Bill 3

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 24-0385	**Date:**	October 27, 2023
Prime Sponsors:		**Bill Status:**	Bill Request
		Fiscal Analyst:	Louis Pino | 303-866-3556 louis.pino@coleg.gov

Bill Topic: **TAX CREDIT FOR PURCHASE LONG-TERM CARE INSURANCE**

Summary of Fiscal Impact:

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

The bill modifies the tax credit for purchasing long-term care insurance beginning in tax year 2025. The bill will decrease state revenue beginning in FY 2024-25 and increased expenditures beginning in FY 2025-26.

Appropriation Summary: No appropriation is required for this bill.

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

Table 1
State Fiscal Impacts Under Bill 3

		Budget Year FY 2024-25	Out Year FY 2025-26
Revenue		($1.4 million)	($2.9 million)
Expenditures	General Fund	-	$67,170
	Centrally Appropriated	-	$11,793
	Total Expenditures	**-**	**$78,963**
	Total FTE	**-**	**0.7 FTE**
Transfers		-	-
Other Budget Impacts	TABOR Refund	($1.4 million)	($2.9 million)
	General Fund Reserve		$10,076

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Summary of Legislation

The bill modifies the state income tax credit for purchasing long-term care insurance policies beginning in tax year 2025. The bill increases both the federal taxable income (FTI) ceiling for taxpayers to be eligible to claim the tax credit, and the maximum credit amount allowable per taxpayer per year.

Under current law, to be eligible for this credit, single and joint taxpayers claiming a single insurance policy must have FTI of less than $50,000, and joint filers claiming two insurance policies (one for each individual) must have FTI of less than $100,000. The bill doubles these FTI thresholds to $100,000 for single and joint taxpayers claiming one insurance policy, and $200,000 for joint filers claiming two insurance policies. The bill also doubles the maximum credit amount allowable per taxpayer per year from $150 per policy claimed to $1,000 per policy claimed, and adjusts this amount for inflation annually beginning in 2025.

Background

The income tax credit for the purchase of long-term care insurance is equal to 25 percent of the total amount paid by a taxpayer for purchasing, or making payments toward, a long-term care insurance policy. The tax credit is not refundable and any unused portion of the credit cannot be carried forward or back to another tax year.

Assumptions

This fiscal note uses data from the Department of Revenue's Statistics of Income reports for tax year 2019 (the most recent data available) to estimate the reduced revenue associated with this bill. In 2019, approximately 11,400 taxpayers (single and joint returns) claimed the long-term care insurance credit, reducing state revenue by almost $2.4 million. The number of taxpayers is adjusted to reflect population growth using projections from the Department of Local Affairs, and the average credit amount for taxpayers was adjusted to reflect inflation using the Denver-Aurora-Lakewood consumer price index forecast from the September 2023 LCS economic forecast.

State Revenue

The bill is estimated to decrease state income tax revenue by $1.4 million in FY 2024-25 (a half-year impact), $2.9 million in FY 2025-26, and by increasing amounts in subsequent years consistent with population and inflation growth. The bill reduces individual income tax revenue, which is subject to TABOR.

State Expenditures

The bill increases General Fund expenditures in the Department of Revenue by $78,963 in FY 2025-26. Expenditures are presented in Table 2 and discussed below.

Table 2
Expenditures Under Bill 3

		FY 2024-25	FY 2025-26
Department of Revenue			
Personal Services		-	$38,974
Operating Expenses		-	$896
Capital Outlay Costs		-	$6,670
GenTax Programming and Testing		-	$12,436
Data Reporting			$7,392
Document Management and Tax Form Changes			$802
Centrally Appropriated Costs[1]		-	$11,793
FTE – Personal Services		-	0.7 FTE
	Total Cost	**$0**	**$78,963**
	Total FTE	**-**	**0.7 FTE**

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

Department of Revenue. The department will have one-time costs of $78,963 in FY 2025-26 to implement this bill. The increase in eligible population will increase workload to verify claims and resolve any issues with taxpayers. It is assumed that workload will be higher in the first year of eligibility as new taxpayers claim the credit and new limits are implemented. It is estimated that approximately 5,500 additional taxpayers will claim the credit. The bill requires changes to the department's GenTax software system and additional testing. Changes are programmed by a contractor at a cost of $231.75 per hour. Approximately 15 hours of computer programming will be required to implement this bill, totaling $5,985. Additional computer and user acceptance testing are required to ensure programming changes function properly, resulting in additional costs of $6,451. Finally, the Office of Research and Analysis within DOR will have costs of $7,392 in FY 2025-26 to update reporting processes, SQL code, worksheets, report templates, and GenTax database testing.

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.

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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 for FY 2024-25 and FY 2025-26. This estimate assumes the September 2023 LCS revenue forecast. 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 beginning in FY 2025-26. Based on this fiscal note, the bill is expected to decrease the amount of General Fund held in reserve by the amounts shown in Table 1, which will increase the amount of General Fund available for other purposes

Effective Date

The income tax credit in this bill takes effect January 1, 2025, assuming no referendum petition is filed.

State and Local Government Contacts

Information Technology	Personnel	Regulatory Agencies
Revenue		