HB 18-1217

Legislative Council Staff

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FISCAL NOTE

Drafting Number:	LLS 18-0600	**Date:**	March 2, 2018
Prime Sponsors:	Rep. Van Winkle; Garnett Sen. Gardner	**Bill Status:**	House Education
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Bill Topic: INCOME TAX CREDIT FOR EMPLOYER 529 CONTRIBUTIONS

Summary of Fiscal Impact:

- ☒ State Revenue
- ☒ State Expenditure
- ☐ State Transfer
- ☐ TABOR Refund
- ☐ Local Government
- ☐ Statutory Public Entity

This bill creates a new state income tax credit for employers who contribute to an employee's 529 qualifying savings plan administered by CollegeInvest. The credit is available for tax years 2019 through 2021. This bill will reduce state revenue from FY 2018-19 to FY 2021-22, and will require one-time state expenditures in FY 2019-20.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: This bill reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 18-1217

		FY 2018-19	FY 2019-20
Revenue	General Fund	($25,000)	($51,250)
Expenditures	General Fund	-	$25,000
Transfers	-	-	-

Summary of Legislation

This bill creates a new state income tax credit for employers who contribute to an employee's 529 qualified state tuition program administered by CollegeInvest. The amount of the credit is equal to 20 percent of the contribution, up to $500, for each employee per year. The credit is available for tax years 2019 through 2021. The credit is neither transferable nor refundable, but may be carried forward on the employer's return for up to three years.

The bill defines an employer as any person doing business in the state, and an employee as any person in the employment of an employer, whether full-time, part-time, temporary, or permanent.

This income tax credit is repealed on December 31, 2024

Background

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

Contributions to CollegeInvest savings plans may be deducted from taxable income on state individual income tax returns, regardless of the beneficiary or origin of these contributions. Contributions are typically made by relatives, such as parents or grandparents of the beneficiary of the savings plan.

State Revenue

This bill will reduce General Fund revenue by $25,000 (half-year impact) in FY 2018-19; $51,250 in FY 2019-20; $53,813 in FY 2020-21, and $27,563 in FY 2021-22 (half-year impact).

Assumptions. These assumptions are based on the experiences of two states with similar tax credits: Illinois and Nevada: Employers in both states are allowed to claim a 25 percent tax credit of up to $500 per employee. Since 2009, seven companies in Illinois have contributed to 77 employer's college saving plans. The amount of annual contributions ranged from $2,000 to $6,000 per employee. The Nevada income tax credit became effective beginning in 2015. As of December 31, 2017, no employer has utilized the credit.

The fiscal note assumes that beginning in 2019 there will 10 employers contributing to 100 employee's qualified college savings plans. Employers will contribute the full amount ($2,500 per year) in order to receive the maximum credit of $500 per employee. The number of employers and employees receiving contributions are expected to grow over time as more taxpayers become aware of the income tax credit.

Unlike 401(k) retirement saving plans, employer contributions to an employee's 529 savings plan are counted as taxable income for the employee on federal and state returns. The increase in taxable income may increase taxes by employees, slightly offsetting the revenue impact of the tax credits.

TABOR Refund

The bill decreases state revenue subject to TABOR by $25,000 in FY 2018-19 and $51,250 in FY 2019-20. State revenue is not currently expected to exceed the TABOR limit in either year and no refund is required. However, refunds in future years when the state next collects a TABOR surplus will be reduced.

State Expenditures

This bill will require a one-time General Fund expenditures of $25,000 for the Department of Revenue in FY 2019-20.

Department of Revenue. The bill will require one-time tax programming costs to make changes to the Colorado Integrated Tax Architecture (CITA) system's and optical recognition software. The cost is estimated at 100 hours, paid at a rate of $250 per hour for a total of $25,000

CollegeInvest. This bill may result in a workload increase to CollegeInvest that can be accommodated within existing resources within the Employer Plan Program.

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

Higher Education Information Technology Personnel Revenue