



**Colorado
Legislative
Council
Staff**

SB17-287

**FINAL
FISCAL NOTE**

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

Drafting Number: LLS 17-1103
Prime Sponsor(s): Sen. Priola
Rep. Garnett

Date: July 19, 2017
Bill Status: Deemed Lost
Fiscal Analyst: Kate Watkins (303-866-3446)

BILL TOPIC: INCOME TAX CREDIT FOR DONATION TO ENDOWMENT FUND

Fiscal Impact Summary	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022
State Revenue General Fund	<u>(\$5.7 million)</u> (5.7 million)	<u>(\$12.1 million)</u> (12.1 million)	<u>(\$12.6 million)</u> (12.6 million)	<u>(\$6.5 million)</u> (6.5 million)
State Expenditures General Fund		<u>\$8,997</u> 8,997	<u>\$1,863</u> 1,863	<u>\$1,863</u> 1,863
Appropriation Required: None.				
Future Year Impacts: Decreasing revenue reduction and expenditure impacts through FY 2026-27.				

NOTE: This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

Summary of Legislation

This bill creates an income tax credit for contributions made to an endowment of a Colorado charitable organization. Eligible endowment funds do not include donor advised funds or funds for private foundations, which are typically funded by a single primary donor instead of the general public. The credit is equal to 25 percent of the contribution up to a maximum of \$25,000 per taxpayer per year. The credit is non-refundable, but can be carried forward for five years, and is available in tax years 2019, 2020, and 2021.

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 \$5.7 million (half-year impact) in FY 2018-19, \$12.1 million in FY 2019-20, \$12.6 million in FY 2020-21, and \$6.5 million in FY 2021-22 (half-year impact). Revenue reductions may occur through FY 2026-27 to the extent that taxpayers carry forward tax credits remaining after their income tax liabilities into future years.

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 of Colorado personal income to arrive at revenue impact estimates for FY 2018-19 and beyond. The credit cap of \$25,000 per year is not expected to impose a significant limitation on taxpayers; tax credits per taxpayer are expected to average \$3,100 per year.

State Expenditures

This bill will increase General Fund expenditures for the Department of Revenue by \$8,997 in FY 2019-20 and \$1,863 in FY 2020-21 and FY 2021-22 to administer the tax credit. These costs include programming, testing, form change, and document management costs, as shown in Table 1 and described below.

Table 1. Expenditures Under SB17-287			
Cost Components	FY 2019-20	FY 2020-21	FY 2021-22
Programming, Testing, and Form Change Costs	\$7,163		
Document Management and Postage Costs	1,834	1,863	1,863
TOTAL	\$8,997	\$1,863	\$1,863

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 \$2,125, representing 8.5 hours of programming. All GenTax programming changes are tested by department staff. Testing for this bill will require expenditures for contract personnel totaling \$3,838, representing 160 hours of testing at a rate of \$24 per hour. An estimated 3,800 taxpayers are expected to claim the Colorado credit under this bill each year. This will increase workload to answer taxpayer inquiries and review and audit returns, which can be accomplished within existing appropriations.

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.

Effective Date

The bill was deemed lost in the House on May 10, 2017.

State and Local Government Contacts

Information Technology

Personnel

Revenue