



**Colorado
Legislative
Council
Staff**

HB17-1324

FISCAL NOTE

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

Drafting Number: LLS 17-0038 **Date:** April 18, 2017
Prime Sponsor(s): Rep. Pettersen; McLachlan **Bill Status:** House Education
Fiscal Analyst: Kate Watkins (303-866-3446)

BILL TOPIC: EDUCATIONAL OPPORTUNITY TAX INCENTIVES

Fiscal Impact Summary	FY 2017-2018	FY 2018-2019	FY 2019-20
State Revenue	<u>Up to \$257,043</u>	<u>(\$126,584)</u>	<u>(\$80,426)</u>
Cash Funds	Up to 322,296		
General Fund	(65,253)	(126,584)	(\$80,426)
State Expenditures	<u>Up to \$322,296</u>	<u>\$67,763</u>	<u>\$38,237</u>
Cash Funds	Up to 322,296		
General Fund		57,480	27,954
Centrally Appropriated Costs		10,283	10,283
TABOR Impact	(\$65,253)	(\$126,584)	Not estimated
FTE Position Change		0.6 FTE	0.6 FTE
Appropriation Required: None.			
Future Year Impacts: Decreasing revenue and ongoing expenditure impacts.			

Summary of Legislation

Beginning in tax year 2018, this bill alters the existing income tax deduction for contributions to qualifying college savings accounts and interest earnings on or withdrawals from these savings accounts. The bill also creates a new tax credit for teachers and student teachers serving in rural Colorado school districts beginning in tax year 2018. Qualifying teachers must have graduated from a Colorado college or university and must have started teaching during or following the 2013-14 school year. Table 1 summarizes changes to the deduction and Table 2 summarizes the tax credits allowed under House Bill 17-1324.

Adjusted Gross Income	Current Law	HB17-1324
Under \$100,000	100%	200%
\$100,000 to \$200,000	100%	100%
\$200,000 to \$500,000	100%	50%
Over \$500,000	100%	25%

Table 2. Tax Credits Allowed under HB17-1324					
Years of Teaching	One	Two	Three	Four	Five
Teachers	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000
Student Teachers	\$2,500				

Background

Tax benefits for CollegenInvest savings plans. Under Section 529 of the federal Internal Revenue Code (IRC), taxpayers may establish a "529" college savings plan for which investment earnings and withdrawals for qualified higher education expenses are excluded from federal taxable income. These 529 plans are administered at the state level. CollegenInvest, a division of the Department of Higher Education, manages Colorado's program.

In addition to the federal exclusion, which carries through to state taxable income, Colorado taxpayers may deduct the contributions they make to CollegenInvest savings plans from taxable income on state income tax returns. Additionally, interest earnings and qualifying withdrawals may be deducted to the extent that they are still included in federal taxable income.

Qualifying withdrawals. CollegenInvest account withdrawals may be used for post-secondary education-related expenses. The earnings portion of a non-qualified withdrawal is subject to federal income taxes and any applicable state income tax, as well as an additional 10 percent federal penalty tax. State deductions claimed for non-qualified withdrawals are subject to recapture in subsequent years.

State Revenue

This bill will **increase cash funds revenue by up to \$322,269 in FY 2017-18 and will reduce General Fund revenue by \$65,253 in FY 2017-18 (half-year impact), \$126,584 in FY 2018-19, and \$80,426 in FY 2019-20.**

Cash funds revenue. Cash funds revenue will increase in FY 2017-18 as a result of CollegenInvest account holder fee increases used to fund expenses related to account holder notifications resulting from this bill (see the State Expenditures section). Because CollegenInvest is a state enterprise, this fee revenue is exempt from TABOR.

General Fund revenue. Table 3 summarizes the General Fund revenue impact of the bill for FY 2017-18 through FY 2019-20. The revenue impact in future years is expected to be minimal.

Table 3. General Fund Revenue Impact of HB17-1324			
	FY 2017-18	FY 2018-19	FY 2019-20
Deduction Changes	\$2.1 million	\$4.3 million	\$4.5 million
Tax Credit	(2.2 million)	(\$4.5 million)	(\$4.6 million)
Net General Fund Revenue Impact	(\$65,253)	(\$126,584)	(\$80,426)

CollegelInvest deductions. Table 4 compares the deduction claimed under current law and the estimated deduction under HB 17-1324 using the actual deduction amounts claimed on 2013 individual income tax returns. To arrive at a revenue impact estimate, the 2013 revenue impact was grown each year by 4.3 percent, the compound average annual growth rate for Colorado personal income earnings for the most recent five years of data available. Revenue estimates do not reflect the impact of this bill on the deduction for interest on or withdrawals from qualifying savings accounts as data are not available.

Table 4. Taxpayer Impact of HB17-1324, Tax Year 2013				
	Federal Adjusted Gross Income			
	Under \$100,000	\$100,000 to \$200,000	\$200,000 to \$500,000	Over \$500,000
Number of Taxpayers	11,112	19,163	10,419	2,466
Average Deduction				
Current Law	\$3,585	\$5,727	\$11,993	\$27,743
HB17-1324	7,171	5,727	5,996	6,936
<i>Difference</i>	<i>3,585</i>	<i>0</i>	<i>(5,996)</i>	<i>(20,808)</i>
Average Taxpayer Savings from the Deduction*				
Current Law	\$166	\$265	\$555	\$1,285
HB17-1324	332	265	278	321
<i>Difference</i>	<i>166</i>	<i>0</i>	<i>(278)</i>	<i>(963)</i>

Source: Colorado Department of Revenue with Legislative Council Staff calculations.

Note: Estimates assume no change in contribution behavior under House Bill 17-1324.

*Calculated as the average deduction multiplied by the state income tax rate of 4.63 percent.

Rural teacher tax credit. Based on turnover data from the Colorado Department of Education, there were 9,088 teachers in rural school districts during the 2014-15 school year, of which 1,620 teachers were newly hired, and 178 are assumed to be alternative preparation teachers, who are eligible only as student teachers. Data provided by the Colorado Department of Higher Education indicate that 19.2 percent of rural teachers in 2014-15 were graduates from educator preparation programs at Colorado colleges and universities. This fiscal note assumes that 19.2 percent of eligible new rural teachers (about 300 each year, grown by rural district enrollment projections) will qualify for the tax credit as first year teachers each year. Assuming turnover rates from a national longitudinal study conducted by the National Center for Education Statistics, Table 5 summarizes the estimated total population of teachers expected to claim the credit in the first four tax years.

Table 5. Estimated Number of Qualifying Rural Teachers under HB17-1324				
Years Teaching	2018	2019	2020	2021
1	291	294	297	301
2	262	265	268	270
3	256	258	261	263
4	247	250	253	256
5	241	243	246	249
Total	1,299	1,312	1,325	1,339

Rural student teacher tax credit. This fiscal note assumes that about 300 teachers will qualify for the rural student teacher tax credit each year, including 178 alternative preparation teachers.

TABOR Impact

This bill reduces state revenue from the General Fund, which will reduce the amount of money required to be refunded under TABOR for FY 2017-18 and FY 2018-19. TABOR refunds are paid out of the General Fund. TABOR refund obligations are not expected for FY 2016-17. This bill is expected to reduce the TABOR surplus by \$65,253 in FY 2017-18 and \$126,584 in FY 2018-19, reducing the amount of revenue refunded through the Six Tier Sales Tax Refund by equal amounts. 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.

State Expenditures

This bill will **increase state expenditures to the Department of Higher Education by up to \$322,269 in FY 2017-18, and to the Department of Revenue by \$67,763 in FY 2018-19, and \$38,238 beginning in FY 2019-20.** Costs include personnel, programming, testing, document management, and form change costs, as summarized in Table 6.

Table 6. Expenditures Under HB17-1324			
Cost Components	FY 2017-18	FY 2018-19	FY 2019-20
CollegInvest Account Holder Notifications	Up to \$322,269		
Personal Services		\$26,067	\$26,067
FTE		0.6 FTE	0.6 FTE
Operating Expenses and Capital Outlays		5,273	570
Programming and Testing		23,677	
Form Change and Document Management		2,463	1,318
Centrally Appropriated Costs*		10,283	10,283
TOTAL	Up to \$322,269	\$67,763	\$38,238

* Centrally appropriated costs are not included in the bill's appropriation.

CollegInvest. Costs for CollegInvest, within the Department of Higher Education, will increase by up to \$322,269 in FY 2017-18 to notify account holders of the change in the deduction. According to the Municipal Securities Rulemaking Board, a material change to plan benefits requires immediate communication with all account holders. This will require CollegInvest to revise and resend Plan Disclosure Statements to 350,000 account holders. Account holders pay CollegInvest fees to manage their investments, which will be used to pay for the additional expenses from this bill. To the extent that electronic notifications are made, or other account holder notifications are made and mailed with notifications resulting from this bill, costs will be lower.

Department of Revenue (DOR). The tax credit is expected to impact about 1,600 taxpayers each year, requiring 0.6 FTE each year for review and auditing. The deduction can be verified using federal tax data. This bill requires changes to the DOR's GenTax software system, which are programmed by a contractor at a rate of \$200 per hour and are expected to increase expenditures by \$16,000, representing 80 hours of programming. All GenTax programming changes are tested by department staff. Testing for this bill will require expenditures for contract personnel totaling \$7,677, representing 320 hours of testing at a rate of \$24 per hour.

Department of Personnel and Administration (DPA). DPA receives, opens, prepares, scans, enters and shreds tax correspondence on behalf of DOR. DPA's scanning and imaging software need to be programmed to accept the altered CollegenInvest tax deduction form and the new tax credit, which will require \$1,200 in FY 2018-19. Document management costs will total about \$1,300 each year. These expenditures will be reappropriated from the DOR to the document management line for DPA.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 7.

Table 7. Centrally Appropriated Costs Under HB17-1324		
Cost Components	FY 2018-19	FY 2019-20
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$4,707	\$4,707
Supplemental Employee Retirement Payments	2,336	2,336
Leased Space	3,240	3,240
TOTAL	\$10,283	\$10,283

Effective Date

The bill takes effect August 9, 2017, if the General Assembly adjourns on May 10, 2017, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Education
Personnel

Higher Education
Revenue

Information Technology