,875 in FY 2024-25. In FY 2026-27, these costs include both income tax credits for document management and form changes for College Pathways Tax Credit. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated DOR funds.

Department of Higher Education. Expenditures will increase in CDHE to administer the two income tax credits in the bill. These costs include data management, programming, and risk management staff. Costs are expected to begin in FY 2024-25 and be ongoing through FY 2029-30. CDHE expenditures are paid from the General Fund.

- **Data management.** CDHE requires 1.5 FTE data manager to create a process and update databases to collect and manage data from private higher institutions; collect and manage student data; and create a list of eligible students from each of the institutions.
- **Programming staff.** CDHE requires 1.0 FTE program coordinator to create a list of eligible degree programs and the associated Standard Occupational Classification (SOC) code using the National Center for Education Statistics' (NCES) Classification of Instructional Programs (CIP) CIP-SOC. This will require partial support from an economist, data analysis and database management. Additionally, this staff will assist in collecting eligibility from institutions and notifying DOR of student eligibility.
- **Risk management.** CDHE requires 1.0 FTE tax compliance agent to review and monitor submissions from higher education institutions and to track student eligibility.

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 March 2024 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.

State Appropriations

For FY 2024-25, the bill requires the following General Fund appropriations:

- \$293,896 and 3.6 FTE to the Department of Revenue, of which \$3,875 is reappropriated to the Department of Personnel; and
- \$286,990 and 3.5 FTE to the Department of Higher Education.

State and Local Government Contacts

Higher Education
State Auditor

Personnel

Revenue

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](#).