Fiscal Note

Legislative Council Staff

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BILL 5: TAX CREDIT FOR QUALIFIED RENTERS

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Fiscal note status: This fiscal note reflects the bill draft requested by the Legislative Oversight Committee Concerning Tax Policy.

Summary Information

Overview. The bill creates an income tax credit for Coloradans who rent their primary residence.

Types of impacts. The bill is projected to affect the following areas through FY 2027-28:

- State Revenue
- State Expenditures
- TABOR Refunds

Appropriations. For FY 2025-26, the bill requires an appropriation of $750,920 to the Department of Revenue.

Table 1
State Fiscal Impacts

Type of Impact[1]	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27
State Revenue	-$68.2 million	-$147.4 million	-$195.7 million
State Expenditures	$0	$930,777	$1,207,891
Transferred Funds	$0	$0	$0
Change in TABOR Refunds	-$68.2 million	-$147.4 million	-$195.7 million
Change in State FTE	0.0 FTE	9.9 FTE	14.4 FTE

[1] Fund sources for these impacts are shown in the tables below.

Table 1A
State Revenue

Fund Source	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund	-$68.2 million	-$147.4 million	-$195.7 million
Cash Funds	$0	$0	$0
Total Revenue	**-$68.2 million**	**-$147.4 million**	**-$195.7 million**

Table 1B
State Expenditures

Fund Source	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund	$0	$750,920	$946,357
Cash Funds	$0	$0	$0
Federal Funds	$0	$0	$0
Centrally Appropriated	$0	$179,857	$261,534
Total Expenditures	**$0**	**$930,777**	**$1,207,891**
Total FTE	**0.0 FTE**	**9.9 FTE**	**14.4 FTE**

Summary of Legislation

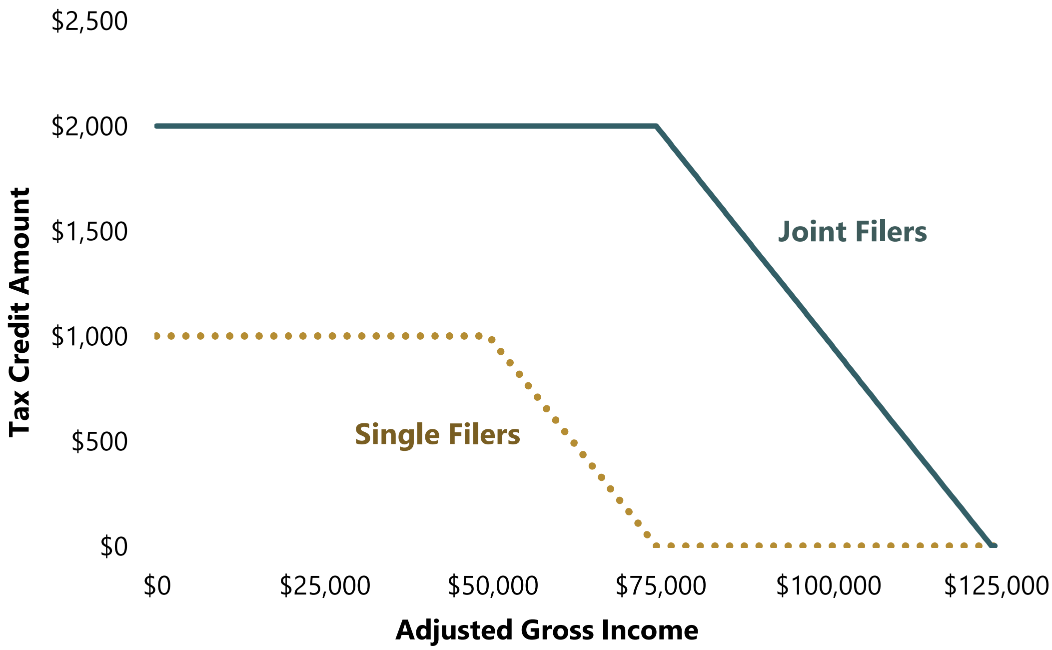
For income tax years 2025 through 2027, the bill creates a state income tax credit for Coloradans who rent their primary residence. The credit is available to single filers with a federal adjusted gross income (AGI) less than or equal to $75,000 or joint filers with an AGI less than or equal to $125,000.

The amount of the credit is:

- $1,000 for single filers with AGI of $50,000 or less, reduced by $20 for every $500 of AGI above $50,000; or
- $2,000 for joint filers with AGI of $75,000 or less, reduced by $20 for every $500 of AGI above $75,000.

Figure 1 shows the amount of credit allowed for taxpayers depending on their AGI. The credit is nonrefundable and cannot be carried forward to subsequent tax years. Any amount by which the credit exceeds the taxpayer’s tax liability cannot be claimed.

Figure 1
Bill 5 Tax Credit Amounts by Adjusted Gross Income and Filing Status



Assumptions

Eligible population

Based on American Community Survey (ACS) data, there were approximately 800,000 renter-occupied households in Colorado in 2021. Using renter-reported income data from the ACS, and adjusting for population and income growth since 2021, it is assumed that there will be approximately 519,000 renter taxpayers who will meet the income eligibility criteria to claim the credit in tax year 2025, including 356,121 taxpayers filing single returns and 162,778 taxpayers filing joint returns. The eligible population is expected to grow in later years, as the increase in the renter population will more than offset the share of taxpayers who will become ineligible due to rising incomes.

Utilization

Broadly available state tax credits, such as the Colorado earned income tax credit, have historically been claimed by only a share of eligible taxpayers. This fiscal note assumes that about 293,657 renter taxpayers will claim the credit for tax year 2025, including 60 percent of taxpayers eligible for the maximum credit amount, and 40 percent of taxpayers eligible for reduced credit amounts. The fiscal note assumes growing utilization in later years, with 288,621 taxpayers claiming the credit for tax year 2026, and just over 400,000 taxpayers claiming the credit for tax year 2027.

Utilization rates are difficult to predict. Higher utilization would cause a larger state revenue reduction and greater increase in state expenditures than estimated in this fiscal note. Lower utilization would cause a smaller revenue reduction and lesser increase in expenditures than shown. The fiscal note assumes the utilization rate of the credit is expected to be lower in the first year, and to increase each year the credit is available, based on utilization rates for other state income tax credits.

State Revenue

Based on the assumptions above, the bill is expected to decrease General Fund revenue by $68.2 million in the current FY 2024-25 (half-year impact), $147.4 million in FY 2025-26, $195.7 million in FY 2026-27, and $116.5 million in FY 2027-28 (final half-year impact). The bill reduces income tax revenue, which is subject to TABOR.

State Expenditures

The bill increases General Fund expenditures in the Department of Revenue by about $930,000 in FY 2025-26, and $1.2 million per year in FY 2026-27 and FY 2027-28 through the expiration of the credit in tax year 2027. Workload and costs will continue as a much reduced level through approximately FY 2030-31. Expenditures are shown in Table 2 and detailed below.

Table 2
State Expenditures
Department of Revenue

Cost Component	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27
Personal Services	$0	$606,316	$881,100
Operating Expenses	$0	$12,672	$18,432
Capital Outlay Costs	$0	$80,040	$10,672
Computer Programming and Testing	$0	$20,972	$0
Data Analysis and Reporting	$0	$8,778	$8,702
Document Management	$0	$22,142	$27,451
Centrally Appropriated Costs	$0	$179,857	$261,534
Total Costs	**$0**	**$930,777**	**$1,207,891**
Total FTE	**0.0 FTE**	**9.9 FTE**	**14.4 FTE**

Tax Credit Administration

The department will require personnel to review tax credit claims and communicate with taxpayers. The workload demand for this tax credit is elevated due to the large population of eligible taxpayers, and because department staff will be required to review eligibility documentation for all taxpayers, as there is no other certifying entity. The fiscal note includes costs for 11.8 FTE in FY 2025-26, prorated to reflect a September 1 start date, and an additional 2.6 FTE in FY 2025-26, when the volume of claims is expected to increase.

Computer Programming and Testing

For FY 2025-26 only, the bill requires expenditures of $20,972 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at $18,540, representing 80 hours of contract programming at a rate of $231.75 per hour. Costs for user acceptance testing total $2,432 for 76 hours of testing at a rate of $32 per hour.

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 $8,778 in FY 2025-26, representing 231 hours for data management and reporting at $38 per hour, with similar costs in late years.

Document Management and Tax Form Changes

Document management costs to make changes to paper tax forms and process paper returns are estimated at $22,142 in FY 2025-26 and $27,451 in FY 2025-26. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated DOR funds.

Credit Wind Down

For several years after the expiration of the credit in tax year 2027, the DOR will continue to have workload and costs for reporting and analysis on the credit, as well as to address amended returns that claim the credit. It is assumed these costs will be addressed through the annual budget process as needed.

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.

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 September 2024 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2026-27. 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 takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2025-26, the bill requires a General Fund appropriation of $750,920 to the Department of Revenue, and 9.9 FTE. Of this amount, $22,142 is reappropriated to the Department of Personnel and Administration

State and Local Government Contacts

Information Technology	Personnel	Revenue