



**Colorado  
Legislative  
Council  
Staff**

**HB16-1089**

**REVISED  
FISCAL NOTE**

(replaces fiscal note dated January 28, 2016)

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

**Drafting Number:** LLS 16-0338  
**Prime Sponsor(s):** Rep. Moreno  
Sen. Holbert

**Date:** March 15, 2016  
**Bill Status:** House Appropriations  
**Fiscal Analyst:** Kate Watkins (303-866-3446)

**BILL TOPIC:** ENDOWMENT FUND GIFT TAX CREDIT

Fiscal Impact Summary	FY 2015-2016 (Current Year)	FY 2016-2017	FY 2017-2018
<b>State Revenue</b>	<b><u>(\$4.8 million)</u></b>	<b><u>(\$9.9 million)</u></b>	<b><u>(\$10.3 million)</u></b>
General Fund	(4.8 million)	(9.9 million)	(10.3 million)
<b>State Expenditures</b>		<b><u>\$30,523</u></b>	<b><u>\$1,506</u></b>
General Fund		30,523	1,506
<b>TABOR Impact</b>		(\$9.9 million)	(\$10.3 million)
<b>Appropriation Required:</b> \$30,523 - Department of Revenue (FY 2016-17).			
<b>Future Year Impacts:</b> State revenue decrease and expenditure increase through FY 2018-19.			

**Summary of Legislation**

This bill, *as amended in House Finance Committee*, creates an income tax credit for contributions made to an endowment of a Colorado charitable organization. Eligible endowment funds do not include donor advised funds or funds for private foundations. The credit is equal to 25 percent of the contribution and the maximum credit allowed is \$25,000 per taxpayer per year. The credit is non-refundable, but can be carried forward for five years, and is available in tax years 2016, 2017, and 2018.

**Background**

Charitable organizations can establish endowment funds that help support their charitable mission. Endowments are set up so that the principal in the fund is maintained over a long period of time, but earnings on the principal are used to support the ongoing operations of the charitable organization. Charitable contributions to endowments are deductible from federal taxable income and Colorado's taxable income is based upon federal taxable income. Under this bill, qualifying taxpayers would therefore receive a tax deduction as well as a tax credit for contributions to an endowment.

**State Revenue**

This bill will **reduce General Fund revenue by \$4.8 million (half-year impact) in FY 2015-16, \$9.9 million in FY 2016-17, and \$10.3 million in FY 2017-18.** The revenue impact is expected to grow over time with a rise in contributions consistent with Colorado personal income earnings.

**Assumptions.** Montana has a similar individual income tax credit that is determined by contributions to charitable endowments. In 2013, Montana taxpayers claimed income tax credits based on contributions of \$5.3 million to charitable endowments. This fiscal note assumes that Colorado taxpayers will contribute 6.14 times the amount contributed by Montana taxpayers based on the relative magnitudes of the two states' personal income earnings in 2014. This amount (\$33.2 million) was multiplied by the allowable credit percentage of 25 percent under this bill and estimates were grown annually by the five-year compound average annual growth rate of Colorado personal income to arrive at revenue impact estimates for FY 2015-16 and beyond.

**TABOR Impact**

This bill reduces state revenue to 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. In FY 2016-17 and FY 2017-18, this bill is expected to reduce taxpayer refunds from the Six Tier Sales Tax refund mechanism by \$9.9 million and \$10.3 million, respectively. 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 for the budget. However, the bill will reduce money available for the General Fund budget in the future during years the state does not collect money above the TABOR limit.

**State Expenditures**

This bill will increase General Fund appropriations by **\$30,523 in FY 2016-17 and \$1,506 in FY 2017-18 and FY 2018-19** to administer the tax credit. These costs include programming, testing, form change, and document management, as shown in Table 1 and described below.

<b>Table 1. Expenditures Under HB 16-1089</b>			
<b>Cost Components</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
GenTax Programming		\$24,000	
GenTax Testing		3,838	
Form Change Costs		1,200	
Document Management		1,223	\$1,244
Postage and Mailing		262	262
<b>TOTAL</b>		<b>\$30,523</b>	<b>\$1,506</b>

**Department of Revenue.** This bill requires changes to the Department of Revenue's GenTax software system. Changes are programmed by a contractor at a rate of \$200 per hour. The changes in this bill are expected to increase General Fund expenditures by \$24,000, representing 120 hours of programming. All GenTax programming changes are tested by department staff. The department can perform the testing required in this bill within existing appropriations. Based on the Montana tax credit, an estimated 3,300 taxpayers are expected to claim the Colorado credit under this bill each year. This will require a workload increase to answer taxpayer inquiries and review and audit returns, which can be accomplished within existing resources.

**Department of Personnel and Administration.** Scanning and imaging software will require modification to implement changes to the deduction. This will require \$1,200 for individual income tax form 104CR in FY 2016-17 reappropriated from the Department of Revenue to the document management line for the Department of Personnel and Administration. Review and auditing will also result in document management costs for an estimated 15 percent of filers totaling \$1,223 in FY 2016-17. This amount is expected to grow with the number of filers claiming the credit.

### **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 Department of Revenue will require a General Fund appropriation of \$30,523, of which \$2,423 will be reappropriated to the Department of Personnel and Administration for document management.

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

Information Technology

Personnel and Administration

Revenue