



**Colorado
Legislative
Council
Staff**

HB17-1002

**FINAL
FISCAL NOTE**

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

Drafting Number: LLS 17-0167 **Date:** July 25, 2017
Prime Sponsor(s): Rep. Pettersen; Exum **Bill Status:** Signed into Law
 Sen. Kefalas; Martinez Humenik **Fiscal Analyst:** Kate Watkins (303-866-3446)

BILL TOPIC: CHILD CARE EXPENSES INCOME TAX CREDIT EXTENSION

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020
State Revenue*	(\$2.9 million)	(\$6.1 million)	(\$6.4 million)	(\$3.4 million)
General Fund	(2.9 million)	(6.1 million)	(6.4 million)	(3.4 million)
State Expenditure			See State Expenditures Section	
Appropriation Required: None.				
Future Year Impacts: None.				

* The timing of these impacts will be delayed one year if the June 2017 Legislative Council Staff forecast indicates a FY 2016-17 General Fund surplus of less than \$2.9 million.

Summary of Legislation

This bill extends the existing tax credit for child care expenses made by low-income taxpayers for three tax years. The tax credit is limited to qualifying taxpayers with a federal adjusted gross income of less than \$25,000. The credit is equal to 25 percent of the taxpayer's child care expenses and is capped at a maximum amount of \$500 for a single dependent or \$1,000 for two or more dependents. Dependents must be under age 13. The tax credit is refundable, meaning the amount of the credit that exceeds the taxpayer's income tax liability must be refunded to the taxpayer.

The timing of the tax credit extension is contingent on the June 2017 Legislative Council Staff forecast. If the June 2017 forecast indicates a FY 2016-17 General Fund surplus of at least \$2.9 million, the tax credit will be effective in tax years 2017, 2018, and 2019, rather than tax years 2018, 2019, and 2020.

Background

Two child care expense tax credits are allowed in Colorado. The first was enacted by House Bill 96-1121 and is based on the federal child and dependent care tax credit, which is a nonrefundable federal tax credit, meaning it is limited to a taxpayer's income tax liability. A Colorado taxpayer may claim a refundable state income tax credit for expenses incurred in the care of children under age 13. On Colorado state tax returns, Colorado taxpayers may claim a percentage of the child care credit claimed on their federal tax returns. As shown in Table 1, the percentage varies based on the taxpayer's federal adjusted gross income.

Table 1 . Colorado Child Care Tax Credit	
If the taxpayers's adjusted gross income is:	...the Colorado Child Care Credit will be:
\$25,000 or less	50 percent of the federal child care credit
From \$25,001 to \$35,000	30 percent of the federal child care credit
From \$35,001 to \$60,000	10 percent of the federal child care credit
\$60,001 or more	No Colorado child care credit is allowed

HB14-1072 created an additional refundable child care expense tax credit for Colorado taxpayers who have a federal adjusted gross income of \$25,000 or less with insufficient federal tax liability to claim the existing state child care expense credit. Under current law, this low-income child care expense tax credit is only available for tax years 2014, 2015, and 2016. HB17-1002 extends the availability of this low income child care expense tax credit through tax year 2019.

State Revenue

Contingent upon the June 2017 Legislative Council Staff forecast, this bill will **reduce General Fund revenue by \$2.9 million in FY 2016-17 (half-year impact), \$6.1 million in FY 2017-18, \$6.4 million in FY 2018-19, and \$3.4 million in FY 2019-20 (half-year impact)**. If the June 2017 forecast indicates that the FY 2016-17 General Fund surplus is less than \$2.9 million, the tax credit will not be available in tax year 2017 but will be available in tax years 2018, 2019, and 2020, pushing the revenue impact of the tax credit forward one year.

Data and assumptions. In fiscal year 2015-16, 34,337 taxpayers claimed an average tax credit of \$158, reducing General Fund revenue by \$5.4 million. Revenue estimates assume that the average tax credit will grow by the historical ten-year compound average annual growth rate in the price of child care and nursery school, as measured by the U.S. Bureau of Labor Statistics. After growing 4.2 percent in fiscal year 2016-17, the population of taxpayers qualifying for the credit is assumed to grow by the Colorado State Demography Office projections of the number of households in Colorado with children. Table 2 summarizes revenue and taxpayer impact projections based on these assumptions. Contingent on the June 2017 forecast, these revenue estimates may be delayed one year.

Table 2. Estimated Revenue and Taxpayer Impact of HB17-1002				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
General Fund Revenue Impact	\$2.9 million*	\$6.1 million	\$6.4 million	\$3.4 million*
Taxpayers Claiming the Credit	35,779	36,315	36,921	37,524
Average Tax Credit per Taxpayer	\$163	\$168	\$174	\$180

*Half-year impact.

State Expenditures

If the June 2017 forecast triggers the extension of the credit in tax year 2018, the Department of Revenue may require programming, testing, and form change costs that are expected to be addressed in the annual budget process for FY 2018-19.

Effective Date

This bill was signed into law by the Governor and took effect on June 2, 2017. The bill includes a repeal date of January 1, 2021.

State and Local Government Contacts

Information Technology

Personnel

Revenue