



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

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Prime Sponsors:

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Bill Topic: EARNED INCOME AND CHILD TAX CREDITS

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

The bill expands the state earned income tax credit and child tax credit. It decreases state revenue and increases expenditures beginning in FY 2023-24. Through at least FY 2024-25, the bill decreases the state obligation for TABOR refunds to taxpayers.

Appropriation Summary: For FY 2023-24, the bill requires an appropriation of \$3,200 to the Department of Revenue.

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

Table 1
State Fiscal Impacts Under Bill 4

Table with 4 columns: Category, Sub-category, Budget Year FY 2023-24, and Out Year FY 2024-25. Rows include Revenue (General Fund, Total Revenue), Expenditures (General Fund, Centrally Appropriated, Total Expenditures, Total FTE), and Other Budget Impacts (TABOR Refund, General Fund Reserve).

Summary of Legislation

Earned income tax credit. The Colorado earned income tax credit (EITC) is available to taxpayers who claim the federal EITC, and to taxpayers who would otherwise be able to claim the federal EITC but who are ineligible because they do not have a valid social security number. The Colorado EITC is a refundable credit calculated as a percentage of the federal EITC. Beginning in tax year 2024, the bill increases the Colorado EITC from 25 percent of the federal EITC to 40 percent of the federal EITC.

Child tax credit. Starting in tax year 2022, the state child tax credit (CTC) is available for single income tax filers with less than \$75,000 and for joint filers with less than \$85,000, in federal adjusted gross income (AGI), who claimed the federal CTC, or would otherwise be able to claim the federal CTC but who are ineligible because one or more of their qualifying children does not have a valid social security number.

Beginning in tax year 2024, the bill increases the amounts of the CTC, with the credit amount based on the taxpayer’s filing status and income as shown in Table 2. The tax credit is a refundable credit calculated as a percentage of the federal CTC. Two taxpayers who are married and may file taxes jointly, but choose to file separately, may only claim the credit on one return per year. If federal law is amended so that the expanded child tax credit available for tax year 2021 under the American Rescue Plan Act is extended to later tax years, then the bill reduces the state child tax credit percentages.

Table 2
Amounts of the Colorado Child Tax Credit

Single Filers			Joint Filers		
Federal AGI*	% of Federal Credit		Federal AGI*	% of Federal Credit	
	Current Law	Under Bill 4		Current Law	Under Bill 4
Up to \$25,000	60 percent	70 percent	Up to \$35,000	60 percent	70 percent
\$25,001 to \$50,000	30 percent	40 percent	\$35,001 to \$60,000	30 percent	40 percent
\$50,001 to \$75,000	10 percent	20 percent	\$60,001 to \$85,000	10 percent	20 percent

* AGI = adjusted gross income; current income thresholds, not adjusted for inflation

The state CTC is available for eligible taxpayers’ children under the age of six. The bill expands the definition of “eligible child” to match that of the federal credit, which is available to eligible taxpayers’ children under the age of 17. Beginning in tax year 2024, the bill requires that DOR adjust the federal AGI thresholds for inflation, as measured by the Denver-Aurora-Lakewood consumer price index or its successor.

Assumptions

Economic forecast. All revenue estimates assume future economic activity consistent with the September 2022 Legislative Council Staff forecast.

State Revenue

The bill is expected to decrease state revenue by \$232.4 million in FY 2023-24, \$464.8 million in FY 2024-25, and similar amounts in future years. The bill decreases revenue from income taxes, which are subject to TABOR.

Earned income tax credit. Increasing the EITC is expected to decrease state revenue by \$73.4 million in FY 2023-24 (half-year impact), and \$146.8 million in FY 2024-25 and similar amounts in future years. Estimates are based on actual EITC claims, adjusted for expected increases in the eligible population. The estimate captures the impact of increasing the EITC from 25 percent of the federal credit under current law to 40 percent starting in 2024. It does not incorporate an adjustment to utilization rates. If the bill causes a greater share of eligible taxpayers to claim the credit than anticipated under current law, the revenue decrease will be greater than estimated.

Child tax credit. The state child tax credit is expected to decrease state revenue by \$159.0 million in FY 2023-24 (half-year impact), and \$318.0 million in FY 2024-25 and similar amounts in subsequent years. Estimates are based on an analysis of eligible Colorado taxpayers for tax year 2019, adjusted for increases in the eligible population. Consistent with current federal law, estimates assume that the credit percentages will be those shown in Table 2, as the expanded federal CTC amounts in the American Rescue Plan expired after 2021. The actual revenue decrease will depend on the rate at which the credit is utilized and could be greater or less than estimated.

State Expenditures

The bill increases General Fund expenditures by \$3,200 in FY 2023-24 and by \$943,731 in FY 2024-25 and by similar amounts in future years. These costs represent administrative expenses in the DOR to implement the new tax credit. Expenditures are shown in Table 3 and detailed below.

**Table 3
Expenditures Under Bill 4**

	FY 2023-24	FY 2024-25
Department of Revenue		
Personal Services		\$544,938
Operating Expenses		\$15,120
Capital Outlay Costs		\$74,400
Computer Programming and Testing	\$3,200	\$66,897
Document Management		\$89,310
Centrally Appropriated Costs ¹		\$153,066
FTE – Personal Services		10.4 FTE
Total Cost	\$3,200	\$943,731
Total FTE	-	10.4 FTE

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

Personal services. The DOR will require additional staff to review and process additional tax returns claiming the expanded refundable child tax credit under the bill. In FY 2024-25, the department will require 10.4 FTE for tax examiners. Operating expenses include telephone, computers, and other supplies for these staff.

Computer programming and testing. The DOR will have costs of \$3,200 in FY 2023-24 and \$66,897 in FY 2024-25. 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 \$3,200, representing 100 hours for data management and reporting at a rate of \$32 per hour starting in FY 2023-24. In FY 2024-25, programming costs are estimated at \$5,625 representing 25 hours of contract programming at a rate of \$225 per hour. Costs for testing at the department are estimated at \$58,072, representing 1,220 hours for the Systems Support Office at \$35 per hour and 610 hours of user acceptance testing at a rate of \$25.20 per hour.

Document management. The DOR will have costs of \$89,310 in FY 2024-25 for form changes and the creation of new forms. These services are performed in the Department of Personnel and Administration using reappropriated DOR funds.

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. These estimates assume the September 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25. 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 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by \$480 in FY 2023-24 and by \$118,600 in FY 2024-25, which will decrease the amount of General Fund available for other purposes.

Effective Date

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

State Appropriations

For FY 2023-24, the bill requires a General Fund appropriation of \$3,200 to the Department of Revenue.

State and Local Government Contacts

Information Technology

Personnel

Revenue