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Fiscal Note

Drafting Number:	LLS 24-0942	Date:	March 28, 2024
Prime Sponsors:	Rep. deGruy Kennedy; Willford Sen. Winter F.; Coleman	Bill Status:	House Finance
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Bill Topic: FAMILY AFFORDABILITY TAX CREDIT

Summary of Fiscal Impact:	<input type="checkbox"/> State Revenue	<input type="checkbox"/> State Transfer	<input type="checkbox"/> Local Government
	<input checked="" type="checkbox"/> State Expenditure	<input checked="" type="checkbox"/> TABOR Refund	<input type="checkbox"/> Statutory Public Entity

The bill creates an income tax credit for Coloradoans with children age 16 and under. It modifies TABOR refund mechanisms and increases expenditure starting in FY 2024-25.

Appropriation Summary: For FY 2024-25, the bill requires an appropriation of \$178,494 to the Department of Revenue.

Fiscal Note Status: The fiscal note reflects the introduced bill.

**Table 1
State Fiscal Impacts Under HB 24-1311**

		Budget Year FY 2024-25	Out Year FY 2025-26
Revenue		-	-
Expenditures	General Fund	\$178,494	\$121,433
	Centrally Appropriated	\$20,610	\$25,612
	Total Expenditures	\$199,104	\$147,045
	Total FTE	1.2 FTE	1.5 FTE
Transfers		-	-
Other Budget Impacts	TABOR Refund – Six-Tier Refund	(\$655 million)	(\$695 million)
	TABOR Refund – Family Affordability Credit	\$655 million	\$695 million
	General Fund Reserve	\$26,774	\$18,215

Summary of Legislation

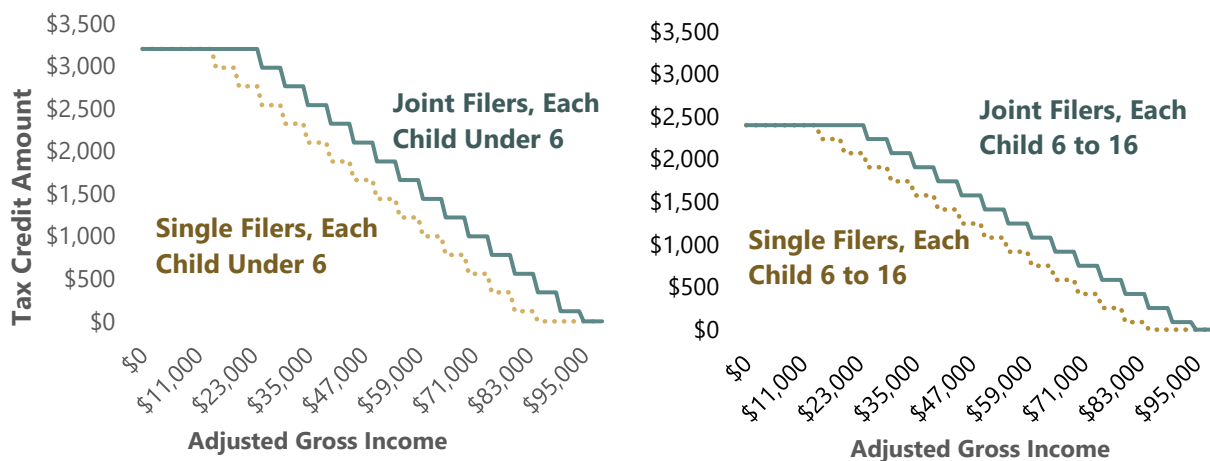
Starting with tax year 2024, the bill creates a family affordability income tax credit for Coloradans with children. The credit is available to single filers with a federal adjusted gross income (AGI) up to \$75,000 or joint filers with AGI up to \$85,000. The credit is refundable, meaning any amount by which the credit exceeds a taxpayer’s tax liability is refunded to the taxpayer.

The amount of the credit is:

- for each child under age 6, \$3,200 for single filers with AGI of \$15,000 or less, reduced by \$220 for every \$5,000 of AGI above \$15,000; and
- for each child ages 6 to 16, \$2,400 for single filers with AGI of \$15,000 or less, reduced by \$165 for every \$5,000 of AGI above \$15,000; or
- for each child under age 6, \$3,200 for joint filers with AGI of \$25,000 or less, reduced by \$220 for every \$5,000 of AGI above \$25,000; and
- for each child ages 6 to 16, \$2,400 for joint filers with AGI or \$25,000 or less, reduced by \$165 for every \$5,000 of AGI above \$25,000.

Figure 1 shows the amount of credit allowed for taxpayers for each eligible child, depending on their AGI and the child’s age. Starting with tax year 2025, AGI amounts are adjusted for inflation and rounded to the nearest one thousand dollars.

Figure 1
HB 24-1311 Tax Credit Amounts by Adjusted Gross Income, Filing Status, and Child’s Age
Tax Year 2024



The bill classifies the family affordability tax credit as a TABOR refund mechanism, starting for the FY 2023-24 TABOR surplus, refunded in tax year 2024, after the homestead property tax refund mechanisms. For any year in which the TABOR surplus is not projected to exceed the amount of the homestead property tax refund mechanisms plus the projected full amount of the family affordability credit, the amount of the credit is reduced proportionately, and is not

allowed if the TABOR surplus is not projected to exceed the homestead property tax refunds. The bill authorizes and encourages the Department of Revenue (DOR) to develop a way to distribute the credits in 12 monthly payments, rather than once annually, but does not require distributions on this schedule.

TABOR Refunds

The bill decreases TABOR refunds that would otherwise be paid via the six-tier sales tax refund mechanism, and refunds these amounts via the family affordability credit in the bill instead. The total amount refunded to taxpayers is not affected. The bill’s impacts on TABOR refunds are presented in Table 2.

Table 2
TABOR Refund Mechanisms Under HB 24-1311

	FY 2023-24 Surplus Refunded FY 2024-25 Tax Year 2024	FY 2024-25 Surplus Refunded FY 2025-26 Tax Year 2025	FY 2025-26 Surplus Refunded FY 2026-27 Tax Year 2026
Six-Tier Mechanism	(\$655 million)	(\$695 million)	(\$740 million)
Family Affordability	\$655 million	\$695 million	\$740 million
Total	\$0	\$0	\$0

Source data. Based on data reported by the Department of Revenue, there were 370,333 tax returns remitted for tax year 2019 that would have qualified for the tax credit based on their adjusted gross income and number of dependents. If all of these returns had claimed the credit in 2019, the total credit amount would have been about \$900 million.

Utilization. The fiscal note adjusts the 2019 amount for the Colorado population of children 16 and under, which has decreased by about 3 percent since 2019. It assumes 75 percent utilization for the credit in tax year 2024, growing to 80 percent in 2025 and 85 percent in 2026. The utilization rate will have a significant effect on the amount refunded under the bill. If 100 percent of eligible taxpayers claim the credit, the credit in the bill would be estimated to refund about \$870 million annually.

The amounts refunded via the six-tier mechanism are set each year in September and anticipate the amounts to be refunded via other mechanisms. If the amount refunded via the family affordability credit is less than estimated each year in September, the state may under-refund the TABOR surplus, causing a refund obligation to be carried forward to later years. If the amount refunded via the family affordability credit is greater than estimated each year in September, the state may over-refund the TABOR surplus, which would reduce the amount refunded in later years.

State Expenditures

The bill increases expenditures for the Department of Revenue by about \$200,000 in FY 2024-25 and by about \$150,000 in FY 2025-26 and later years. Expenditures are summarized in Table 3 and detailed below.

**Table 3
 Expenditures Under HB 24-1311**

	FY 2024-25	FY 2025-26
Department of Revenue		
Personal Services	\$71,100	\$87,268
Operating Expenses	\$1,536	\$1,920
Capital Outlay Costs	\$6,670	-
Software Programming and Testing	\$65,801	-
Data Analysis and Reporting	\$7,392	\$7,328
Form Changes and Document Management	\$25,995	\$24,917
Centrally Appropriated Costs ¹	\$20,610	\$25,612
Total Cost	\$199,104	\$147,045
Total FTE	1.2 FTE	1.5 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

Department of Revenue. The tax credit in the bill increases costs in the DOR as discussed below.

- **Tax personnel.** The bill requires 1.5 FTE tax examiners to review tax credit claims and staff the call center to assist taxpayers with questions. Relative to other tax credits with similar populations, the personnel expenditures in this fiscal note are lower, as eligibility for the credit can be automatically identified using other information on a taxpayer's return, and because most department support for these taxpayers can operate similarly to support provided to taxpayers claiming the state child tax credit. Costs for FY 2024-25 are prorated to reflect an October 2024 start date and standard operating and capital outlay costs are included.
- **Software programming and testing.** This bill requires expenditures of \$65,801 to program, test, and update database fields in DOR's GenTax software system. Programming costs are estimated at \$33,604, representing 145 hours of contract programming at a rate of \$231.75 per hour. Costs for testing at the department include \$22,085 for 631 hours of innovation, strategy, and delivery programming support at a rate of \$35 per hour, and \$10,112 for 316 hours of user acceptance testing at a rate of \$32 per hour.

- **Data analysis and reporting.** Expenditures in the Office of Research and Analysis are required for changes in the 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, representing 231 hours for data management and reporting at \$32 per hour.
- **Form changes and document management.** The bill is estimated to require \$25,995 in FY 2024-25 and \$24,917 in FY 2025-26 to update tax forms and process paper returns, based on the taxpayer population estimated in the fiscal note. These costs occur in the Department of Personnel and Administration and are paid using reappropriated DOR funds.

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 shown in Table 3.

Other Budget Impacts

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing the amount of General Fund available for other purposes.

Technical Note

The Office of the State Auditor (OSA) is required to conduct recurring evaluations of each state tax expenditure according to metrics established when the tax expenditure is created or extended. The bill includes metrics to evaluate the performance of the tax expenditure; however, data may not be available in the future to evaluate the performance of this expenditure using these metrics. If data are unavailable, the OSA will evaluate the performance of the tax expenditure based on data available at the time.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2024-25, the bill requires a General Fund appropriation of \$178,494 to the Department of Revenue, and 1.2 FTE. Of this amount, \$25,995 is reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Personnel

Revenue

State Auditor

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).