COLORADO WORKS PROGRAM EMPLOYER CREDIT

EVALUATION SUMMARY | JANUARY 2022 | 2022-TE4

TAX TYPE	Income	REVENUE (TAX YEAR 2018)	$35,374
YEAR ENACTED	1997	NUMBER OF TAXPAYERS	32
REPEAL/EXPIRATION DATE	None		

KEY CONCLUSION: Only a small number of taxpayers have used the credit, and it does not appear to have encouraged employers to provide many benefits, if any, to Colorado Works Program recipients, with none of the taxpayers who claimed the credit submitting the required documentation showing that their employees qualified. Additionally, we found that the credit's eligibility requirements limit its effectiveness since many employees likely exceed the applicable income limits once they begin receiving wages.

WHAT DOES THE TAX EXPENDITURE DO?

The Colorado Works Program (Program) Employer Credit allows employers to claim a credit against their income taxes equal to 20 percent of their annual expenditures for certain benefits provided to employees who are currently receiving public assistance under the Program. The following benefits are eligible:

- Child care services
- Health or dental insurance
- Job training or basic education
- Programs for employee transportation to and from work

WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

Neither statute nor the enacting legislation explicitly states the purpose of the credit; therefore, we could not definitively determine the General Assembly's original intent. Based on our review of statutory language and legislative history, we considered a potential purpose: to encourage employers to provide employment benefits that align with the goals of the Program by partially offsetting the benefits' cost.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

The General Assembly may want to consider:

- Amending statute to establish a statutory purpose and performance measures for the credit.
- Reviewing the credit's effectiveness and either repealing it or making changes to its eligibility requirements.

COLORADO WORKS PROGRAM EMPLOYER CREDIT

EVALUATION RESULTS

WHAT IS THE TAX EXPENDITURE?

The Colorado Works Program provides low-income Colorado families with cash assistance and work support. It is provided in accordance with the federal Temporary Assistance for Needy Families (TANF) block grant program, which gives grants to states for the purpose of operating programs designed to help low-income families with children achieve economic self-sufficiency. A given family's continued eligibility for Colorado Works is dependent on the parent(s) or other caregiver(s) engaging in certain specified "work activities," such as employment, on-the-job training, job searches, or vocational educational training.

The Colorado Works Program Employer Credit (Colorado Works Credit) [Section 39-22-521(1), C.R.S.] allows employers to claim a credit against their income taxes equal to 20 percent of their annual expenditures for certain benefits they provide to employees who are currently receiving public assistance under the Colorado Works program. These expenditures must be made for the provision of any of the following benefits to these employees, provided that the benefits are incidental to the employer's business:

- Child care services or the payment of costs associated with child care services for children of employees
- Health or dental insurance for employees
- Job training or basic education of employees
- Programs for the transportation of employees to and from work

The Department of Revenue (Department) has not promulgated any regulations for this credit. However, according to the Department's taxpayer guidance (FYI Income 34), expenses for these benefits must be made specifically for eligible employee(s) in order to qualify. For example, tuition for a job training program for an eligible employee would qualify for the credit, but the cost of running a job training program for both eligible and ineligible employees would not qualify, even if the cost were prorated based on the percentage of all employees who were eligible. Additionally, FYI Income 34 states that the credit may only be claimed for expenditures made during the first 2 tax years of employment for any given eligible employee. According to statute [Section 39-22-521(3), C.R.S.], the credit is not refundable, but any unused credit amounts may be carried forward for up to 3 income tax years following the year in which the credit was initially claimed.

In order to claim the Colorado Works Credit, employers must submit, along with their income tax return, a letter from the county department of social or human services verifying that the employee(s) for whom expenditures are being claimed received public assistance from the Colorado Works Program. Taxpayers generally claim the Colorado Works Credit on the credit schedule for their respective income tax returns:

- Individuals claim the credit on Line 24 of the 2020 Individual Credit Schedule (Form DR 0104CR), which must be attached to the 2020 Colorado Individual Income Tax Return (Form DR 0104).

- Corporations claim the credit on Line 14 of the 2020 Credit Schedule for Corporations (Form DR 0112CR), which must be attached to the 2020 Colorado C Corporation Income Tax Return (Form DR 0112).

- Pass-through entities, such as S corporations and partnerships, report the credit on Line 11 of the 2020 Colorado Pass-Through Entity Credit Schedule (Form DR 0106CR), which must be attached to the 2020 Colorado Partnership and S Corporation and Composite Nonresident Income Tax Return (Form DR 0106). Separate co-owners of pass-through entities may claim their separate shares of the credit on their respective credit schedules, or, if the individual co-owners are nonresidents, the pass-through entity may claim the credit on the co-owners' behalf on Form DR 0106CR.

Senate Bill 97-120 enacted both the Colorado Works program and the Colorado Works Credit in 1997, and the credit has not been changed since then.

WHO ARE THE INTENDED BENEFICIARIES OF THE TAX EXPENDITURE?

Neither statute nor the enacting legislation explicitly states the intended beneficiaries of the Colorado Works Credit. Based on our review of the credit's statutory language, we considered its intended beneficiaries to be Colorado employers that hire employees who receive public assistance through the Colorado Works Program. Employees may also benefit to the extent that the credit encourages employers to provide additional benefits. According to data on TANF programs from the U.S. Office of Family Assistance (OFA), 15,123 Colorado families received assistance through Colorado Works in Fiscal Year 2018, and an average of 2,546 individuals in these families were employed per month.

WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

Neither statute nor the enacting legislation explicitly states the purpose of the Colorado Works Credit; therefore, we could not definitively determine the General Assembly's original intent. Based on our review of the credit's operation and legislative history, we considered a potential purpose: to encourage employers to provide employment benefits that align with the goals of the Colorado Works Program by partially offsetting the benefits' cost. Specifically, the credit was enacted in 1997 along with the Colorado Works Program itself. This suggests that the credit was intended to work in tandem with the program's goals, one of which is to "assist participants to terminate their dependence on government benefits by promoting job preparation [and] work" [Section 26-2-705(2)(a), C.R.S.]. Of the benefits that are eligible for the credit, two (child care services and transportation) may reduce employment barriers for individuals; two (health and dental insurance) may reduce the extent to which individuals must rely on government benefits; and two (job training and basic education) may increase individuals' employability.

IS THE TAX EXPENDITURE MEETING ITS PURPOSE AND WHAT PERFORMANCE MEASURES WERE USED TO MAKE THIS DETERMINATION?

We could not definitively determine whether the Colorado Works Credit is meeting its purpose because no purpose is provided for it in statute or its enacting legislation. However, we found that the credit is likely not meeting the purpose that we identified in order to conduct this evaluation because it appears to be used by few employers, and Colorado Works Program recipients have likely received a relatively small amount of benefits from employers who claimed the credit. Additionally, we could not confirm that any of the taxpayers who claimed the credit provided qualifying benefits to employees because none of the taxpayers submitted the documentation required to support their claim of the credit, and several submitted other documentation indicating that they were not qualified for the credit or had intended to claim a different credit.

Statute does not provide quantifiable performance measures for this credit. Therefore, we created and applied the following performance measure to determine the extent to which the credit is meeting its purpose:

PERFORMANCE MEASURE: *To what extent has the Colorado Works Credit caused employers to provide eligible benefits to individuals receiving assistance from the Colorado Works Program?*

RESULT: Based on its limited use, we found that Colorado Works Program recipients have likely received few qualifying benefits from employers as a result of the Colorado Works Credit. We could not confirm whether any employers provided qualifying benefits in order to claim the credit, and our review of information in GenTax, the Department's tax processing and information system, indicates that few employers have claimed the credit. Specifically, we found that 32 taxpayers claimed the Colorado Works Credit in Tax Year 2018; however, six of these taxpayers submitted documentation showing they were not qualified to claim the credit, generally claiming it for assistance payments that they had personally received through the Colorado Works Program or claiming a different credit on the Colorado Works Credit line of the income tax return. None of the remaining 26 taxpayers had submitted either the required letter verifying that their employees had received public assistance from Colorado Works or any other documentation supporting their claim. Therefore, we could not verify whether any of these taxpayers qualified for the credit, and it is possible that some or all of them could have claimed it without providing any qualifying benefits to employees. EXHIBIT 1 provides the results of our analysis of GenTax data for the 32 taxpayers who claimed the credit.

EXHIBIT 1. SUMMARY OF IMPROPER COLORADO WORKS CREDIT CLAIMS, TAX YEAR 2018

Credit claimed correctly	0
Unable to verify whether claim is valid due to lack of supporting documentation	26
Ineligible for credit	6
Total credit claims	32

SOURCE: Office of the State Auditor analysis of Department of Revenue GenTax data.

Even if some or all of the 26 taxpayers claimed the credit for eligible employee benefits, we determined that few Colorado Works Program recipients would have received benefits from employers who claimed the credit. Specifically, according to data from the Colorado Department of Human Services, 8,331 individuals receiving assistance through Colorado Works in Calendar Year 2018 were employed for some part of the year. Although the Colorado Works Program does not collect data on the number of employers that have hired Colorado Works recipients, since at most only 26 taxpayers claimed the credit for eligible expenses in Tax Year 2018, it appears that only a small proportion of Colorado Works Program recipients may have worked for an employer that provided benefits and claimed the credit. For example, if each of these 26 taxpayers hired about 11.2 employees—the average number of employees at Colorado businesses in Calendar Year 2018 according to data from the U.S. Bureau of Labor Statistics—and all of those employees were Colorado Works Program recipients and received eligible benefits from the employers, only about 291 employees, or about 3 percent of employed Colorado Works Program recipients, would have received a benefit from an employer who claimed the credit. This hypothetical may overestimate the potential number of employees receiving benefits though, since employer businesses organized as pass-through entities, such as S corporations and partnerships, can distribute the credit to multiple owners who then claim the credit on their individual tax returns, meaning that the 26 taxpayers likely represent fewer than 26 employers. It is also unlikely that an employer would hire only Colorado Works Program recipients.

Regardless of how many of the 26 taxpayers claimed the credit for eligible expenses, the overall value of benefits that they provided to Colorado Works Program recipients is relatively small. These taxpayers claimed a total of $25,758 in credits, and since the credit is calculated as 20 percent of eligible expenses, the total amount of credits claimed by these taxpayers represents at most $129,000 in potentially eligible benefits for employees' child care services, health insurance, dental insurance, job training, education, and/or transportation to and from work. Although we lacked data to determine the number of employees to which these benefits may have been allocated or how much of each benefit would have been provided, this amount is equivalent to about $15 in benefits per employed Colorado Works recipient in Calendar Year 2018. Using the example above, if 291 Colorado Works recipients received eligible benefit(s), the average value of benefits provided to these employees would be about $443 per employee. Furthermore, because some employers who claimed the credit may have provided the same benefits even if the credit was not available, the amount of benefits that the credit may have incentivized is likely less than the $129,000 in benefits that may have been associated with the credit in Tax Year 2018.

We also found that the credit's eligibility requirements likely limit its effectiveness and could contribute to its limited use by employers. Specifically, expenses incurred for providing allowable benefits to eligible employees only qualify for the credit while the employees continue to receive assistance through the Colorado Works Program, and we determined that many individuals receiving assistance are unlikely to remain eligible for the program after they become employed. Households receiving Colorado Works Program assistance must demonstrate that their monthly gross income is below certain thresholds, which are established in the Code of Colorado Regulations [9 CCR 2503-6, Regulation 3.606.2] and vary depending on the number of caregivers and children in the household. For example, a household with one adult and one child must have no more than $1,003 in gross income per month in order to qualify for assistance, and a household with one adult and three children must have no more than $1,545 in gross income per month.

We used these income thresholds and OFA data on the percentage of benefitting families with different numbers of caretakers and children in Fiscal Year 2018 to estimate the percentage of benefitting families that would exceed the maximum income threshold under various employment circumstances. As demonstrated in Exhibit 2, we estimated that a significant percentage of families receiving Colorado Works assistance would earn monthly incomes that exceed the maximum income thresholds even if these families were paid a low hourly wage and only work part time. For example, if an individual worked for 20 hours a week at Colorado's minimum wage ($12.32 as of January 1, 2021), they would earn $1,068 in gross income per month. With this amount of monthly income, we estimated that 29 percent of Colorado Works benefitting families would be ineligible to receive assistance because their monthly income would exceed the maximum amount to qualify for assistance. For purposes of these and other calculations for

EXHIBIT 2, we assumed that families with no adults and families with at least four children would meet all income qualifications.

EXHIBIT 2. ESTIMATED PERCENTAGE OF FAMILIES INELIGIBLE FOR COLORADO WORKS ASSISTANCE DUE TO EXCESS INCOME (BASED ON COLORADO WORKS RECIPIENT FAMILY COMPOSITIONS IN FISCAL YEAR 2018)
(Monthly Gross Income[1] // Estimated Percentage of Ineligible Families[2])

Number of Hours Worked Per Week	$12.32 Per Hour (Minimum Wage)	$15 Per Hour
20	$1,068 // 29%	$1,300 // 49%
25	$1,335 // 49%	$1,625 // 60%
30	$1,602 // 60%	$1,950 // 61%

SOURCE: Office of the State Auditor analysis of 9 CCR 2503-6, Regulation 3.606.2, and U.S. Office of Family Assistance data.

[1]We calculated monthly gross income based on a 52-week work year because Colorado Works recipients must work a certain minimum number of hours *every* week on average in order to qualify. Additionally, our analysis assumes that all countable income for purposes of determining Colorado Works eligibility comes from earned wages received through employment.

[2]For purposes of estimating the percentages of Colorado Works benefitting families that would be ineligible, our analysis assumes that the only employed family members are adults. Therefore, all families with no adults meet the maximum gross income threshold requirement because they have no income. Additionally, we were unable to account for the portion of families with at least four children that may be ineligible at the given income levels because income thresholds increase with each additional child, and the available data on family compositions aggregates these families into a single category. Therefore, our analysis assumes that all families with at least four children meet the maximum income threshold requirement.

Additionally, to the extent that families meet the income requirement but do not participate in a sufficient number of hours of work activities, the percentage of ineligible families in EXHIBIT 2 would increase. Specifically, in addition to income limitations, families receiving assistance through Colorado Works must also engage in some combination of allowable "work activities" for at least 30 hours of work activities per week on average to continue to be eligible for assistance, or 20 hours per week for single parents with children below the age of 6.

Based on this analysis, we determined that employers are unlikely to be able to claim the credit for most employees for more than a brief period after their initial hire because most employees' families are likely to lose

Colorado Works Program eligibility due to either exceeding the maximum income thresholds allowed or not meeting the minimum required hours of work activity participation. Families that lose eligibility would no longer receive assistance through the Colorado Works Program, and employers would no longer be able to claim the credit for eligible expenditures that they had incurred for these employees once the employees no longer receive assistance. As discussed below, we found that other states with similar credits allow employers to claim the credit as long as employees were receiving benefits under the TANF program at the time of hire, even if the employees later lose eligibility.

Another factor that may limit the use of the credit is that eligible expenses are limited to those incurred for providing child care, health, dental, transportation, and training benefits. These benefits may be less likely to be provided for the lower paying or part-time positions that would allow the employees to continue to qualify for the Colorado Works Program than for higher paying positions. Furthermore, other significant employment costs, such as wages, unemployment insurance, and workers' compensation insurance, are not eligible for the credit. As discussed below, we found that most other states with similar credits tie the credit amount to more common expenses, such as wages. These factors likely lessen the credit's usefulness and appeal to employers and detract from its ability to influence employers' decisions regarding whether to provide Colorado Works recipients with eligible benefits.

WHAT ARE THE ECONOMIC COSTS AND BENEFITS OF THE TAX EXPENDITURE?

According to data provided by the Department, the Colorado Works Credit resulted in a total of $35,374 in forgone revenue to the State in Tax Year 2018. As discussed, six taxpayers claimed the credit incorrectly, which accounted for $9,616 (27 percent) of this revenue. The 26 taxpayers who did not provide documentation to support their eligibility for the credit claimed the remaining $25,758. Since the credit is calculated as 20 percent of eligible expenses, the amount claimed by these taxpayers is associated with a maximum of $129,000 in possibly eligible expenses for employees' child care services, health insurance, dental insurance, job training, education, and/or transportation to and from work. Although the credits were claimed in Tax Year 2018, some of these expenses may have been incurred in prior tax years, since any unused credit amounts may be carried forward for up to 3 tax years.

WHAT IMPACT WOULD ELIMINATING THE TAX EXPENDITURE HAVE ON BENEFICIARIES?

If the Colorado Works Credit is eliminated, Colorado employers that incur expenses for providing qualifying benefits to employees who receive assistance through Colorado Works would no longer be able to claim a credit for these expenses against their state income tax liability. In Tax Year 2018, the 26 taxpayers who may have incurred eligible expenses claimed an average credit amount of $991. Most (73 percent) of these taxpayers received a credit amount between $100 and $2,000, but a few taxpayers received credits below or above this range.

To the extent that the credit may have incentivized employers to provide eligible benefits, eliminating it could also reduce the benefits employees receive, which could make it more difficult for employees to work and earn enough income to reduce their reliance on government benefits. For example, without child care or transportation benefits, which are eligible for the credit, some individuals may not be able to leave their children to go to work or may be unable to get to their place of work. However, as discussed, it is unclear whether any taxpayers who claimed the credit in Tax Year 2018 provided eligible benefits to employees, and based on the value of credits claimed, the potential total benefits associated with the credit appear to be relatively small.

Additionally, under the Internal Revenue Code [26 USC 162(a)], businesses may deduct all ordinary and necessary business expenses, which generally include training expenses and expenses for employee benefits like dependent care services and health insurance, when calculating federal taxable income. The only expenses eligible for the credit that are not generally deductible for federal income tax purposes are transportation expenses, a change in the U. S. Code that resulted from the 2017 Tax Cuts and Jobs Act. Therefore, taxpayers would continue to be able to deduct most types of expenses that are currently eligible for the Colorado Works Credit from their taxable income, and these amounts would not be subject to either federal or Colorado income taxes.

ARE THERE SIMILAR TAX EXPENDITURES IN OTHER STATES?

We found that five other states offer a credit for employers that hire individuals receiving assistance through a TANF program. Four of the five states calculate their credits based on the amount of wages paid to the individual receiving public assistance. However, like the Colorado Works Credit, Nebraska limits the credit to certain benefits and is equal to 20 percent of the employer's expenditures for transportation and education.

In contrast with the Colorado Works Credit, four of the five other states do not require that the employee continue to receive assistance through a TANF program while employed in order for the employer to receive the credit. Instead, most of these states require that the employee have received assistance through the TANF program for a specified period of time prior to their hire date or simply be receiving program assistance on the date of hire. Notably, though, the use of the credit in these states also appears to be relatively low, with $114,000 being the largest amount of credits claimed annually among the states for which data were available.

ARE THERE OTHER TAX EXPENDITURES OR PROGRAMS WITH A SIMILAR PURPOSE AVAILABLE IN THE STATE?

We did not identify any other state tax expenditures or programs in Colorado that lessen employers' expenses related to employing individuals who receive public assistance. However, we identified the following federal income tax credit that does so:

FEDERAL WORK OPPORTUNITY TAX CREDIT [26 USC 51]. The federal Work Opportunity Tax Credit (WOTC) allows employers to claim an income tax credit for wages paid to individuals from certain targeted groups. Some of these targeted groups are the beneficiaries of various public assistance programs, including TANF programs, the Supplemental Nutrition Assistance Program (SNAP), recipients of Supplemental Security Income (SSI), and long-term recipients of unemployment compensation. The credit is equal to 25 percent of the first-year wages paid to employees who have worked for the employer for at least 120 hours but fewer than 400 hours, and it is equal to 40 percent of the first-year wages paid to employees who have worked for the employer for at least 400 hours, up to a total of $6,000 in wages per employee. Additionally, for employees who have received assistance through a TANF program for at least 18 consecutive months prior to being hired or who recently exceeded the maximum amount of time such assistance can be received, the credit is equal to 50 percent of second-year wages up to a total of $10,000 in wages per employee. Employers that claim the Colorado Works Credit may also be able to claim the federal WOTC for employees who meet the requirements for both credits. The federal WOTC is available through December 31, 2025.

WHAT DATA CONSTRAINTS IMPACTED OUR ABILITY TO EVALUATE THE TAX EXPENDITURE?

We did not identify any data constraints during our evaluation of the credit.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

THE GENERAL ASSEMBLY MAY WANT TO CONSIDER AMENDING STATUTE TO ESTABLISH A STATUTORY PURPOSE AND PERFORMANCE MEASURES FOR THE COLORADO WORKS CREDIT. As discussed, neither statute nor the enacting legislation for the credit states the credit's purpose or provides performance measures for evaluating its effectiveness. Therefore, for the purposes of our evaluation, we considered a potential purpose for the credit: to encourage employers to provide employment benefits that align with the goals of the Colorado Works Program by partially offsetting the benefits' cost. We identified this purpose based on our review of the following sources:

- THE CREDIT'S OPERATION. Due to its structure, the credit confers a financial benefit only on those employers that (1) hire individuals who are receiving public assistance through Colorado Works and (2) provide certain specified benefits to these individuals.

- LEGISLATIVE HISTORY. The credit was enacted in 1997 along with the Colorado Works Program itself. This suggests that the credit was intended to work in tandem with the program's goals, one of which is to "assist participants to terminate their dependence on government benefits by promoting job preparation [and] work" [Section 26-2-705(2)(a), C.R.S.]. Of the benefits that are eligible for the credit, two (child care services and transportation) may reduce employment barriers for individuals; two (health and dental insurance) may reduce the extent to which individuals must rely on government benefits; and two (job training and basic education) may increase individuals' employability.

We also developed a performance measure to assess the extent to which the credit is meeting this potential purpose. However, the General Assembly may want to clarify its intent for the credit by providing a purpose statement and corresponding performance measure(s) in statute. This would eliminate potential uncertainty regarding the credit's purpose and allow our office to more definitively assess the extent to which the credit is accomplishing its intended goal(s).

THE GENERAL ASSEMBLY MAY WANT TO REVIEW THE EFFECTIVENESS OF THE COLORADO WORKS CREDIT AND CONSIDER MAKING CHANGES TO STATUTE. As discussed, the credit is not likely meeting the potential purpose that we identified in order to conduct this evaluation because it appears to be used by a small number of taxpayers, none of whom submitted the required documentation or demonstrated that they provided eligible benefits to Colorado Works Program recipients. Specifically, 32 taxpayers claimed the credit in Tax Year 2018. Six of these taxpayers submitted documentation showing that they had claimed the credit improperly and had not provided eligible employee benefits, and none of the remaining 26 taxpayers submitted any documentation showing that they qualified. Given that none of the taxpayers who submitted documentation qualified for the credit, it appears likely that a substantial portion of the 26 taxpayers that did not provide documentation also did not qualify, and it is unclear whether any of them provided the employee benefits that the credit is intended to encourage. Therefore, it appears that only a few, or potentially no, employers provided qualifying benefits to employees in order to claim the credit.

Additionally, even assuming that the 26 taxpayers for whom we could not verify eligibility had properly claimed the credit and provided qualifying benefits to employees, these benefits appear to be relatively small. Based on the value of the credits claimed in Tax Year 2018, we estimated that at most, employers provided about $129,000 in benefits, which amounts to about $15 per employee when averaged among the 8,331 Colorado Works Program recipients who were employed during the year. Based on this limited use, it appears that overall, the credit is not acting as a significant incentive to encourage employers to provide employee benefits, and awareness of the credit may be low among employers that could potentially benefit from it. Therefore, the General Assembly may want to review the credit, and could consider repealing it if it is not meeting the General Assembly's policy goals.

Alternatively, the General Assembly could consider changes to the credit's eligibility requirements to address its low usage. Specifically, we identified the following issues that could limit the credit's ability to encourage employers to employ Colorado Works Program recipients and provide them with benefits:

- MOST EMPLOYEES ONLY QUALIFY UNDER THE CREDIT FOR A SHORT TIME AFTER BEING HIRED. As discussed, the credit is only available for eligible expenses incurred while the employee is still actively receiving public assistance through the Colorado Works Program. We determined that most individuals are likely to lose program eligibility soon after obtaining employment due to either exceeding the maximum monthly income thresholds allowed or not meeting the minimum required hours of work activity participation. As a result, the credit may be less useful to employers because they are likely to only be able to claim the credit for a few months' worth of eligible expenses for any given employee. Of the five other states that we identified with a similar credit for employers of TANF program recipients, four states do not require that the employee continue to receive assistance through the TANF program while employed in order for the employer to receive the credit. Instead, most of these states require that the employee have received assistance through the program for a specified period of time prior to their hire date or simply be receiving program assistance on the date of hire.

- THE TYPES OF BENEFITS ELIGIBLE FOR THE CREDIT MAY NOT BE COMMONLY PROVIDED BY EMPLOYERS. As discussed, the credit is only available to employers that provide certain benefits to employees, which include child care, health and dental insurance, transportation, and job training. Employers may be less likely to provide these types of benefits to employees in the low-wage and part-time positions that are more likely to allow employees to continue to receive Colorado Works Program benefits and maintain eligibility for the credit. Further, the benefits must be provided specifically for the employees who are Colorado Works Program recipients. For example, if an employer provides a job training program for all of its employees and some of them are not receiving benefits from the Colorado Works Program, then none of the employer's expenses for this program would qualify for the credit. We found that these requirements make Colorado's credit more narrowly targeted than similar credits in other states because four out of five of these states allow employers to qualify based on the wages they pay to qualifying employees, which would generally make all employers who hire qualifying employees eligible for a credit.

However, given that we found that a substantial portion of taxpayers who claimed the credit in Tax Year 2018 likely did not qualify for the credit, there is a risk that without additional oversight or controls over eligibility, a continuation or expansion of the credit could result in more taxpayers claiming it improperly. According to Department staff, the Department manually reviews some credit claims and disallows the credit if the taxpayer does not submit supporting documentation. However, the Department does not have the resources to manually review all claims of the credit.

Finally, to the extent that statutory changes increase the number of employers claiming the credit, they could significantly increase the credit's revenue impact. For example, if employers could claim the credit for wages they paid to qualifying employees for the first 6 months of employment, based on the 8,331 Colorado Works recipients who were employed during Calendar Year 2018, the revenue impact could increase to around $16 million annually, assuming employees were employed for 30 hours per week and paid minimum wage.