SB 19-140

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

FISCAL NOTE

Drafting Number:	LLS 19-0382	**Date:**	February 22, 2019
Prime Sponsors:	Sen. Tate	**Bill Status:**	Senate Finance
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Bill Topic: INCOME GAIN ON TRANSACTIONS USING VIRTUAL CURRENCY

Summary of Fiscal Impact:

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

This bill creates a state income tax deduction of up to $600 per exchange of virtual currency. The bill increases state expenditures and reduces state revenue on an ongoing basis.

Appropriation Summary: No appropriation is required.

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

Table 1
State Fiscal Impacts Under SB 19-140

		FY 2019-20	FY 2020-21	FY 2021-22
Revenue	General Fund	($1,041,750)	($2,083,500)	($2,083,500)
	Total	**($1,041,750)**	**($2,083,500)**	**($2,083,500)**
Expenditures	General Fund	-	$452,895	$221,213
	Centrally Appropriated	-	$61,040	$74,296
	Total	**-**	**$513,935**	**$295,509**
	Total FTE	**-**	**3.3 FTE**	**4.0 FTE**
Transfers		-	-	-
TABOR Refund	General Fund	($1,041,750)	-	not estimated

Summary of Legislation

For tax years beginning January 1, 2020, the bill provides a state income tax deduction of up to $600 per exchange of virtual currency to the degree a gain is included in federal taxable income by an individual or a corporation. All exchanges or trades that are part of the same or a related transaction are defined as one sale or exchange.

Background

Virtual currencies are an unregulated type of digital money that people can purchase or trade online. These transactions are recorded on a blockchain or digital ledger without any intermediary or custodian managing the process. The value of a virtual currency is not tied to any fiat currency, such as the U.S. dollar, but can be used to purchase goods, services, other types of virtual currencies, or fiat money.

Assumptions

The fiscal note assumes that about 5 percent of Americans own virtual currency, which translates to about 150,000 Colorado taxpayers. It is further assumed that half of those will report gains from virtual currency exchanges in federal taxable income each year, or about 75,000. These assumptions are subject to a high degree of uncertainty, however, because there is no publicly available information about the ownership or transactions history of virtual currencies by specific individuals.

State Revenue

The bill is expected to reduce state General Fund revenue by up to $1.0 million in FY 2019-20 (half-year impact) and $2.1 million in subsequent years. This estimate is based on 75,000 taxpayers claiming a $600 deduction from a single transaction or multiple smaller transactions totaling $600 each year. To the degree taxpayers have more taxable transactions or the bill incentivizes additional taxpayers to include gains from virtual currencies in federal taxable income, the state revenue loss could be larger.

State Expenditures

The bill increases expenditures in the Department of Revenue (DOR) by $513,935 and 3.3 FTE in FY 2020-21 and $295,509 and 4.0 FTE in FY 2021-22. Workload increases are required to review income tax deductions that individuals or corporations claim for capital gains related to virtual currency transactions. To be able to claim the deduction, an individual or corporation must include the gain in federal taxable income. In FY 2020-21, the department needs 3.3 FTE for tax examiners, starting January 1, 2021, which increases to 4.0 FTE in FY 2021-22. This workload increase is related to call center volume. In addition, the GenTax system will need to be reprogrammed to add individual auditing functions at an estimated cost of $273,630 in FY 2020-21, which includes a form change cost of $4,800. In subsequent years, workload and expenditures will increase for the Taxation and Compliance Division, which is responsible for the review and auditing of returns because there is a two to three year lag between the initial filing of taxes and when the DOR receives federal tax information.

Table 2
Expenditures Under SB 19-140

	FY 2019-20	FY 2020-21	FY 2021-22
Department of Revenue			
Personal Services	-	$156,653	$193,283
Operating Expenses and Capital Outlay Costs	-	$22,612	$3,800
Computer Programming	-	$273,630	$24,130
Centrally Appropriated Costs*	-	$61,040	$74,296
Total Cost	**-**	**$513,935**	**$295,509**
Total FTE	**-**	**3.3 FTE**	**4.0 FTE**

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

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 $61,040 in FY 2020-21 and $74,296 in FY 2021-22 for the Department of Revenue. These amounts also include leased space expenses of $17,820 in FY 2020-21 and $21,600 in FY 2021-22.

TABOR Refund. The bill is expected to decrease state General Fund obligations for TABOR refunds by up to $1.0 million in FY 2019-20. Under current law and the December 2018 forecast, the bill will correspondingly reduce the amount refunded to taxpayers via sales tax refunds on income tax returns for tax year 2020. The state is not expected to collect a TABOR surplus in FY 2020-21. A forecast is not available beyond FY 2020-21.

Effective Date

The bill takes effect August 2, 2019, if the General Assembly adjourns on May 3, 2019, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Information Technology	Law	Personnel
Regulatory Agencies	Revenue	