



Legislative Council Staff  
Nonpartisan Services for Colorado's Legislature

# Final Fiscal Note

|                         |   |                        |   |
|-------------------------|---|------------------------|---|
| <b>Drafting Number:</b> | LLS 23-0125                             | <b>Date:</b>           | July 17, 2023   |
| <b>Prime Sponsors:</b>  | Rep. Bird; Young<br>Sen. Hansen; Kolker | <b>Bill Status:</b>    | Signed into Law   |
|                         |   | <b>Fiscal Analyst:</b> | Elizabeth Ramey   303-866-3522<br>elizabeth.ramey@coleg.gov |

**Bill Topic:** EARNED INCOME AND CHILD TAX CREDITS

|                                  |   |  |
|----------------------------------|---|--|
| <b>Summary of Fiscal Impact:</b> | <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 |

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

**Appropriation Summary:** No appropriation is required.

**Fiscal Note Status:** The fiscal note reflects the enacted bill.

**Table 1  
State Fiscal Impacts Under HB 23-1112**

|                             |                      | <b>Budget Year<br/>FY 2023-24</b> | <b>Out Year<br/>FY 2024-25</b> |
|-----------------------------|----------------------|-----------------------------------|--------------------------------|
| <b>Revenue</b>              | General Fund         | (\$74.8 million)                  | (\$97.6 million)               |
| <b>Expenditures</b>         | General Fund         | -                                 | \$76,168                       |
| <b>Other Budget Impacts</b> | TABOR Refund         | (\$74.8 million)                  | (\$97.6 million)               |
|                             | General Fund Reserve | -                                 | \$11,425                       |

## Summary of Legislation

For tax year 2024, the bill expands the state earned income tax credit (EITC) and child tax credit (CTC), as discussed below.

**Earned income tax credit.** The Colorado 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. For tax year 2024, the bill increases the Colorado EITC from 25 percent of the federal EITC to 38 percent of the federal EITC.

**Child tax credit.** Starting in tax year 2022, the state 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. The state CTC is available for eligible taxpayers' children under the age of six.

The tax credit is a refundable credit calculated as a percentage of the federal CTC. Starting in tax year 2024, the bill establishes fixed credit amounts based on the taxpayer's filing status and income as shown in Table 2. 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. Beginning in tax year 2025, 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, if the adjustment results in an increase of at least \$1,000 when rounded to the nearest \$1,000.

**Table 2**  
**Amounts of the Colorado Child Tax Credit**

| Single Filers           |   |                     | Joint Filers            |   |                     |
|-------------------------|---|---------------------|-------------------------|---|---------------------|
| Federal AGI*            | Current Law<br>(% of Federal<br>Credit) | Under<br>HB 23-1112 | Federal AGI*            | Current Law<br>(% of Federal<br>Credit) | Under<br>HB 23-1112 |
| Up to<br>\$25,000       | 60 percent                              | \$1,200             | Up to<br>\$35,000       | 60 percent                              | \$1,200             |
| \$25,001 to<br>\$50,000 | 30 percent                              | \$600               | \$35,001 to<br>\$60,000 | 30 percent                              | \$600               |
| \$50,001 to<br>\$75,000 | 10 percent                              | \$200               | \$60,001 to<br>\$85,000 | 10 percent                              | \$200               |

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

## Assumptions

**Economic forecast.** All revenue estimates assume future economic activity consistent with the March 2023 Legislative Council Staff forecast.

## State Revenue

The bill is expected to decrease state revenue by \$74.8 million in FY 2023-24, by \$97.6 in FY 2024-25, by \$45.6 million in FY 2025-26 and by 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 \$52.0 million in each of FY 2023-24 and FY 2024-25. For both fiscal years, these estimates represent a half-year impact for tax year 2024 on an accrual accounting basis. 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 38 percent only 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 \$22.8 million in FY 2023-24, by \$45.6 million in FY 2024-25, and by similar amounts in future years. Estimates are based on an analysis of Colorado taxpayers with children under 6 for tax year 2019, adjusted for increases in the eligible population. 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 \$76,168 and in FY 2024-25. 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 HB 23-1112**

|                                  | FY 2023-24 | FY 2024-25      |
|----------------------------------|------------|-----------------|
| <b>Department of Revenue</b>     |            |                 |
| Computer Programming and Testing | -          | \$68,014        |
| Research and Analysis            | -          | \$7,392         |
| Document Management              | -          | \$762           |
| <b>Total Cost</b>                | -          | <b>\$76,168</b> |

**Computer programming and testing.** The DOR will have one-time costs of \$68,014 in FY 2024-25 for computer programming and testing. Programming costs are estimated at \$5,794 representing 25 hours of contract programming at a rate of \$231.75 per hour. Costs for user acceptance testing at the department are estimated at \$62,220, representing 1,220 hours for the Systems Support Office at \$35 per hour and 610 hours of user acceptance testing at a rate of \$32 per hour.

**Research and Analysis.** 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 \$7,392, or 231 hours for data management and reporting at a rate of \$32 per hour FY 2024-25.

**Document management.** The DOR will have one-time costs of \$762 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.

## 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 March 2023 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.

## Effective Date

The bill was signed into law by the Governor on June 7, 2023, and takes effect on August 7, 2023, assuming no referendum petition is filed.

## State and Local Government Contacts

Information Technology

Personnel

Revenue