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HB 18-1359

**REVISED
FISCAL NOTE**

(replaces fiscal note dated April 10, 2018)

Drafting Number: LLS 18-1140
Prime Sponsors: Rep. Benavidez; Pabon

Date: April 26, 2018
Bill Status: House Appropriations
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Bill Topic: COLORADO CHARITABLE CONTRIBUTION INCOME TAX DEDUCTION

Summary of Fiscal Impact:

<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

This bill broadens the state income tax deduction for charitable contributions to allow taxpayers who contribute at least \$500 to charity to deduct the full value of their contributions for state income tax purposes. It decreases state revenue on an ongoing basis and requires one-time implementation expenditures in FY 2019-20.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: This revised fiscal note reflects the introduced bill, as amended by the House Finance Committee.

**Table 1
State Fiscal Impacts Under HB 18-1359**

		FY 2018-19	FY 2019-20
Revenue	General Fund	(\$5.5 million)	(\$11.1 million)
Expenditures	General Fund	-	\$5,540
Transfers		-	-
TABOR Refund		(\$5.5 million)	(\$11.1 million)

Summary of Legislation

Under current law, taxpayers who take the standard deduction on their federal tax return are able to claim a state income tax deduction for contributions to qualifying charities that exceed \$500. Beginning in tax year 2019, this bill allows these taxpayers to claim a state income tax deduction on the full value of their contributions, including the first \$500. As under current law, taxpayers who claim the standard deduction and contribute less than \$500 to charity are not allowed a state income tax deduction for their contributions.

The Colorado income tax is based on federal taxable income. Taxpayers who claim itemized deductions on their federal tax return are able to deduct contributions to qualifying charities. These deductions carry through to the state level under current law.

Background and Assumptions

Current law deduction. The state deduction for charitable contributions was claimed on 155,704 tax returns for tax year 2015, the most recent year for which data are available. In total, \$243.2 million was deducted from taxable income, representing an average of \$2,062 in charitable contributions per taxpayer taking the deduction, of which \$1,562 was deductible. This population is assumed to grow consistent with the state's population and reach 164,600 taxpayers in 2019.

Tax Cuts and Jobs Act (TCJA). President Trump signed the TCJA into law in December 2017. The TCJA expands the federal standard deduction and makes changes to a number of the federal itemized deductions. It is expected to cause certain taxpayers who would otherwise have itemized deductions on their federal tax return to take the standard deduction instead.

Migration of taxpayers who had previously itemized deductions to the federal standard deduction will increase the revenue loss attributable to the state charitable contributions deduction. However, these impacts are assumed to occur as a result of the TCJA regardless of whether this bill is adopted. Therefore, they are not identified as impacts of this bill in this fiscal note.

Affected populations. This bill is expected to allow new or expanded state income tax deductions to two groups of taxpayers:

- taxpayers who previously took the federal standard deduction and claimed the current law charitable contributions deduction because they donated more than \$500 to charity; and
- taxpayers who previously itemized deductions of at least \$500 for charitable contributions but who are expected to take the federal standard deduction and the state income tax deduction beginning in 2018 under current law as a result to changes in federal tax policy under the TCJA.

These two populations are summarized in Table 2. Population estimates were based on actual taxpayer data for tax year 2015 and are increased by actual and forecast Colorado population growth.

Table 2
2019 Taxpayer Impacts Under HB 18-1359*

	Number of Taxpayers	Average Deduction	Average Tax Impact	Total Tax Impact
Took standard deduction and claimed state charitable contribution deduction before TCJA	164,600	\$500	\$23.15	(\$3.8 million)
Had previously itemized; expected to take standard deduction and claim state charitable contribution deduction under TCJA	311,300	\$500	\$23.15	(\$7.2 million)
Total	475,900	\$500	\$23.15	(\$11.0 million)

* Table captures only taxpayer impacts attributable to HB 18-1359; the full amount of deductions is not presented. Impacts presented on a tax year basis; Table 1 presents tax year impacts accrued to the appropriate fiscal years.

The taxpayers who will claim the broadened state income tax deduction in this bill are assumed to claim the deduction under current law and the TCJA. Therefore, the bill is not expected to increase the volume of state tax forms remitted to the Department of Revenue (DOR).

State Revenue

This bill is expected to reduce General Fund income tax revenue by \$5.5 million in FY 2018-19 and \$11.1 million in FY 2019-20 and subsequent fiscal years. The amount for FY 2018-19 represents a half-year impact for tax year 2019. Details regarding taxpayer populations and tax impacts are presented in the Background and Assumptions section of this fiscal note.

TABOR Refund

This bill reduces state revenue from income taxes, which will reduce the amount of money required to be refunded under TABOR by \$5.5 million for FY 2018-19 and \$11.1 million in FY 2019-20. Since the bill reduces General Fund revenue and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money for the General Fund budget in the future during years when the state does not collect revenue above the TABOR limit. State revenue subject to TABOR is not estimated for years beyond FY 2019-20.

State Expenditures

This bill is expected to require one-time General Fund expenditures of \$5,540 in FY 2019-20 only. State expenditures are summarized in Table 3 and described below. The bill is not expected to generate new expenditures for taxpayer service costs because the population of taxpayers able to access the income tax deduction is not expected to change.

**Table 3
Expenditures Under HB 18-1359**

	FY 2018-19	FY 2019-20
Department of Revenue		
Computer Programming and Testing	-	\$4,340
Tax Form Change	-	\$1,200
Total Cost	\$0	\$5,540

Computer programming and testing. This bill requires one-time changes to DOR's GenTax software system. Changes are programmed by a contractor at a rate of \$250 per hour. The changes in this bill are expected to increase General Fund expenditures by \$500, representing two hours of programming. All GenTax programming changes are tested by the department. Testing for this bill will require the expenditures for contract personnel totaling \$3,840, representing 160 hours of testing at a rate of \$24 per hour.

Tax form change. The bill requires changes to one tax form. Tax form change costs are paid to the Department of Personnel and Administration using reappropriated DOR funds.

Effective Date

The bill takes effect August 8, 2018, if the General Assembly adjourns on May 9, 2018, as scheduled, and no referendum petition is filed. The expanded income tax deduction in this bill is effective beginning in tax year 2019.

State and Local Government Contacts

Information Technology

Personnel

Revenue