



**Colorado  
Legislative  
Council  
Staff**

**HB16-1052**

**FISCAL NOTE**

**FISCAL IMPACT:**  State  Local  Statutory Public Entity  Conditional  No Fiscal Impact

**Drafting Number:** LLS 16-0273  
**Prime Sponsor(s):** Rep. Becker K.

**Date:** January 19, 2016  
**Bill Status:** House Finance  
**Fiscal Analyst:** Louis Pino (303-866-3556)

**BILL TOPIC:** WILDFIRE MITIGATION INCOME TAX CREDIT

<b>Fiscal Impact Summary</b>	<b>FY 2016-2017</b>	<b>FY 2017-2018</b>
<b>State Revenue</b>	<b>(at least \$423,402)</b>	<b>(at least \$854,425)</b>
General Fund	(at least \$423,402)	(at least \$854,425)
<b>State Expenditures</b>	<b>\$1,200</b>	<b>\$18,000</b>
General Fund	\$1,200	\$18,000
<b>TABOR Impact</b>	(at least \$423,402)	(at least \$854,425)
<b>FTE Position Change</b>		
<b>Appropriation Required:</b> \$1,200 -Department of Revenue (FY 2016-17)		
<b>Future Year Impacts:</b> Income tax credit expires after tax year 2019. State revenue increase in tax years 2020 through 2024 (see state revenue section).		

**Summary of Legislation**

This bill, *recommended by the Wildfire Matters Review Committee*, eliminates the wildfire mitigation income tax deduction and creates a wildfire mitigation state income tax credit. The tax credit will be available for tax years 2017 through 2019.

The amount of the credit is equal to 25 percent of the costs a taxpayer incurs performing wildfire mitigation on their property located in a wildland-urban interface. The amount of the credit per tax year cannot exceed \$2,500. Any amount above the limit can be carried forward for five years. Any remaining credit after five years is nonrefundable.

**Background**

A state income tax deduction is subtracted from taxable income, thus reducing the final tax bill by 4.63 percent of the amount deducted, an income tax credit reduces a final tax bill dollar-for-dollar.

Under current law a taxpayer is allowed a state income tax deduction for performing wildfire mitigation measures. The deduction, which is available through tax year 2024, is equal to 50 percent of the costs the taxpayer incurred while performing these measures. The tax deduction cannot exceed \$2,500 per income tax year or the total amount of the taxpayer's federal taxable income, whichever is less. A \$2,500 deduction reduces state income taxes by \$116.00.

To be eligible for the deduction, the taxpayer must own the property upon which the mitigation measures are performed, and the property must be in a wildland-urban interface. The wildland-urban interface, as defined by the Colorado State Forest Service, includes any area where man made improvements are built close to, or within, natural terrain and flammable vegetation, and where high potential for wildland fire exists. It is estimated that more than two million Coloradans live in the wildland-urban interface.

## State Revenue

For the three years the income tax credit is available, **this bill will reduce General Fund revenue by at least \$423,402 in FY 2016-17, \$854,425 in FY 2017-18, \$869,805 in FY 2018-19, and at least \$415,990 in FY 2019-20.** The figures for FY 2016-17 and FY 2019-20 represent a half-year impact since the credit is available beginning in tax year 2017 and expires after tax year 2019. In addition, since the bill repeals the current income tax deduction, which is available through tax year 2024, state revenue is expected to increase in tax years 2020 through 2024. The FY 2019-20 estimate includes this expected increase in revenue (\$45,000 half-year impact).

In 2014, 1,946 taxpayers deducted a total of \$1,769,176 under the wildfire mitigation income tax deduction which implies \$3,538,352 in total out-of-pocket costs. This deduction reduced total state income taxes by \$81,912 in 2014. Since an income tax credit reduces a final tax bill dollar-for-dollar, state revenue would have been reduced by an additional \$802,675 under the bill, or the net difference between the value of the current income tax deduction (\$81,913) and 25 percent of the value of total out-of-pocket costs (\$884,588). The 2014 data were adjusted by population growth to obtain estimates for 2017, the first year the income tax credit is available.

It is important to note that the actual impact on state revenue will likely be higher than estimated here because income tax credits are more attractive than income tax deductions, and the added incentive to taxpayers may increase wildfire mitigation efforts.

## TABOR Impact

This bill reduces state revenue from the General Fund, which will reduce the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. Since the bill reduces both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund budget.

## State Expenditures

**The bill increases General Fund expenditures by \$1,200 in FY 2016-17 for a one-time change to the optical recognition software (Fairfax) and \$18,000 in FY 2017-18 for one-time Gen Tax programming costs to the Colorado Integrated Tax Architecture (CITA) for the**

**Department of Revenue (DOR).** The bill will require the DOR to remove the current wildfire deduction line from the Individual Income Tax Return (Form 104) and add a line for the credit on the Individual Credit Schedule (Form 104CR). It is estimated that 80 hours, paid at a rate of \$225 per hour (80 hours times \$225 per hour = \$18,000), of computer programming the GenTax system will be required to make these changes to the state income tax forms. In addition, the bill will result in imaging and scanning costs for the optical charter recognition software, estimated at \$1,200.

### **Effective Date**

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

### **State Appropriations**

In FY 2016-17, the bill requires a \$1,200 General Fund appropriation to the DOR.

### **State and Local Government Contacts**

Higher Education/Colorado State Forest Service

Revenue