



# Fiscal Note

## Legislative Council Staff

Nonpartisan Services for Colorado’s Legislature

### **BILL 6: INCOME TAX EXPENDITURES FOR SERVICE MEMBERS**

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

### **Summary Information**

**Overview.** The bill eliminates an existing income tax deduction for certain active-duty military service members who reacquire Colorado residency, and creates a new refundable income tax credit that expands available tuition assistance for eligible members of the Colorado National Guard.

**Types of impacts.** The bill is projected to affect the following areas from FY 2026-27 to FY 2031-32:

- State Revenue
- State Expenditures
- TABOR Refunds

**Appropriations.** No appropriation is required.

**Table 1  
State Fiscal Impacts**

<b>Type of Impact<sup>1</sup></b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>	<b>Out Year FY 2027-28</b>
State Revenue (General Fund)	\$0	up to -\$415,000	up to -\$830,000
State Expenditures (General Fund)	\$0	\$66,803	\$65,337
Transferred Funds	\$0	\$0	\$0
Change in TABOR Refunds	\$0	up to -\$415,000	up to -\$830,000
Change in State FTE	0.0 FTE	0.3 FTE	0.5 FTE

## Summary of Legislation

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The bill eliminates an income tax deduction for certain active-duty military service members reacquiring Colorado residency beginning with tax year 2027. The bill creates a new refundable income tax credit for tax years 2027 to 2031 for tuition assistance for actively serving members of the Colorado National Guard who are eligible for tuition assistance under an existing statutorily-authorized program administered by the Department of Military and Veterans Affairs (DMVA).

To claim the credit, eligible National Guard members are required to obtain a tax credit certificate from DMVA each semester or quarter. Credit certificates are limited by the number of members eligible for the current tuition assistance program, and may not exceed \$1 million for any income tax year.

By the end of calendar year, beginning with 2028, the DMVA is required to report the number of credit certificates issued, the amount of tuition assistance proved through the tax credits, the average amount per recipient, and the amount of any credit recaptured if a credit was revoked.

## Background

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### Military Service Persons Reacquiring Residency Deduction

Under current law, an active-duty military service person who reacquires Colorado residency, has a home of record in Colorado on their military record, and was a resident of a state other than Colorado since 2016, may deduct their military pay when calculating their Colorado income tax liability. The deduction was enacted in 2015. Based on a 2022 [report](#) by the Office of the State Auditor, the deduction was applied by about 60 taxpayers for tax year 2018. The most recent [Tax Profile and Expenditure Report](#) from the Department of Revenue indicates the revenue impact of the deduction was about \$170,000 for tax year 2020, a similar amount as reported for tax year 2018.

### Tuition Assistance for Members of the National Guard

Under current law, members of the Colorado National Guard may receive tuition assistance while attending designated institutions of higher education including state supported institutions, technical colleges, and eligible private institutions if any. The most recent appropriation for the tuition assistance program was \$1.4 million, and the program served an average of 170 members for each of the fall and spring semesters of the last school year and about 70 members during the summer. The DMVA currently limits tuition assistance to \$5,000 per student per semester. Tuition assistance is paid to institutions from the Colorado National Guard Tuition Fund cash fund.

**State Revenue**

The bill is expected to decrease state General Fund revenue by a net amount up to \$415,000 in FY 2026-27, and up to \$830,000 in FY 2027-28, with similar impacts in future years through FY 2031-32. The net revenue impact for FY 2026-27 represents a half-year impact on an accrual accounting basis, both for the last year of the residency deduction and for the new income tax credit. The bill reduces individual income tax revenue, which is subject to TABOR.

The amount of the credit utilized each year will depend on the number of eligible National Guard members, tuition rates, which institutions are attended, tuition assistance awarded under the current program, and federal aid awards, and could likely be less than the estimates in this analysis. According to data from the Colorado Department of Higher Education, the statewide average full-year undergraduate tuition for the 2023-24 school year for a public 4-year university was \$9,853 and \$4,623 for a 2-year public college.

**Table 2  
State Revenue**

<b>General Fund</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>	<b>Out Year FY 2027-28</b>
Reacquisition of Colorado Residency Deduction	\$0	\$85,000	\$170,000
National Guard Tuition Assistance Credit	\$0	up to -\$500,000	up to -\$1 million
<b>Net Revenue</b>	<b>\$0</b>	<b>up to -\$415,000</b>	<b>up to -\$830,000</b>

**State Expenditures**

The bill increases state expenditures by \$66,803 in FY 2026-27 and by \$65,337 in FY 2027-28, and similar amounts in later years. Costs are for administrative and software update expenditures for the Department of Military and Veterans Affairs and for the Department of Revenue. Expenditures are shown in Table 3 to 3B and detailed below.

**Table 3  
State Expenditures  
All Departments**

<b>Department</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>	<b>Out Year FY 2027-28</b>
Department of Military and Veterans Affairs	\$0	\$66,803	\$50,221
Department of Revenue	\$0	\$0	\$15,116
<b>Total Costs</b>	<b>\$0</b>	<b>\$66,803</b>	<b>\$65,337</b>
<b>Total FTE</b>	<b>0.0 FTE</b>	<b>0.3 FTE</b>	<b>0.5 FTE</b>

**Department of Military and Veterans Affairs**

**Personal Services**

Beginning in December 2027, the bill requires ongoing additional staff assistance, estimated at 0.5 FTE, to issue income tax credit certificates to members of the Colorado National Guard. The estimate is based on the current tuition assistance program that requires 1.0 FTE to administer. Required FTE are prorated to reflect the estimated start date in the first year. Table 3A shows expenditures for these staff and standard operating and capital outlay costs.

**Computer Programming**

Software utilized for the existing tuition assistance program will need one-time updates using reappropriated funds for the Office of Information Technology, estimated at \$30,000. The estimate assumes the existing system can be modified for the new tax credit certificates in the bill. However, if the system needs to be redesigned, it could be a one-time cost of an estimated \$300,000 based on the initial costs to create the current system, escalated to reflect current conditions.

**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 may include employee insurance, supplemental employee retirement payments, indirect cost assessments, and other costs, are shown in Table 3B.

**Table 3A  
State Expenditures  
Department of Military and Veterans Affairs**

<b>Cost Component</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>	<b>Out Year FY 2027-28</b>
Personal Services	\$0	\$23,790	\$39,650
Standard Operating Costs	\$0	\$384	\$640
Capital Outlay Costs	\$0	\$6,670	\$0
Computer Programming	\$0	\$30,000	\$0
Centrally Appropriated Costs	\$0	\$5,959	\$9,931
<b>Total Costs – DMVA</b>	<b>\$0</b>	<b>\$66,803</b>	<b>\$50,221</b>
<b>Total FTE – DMVA</b>	<b>0.0 FTE</b>	<b>0.3 FTE</b>	<b>0.5 FTE</b>

## Department of Revenue

For FY 2027-28, the bill requires a one-time cost of \$14,084 for GenTax software programming and testing, and to update forms, process tax credit claims, and provide technical assistance to taxpayers. Programming costs are estimated at 50 hours at a rate of \$231.75 per hour for a total cost of \$11,288. User acceptance testing is estimated at 78 hours at a rate of \$32.00 per hour for a total cost of \$2,496. Workload for ISD programming support is estimated to be absorbable. Workload for form updates, processing credit claims, and technical assistance are expected to be partially offset by eliminating the tax deduction and are also expected to be absorbable within existing appropriations.

The bill requires a one-time cost in FY 2027-28 to the Department of Personnel and Administration of \$1,032 for document management and tax form changes using reappropriated funds.

**Table 3B**  
**State Expenditures**  
**Department of Revenue**

<b>Cost Component</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>	<b>Out Year FY 2027-28</b>
GenTax Programming	\$0	\$0	\$11,588
User Acceptance Testing	\$0	\$0	\$2,496
Document Management and Tax Form	\$0	\$0	\$1,032
<b>Total Costs – DOR</b>	<b>\$0</b>	<b>\$0</b>	<b>\$15,116</b>
<b>Total FTE – DOR</b>	<b>0.0 FTE</b>	<b>0.0 FTE</b>	<b>0.0 FTE</b>

## TABOR Refunds

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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

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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

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Military and Veterans Affairs

Revenue

Personnel

State Auditor

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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.