Bill 2

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 23-0095	**Date:**	September 22, 2022
		Bill Status:	Bill Request
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Bill Topic: **TEMPORARY INCREASE PENSION OR ANNUITY DEDUCTION**

Summary of Fiscal Impact:

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

The bill temporarily increases the maximum allowable pension or annuity deduction to $40,000 for tax year 2024. The bill decreases state revenue in FY 2023-24 and FY 2024-25 only, and increases state expenditures beginning in FY 2024-25.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: The fiscal note reflects the draft bill requested by the Pension Review Commission.

Table 1
State Fiscal Impacts Under Bill 2

		Budget Year FY 2023-24	Out Year FY 2024-25
Revenue	General Fund	(up to $131.0 million)	(up to $131.0 million)
	State Education Fund	($10.4 million)	($10.4 million)
	Total Revenue	**($141.4 million)**	**($141.4 million)**
Expenditures	General Fund	-	$43,834
	Total Expenditures		**$43,834**
Transfers		-	-
Other Budget Impacts	TABOR Refund	(up to $131.0 million)	(up to $131.0 million)
	General Fund Reserve	-	$6,575

Summary of Legislation

For tax year 2024 only, the bill temporarily increases the maximum pension or annuity deduction to $40,000 regardless of age for full-time Colorado residents. Under current law, taxpayers aged 55 to 64 may deduct pension and annuity income up to a maximum of $20,000, and taxpayers aged 65 and up may deduct a maximum of $24,000. Following tax year 2024, the maximum allowable pension or annuity deduction reverts back to these lower amounts.

Assumptions

This fiscal note uses data from the Department of Revenue for tax year 2019 (the most recent data available) to estimate the reduced revenue associated with this bill. The number of taxpayers is adjusted to reflect growth in the population age 55 and over using projections from the Department of Local Affairs.

There is elevated uncertainty regarding this revenue estimate due to previous legislative changes to the pension and annuity deduction as part of HB 21-1311, which went into effect in tax year 2022. Since this fiscal note is using taxpayer data from 2019, the changes made by HB 21-1311 have not yet been incorporated into the taxpayer data. As such, this analysis is complicated by first estimating the changes associated with HB 21-1311 and subsequently estimating the changes included in this bill. Estimating these two distinct tax policy changes increases the uncertainty associated with this fiscal note's revenue estimate.

State Revenue

The bill is estimated to decrease state income tax revenue by up to $141.4 million in each of FY 2023-24 and FY 2024-25. This represents an upper bound estimate for the revenue reduction resulting from the state income tax revenue change created by the bill. Due to certain limitations in the available taxpayer data, the increased deduction amount may be overestimated for certain taxpayers. Most of this revenue is subject to TABOR; however, the amount credited to the State Education Fund, discussed below, is exempt from TABOR.

The bill is expected to allow 313,850 taxpayers to increase their pension or annuity deduction in tax year 2024, with an average increase in their deduction of approximately $19,800. As such, the bill is expected to increase the total value of this deduction by $6.21 billion in tax year 2024 and to decrease state taxable income by the same amount. This reduction in taxable income will decrease state income tax revenue by approximately $282.7 million in tax year 2024.

Revenue to State Education Fund. Under current law, one-third of one percent of taxable income, as adjusted by state law, is deposited to the State Education Fund. Because this bill decreases taxable income, the measure also decreases the amount of income tax revenue deposited in the State Education Fund by an estimated $10.4 million in each of FY 2023-24 and FY 2024-25.

State Expenditures

The bill increases General Fund expenditures by $43,834 in FY 2024-25 and by $1,600 in subsequent years. Expenditures are presented in Table 2 and discussed below.

Table 2
Expenditures Under Bill 2

	FY 2023-24	FY 2024-25
Department of Revenue		
GenTax Programming	-	$2,250
Computer and User Acceptance Testing	-	$39,834
Data Reporting	-	$1,600
Total Cost	**-**	**$43,834**

Department of Revenue (DOR). The department will have one-time costs of $42,234 in FY 2024-25 to implement this bill, and continuing costs of $1,600 beginning in FY 2024-25 for data reporting purposes. The bill requires changes to the department's GenTax software system and additional testing. Changes are programmed by a contractor at a cost of $225 per hour. Approximately 10 hours of computer programming will be required to implement this bill, totaling $2,250. Additional computer and user acceptance testing are required to ensure programming changes function properly, resulting in additional costs of $39,984. The Office of Research and Analysis within DOR will have annual costs of $1,600 beginning in FY 2024-25 to update reporting processes, worksheets, report templates, and GenTax database testing.

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. 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 $6,575 in FY 2024-25, which will decrease the amount of General Fund available for other purposes.

Effective Date

The bill takes effect January 1, 2024, assuming no referendum petition is filed.

State and Local Government Contacts

Information Technology

Personnel

Revenue