



Legislative  
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**FISCAL NOTE**

**Drafting Number:** LLS 18-0606  
**Prime Sponsors:** Rep. Garnett  
Sen. Priola

**Date:** January 29, 2018  
**Bill Status:** House Finance  
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**Bill Topic:** INCOME TAX CREDIT FOR ENDOWMENT CONTRIBUTIONS

- Summary of Fiscal Impact:**
- State Revenue
    - State Expenditure
    - State Transfer
  - TABOR Refund
    - Local Government
    - Statutory Public Entity

This bill creates an income tax credit for contributions made to an endowment of a Colorado charitable organization in tax years 2019, 2020, and 2021. This bill will reduce state revenue in FY 2018-19 through FY 2021-22, and will increase state expenditures for the Department of Revenue in FY 2019-20 through FY 2021-22.

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

**Fiscal Note Status:** This fiscal note reflects the introduced bill.

**Table 1**  
**State Fiscal Impacts Under HB 18-1013**

		FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Revenue	General Fund	(\$6 million)	(\$12 million)	(\$12 million)	(\$6 million)
<b>Expenditure</b>	General Fund	-	\$86,723	\$38,381	\$38,381
	Centrally Appropriated	-	\$14,159	\$14,159	\$14,159
	<b>Total</b>	-	<b>\$100,882</b>	<b>\$52,540</b>	<b>\$52,540</b>
<b>Total FTE</b>			<b>0.8 FTE</b>	<b>0.8 FTE</b>	<b>0.8 FTE</b>
<b>Transfers</b>		-	-	-	-

## Summary of Legislation

This bill creates an income tax credit for contributions made to an endowment of a Colorado charitable organization. The credit is equal to 25 percent of the contribution up to a maximum \$5,000 per taxpayer per year. The credit is nonrefundable and any unused credits earned in the tax year that the contribution was made cannot be carried forward into future income tax years.

The credit will be available for tax years 2019, 2020, and 2021. The bill caps the total amount of credits that can be claimed in each tax year to \$12 million. Once the cap has been reached, all subsequent credits are disallowed and cannot be used in future tax years. The credits are awarded on a first come, first served basis. The taxpayer may not claim the credit allowed under this bill if they claim any other state income tax credit for the same charitable contribution.

## 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, while 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 \$6.0 million (half-year impact) in FY 2018-19, \$12.0 million in FY 2019-20, \$12.0 million in FY 2020-21, and \$6.0 million in FY 2021-22 (half-year impact). The fiscal note assumes that the \$12 million cap will be reached in each year the credit is available.

*Data and assumptions.* Montana has a similar individual income tax credit for contributions to charitable endowments. In 2015, Montana taxpayers claimed income tax credits based on contributions of \$6.2 million to charitable endowments. This fiscal note assumes that Colorado taxpayers will contribute 6.53 times the amount contributed by Montana taxpayers based on the relative magnitudes of the two states' personal income earnings in 2016. This amount (\$40.2 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 for Colorado personal income to arrive at revenue impact estimates for tax year and beyond.

## TABOR Refund

The bill decreases state revenue subject to TABOR by \$6 million in FY 2018-19 and \$12 million in FY 2019-20. State revenue is not currently expected to exceed the TABOR limit in either year and no refund is required. Therefore, the bill is not expected to impact TABOR refunds in these years. However, refunds in future years when the state next collects a TABOR surplus will be reduced.

**State Expenditures**

This bill will require \$100,882 and 0.8 FTE in FY 2019-20 and \$52,540 and 0.8 FTE in both FY 2020-21 and FY 2021-22 to administer the income tax credit. The credit is not available after income tax year 2021.

**Table 2  
Expenditures Under HB 18-1013**

	<b>FY 2018-19</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>
<b>Department of Revenue</b>				
Personal Services	-	\$38,381	\$38,381	\$38,381
GenTax Programming	-	\$33,000	-	-
GenTax Testing	-	\$7,667	-	-
Operating Costs	-	\$4,823	-	-
Document Management	-	\$2,852	-	-
Centrally Appropriated Costs*	-	\$14,159	\$14,159	\$14,159
FTE – Personal Services	-	0.8 FTE	0.8 FTE	0.8 FTE
<b>Total Cost</b>	-	<b>\$100,882</b>	<b>\$52,540</b>	<b>\$52,540</b>
<b>Total FTE</b>	-	<b>0.8 FTE</b>	<b>0.8 FTE</b>	<b>0.8FTE</b>

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

**Department of Revenue.** The Department of Revenue's GenTax software system requires changes to implement the bill, which will be programmed by a contractor at a rate of \$250 per hour. The changes are expected to increase expenditures by \$33,000 in FY 2018-19, representing 132 hours of programming. All GenTax programming changes are tested by department staff. Testing for this bill will require expenditures for contract personnel totaling \$7,667.

An estimated 3,800 taxpayers are expected to claim the credit each year it is available. This will increase workload to answer taxpayer inquiries and review and audit returns. In addition, the department will have to review all income tax forms that claim the credit under this bill in order to track and ensure the aggregated amount of awarded credits does not exceed the annual cap.

**Department of Personnel and Administration.** Agency scanning and imaging software will be modified to implement the deduction. This will require \$1,200 for individual income tax form 104CR in FY 2019-20. Review and auditing will also result in document management costs for an estimated 15 percent of filers totaling \$1,834 in FY 2019-20 and \$1,863 in FY 2020-21 and FY 2021-22. These amounts will be reappropriated from the Department of Revenue to the document management line for the Department of Personnel and Administration.

**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. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$14,159 in FY 2018-19 and \$14,159 in FY 2019-20. Leased space is included to

show the incremental impact of the additional FTE, and calculated at DOR's rate of 200 square feet per FTE at a rate of \$27 per square foot. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 2.

## 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.

## State and Local Government Contacts

Information Technology

Revenue