

**STATE  
FISCAL IMPACT**

**Drafting Number:** LLS 10-0692  
**Prime Sponsor(s):** Rep. Summers  
 Sen. Romer

**Date:** February 22, 2010  
**Bill Status:** House Finance  
**Fiscal Analyst:** Jason Schrock (303-866-4720)

**TITLE:** CONCERNING AN INCENTIVE TO CREATE COLORADO NONPROFIT JOBS BY ESTABLISHING AN INCOME TAX CREDIT.

<b>Fiscal Impact Summary</b>	<b>FY 2010-2011</b>	<b>FY 2011-2012</b>	<b>FY 2012-2013</b>
<b>State Revenue</b> General Fund*	(\$500,000)	(\$1 million)	(\$1 million)
<b>State Expenditures</b> General Fund	\$60,000	\$48,550	\$27,160
<b>FTE Position Change</b>		0.3 FTE	0.6 FTE
<b>Effective Date:</b> August 11, 2010, assuming the General Assembly adjourns May 12, 2010, as scheduled and no referendum petition is filed.			
<b>Appropriation Summary for FY 2010-2011:</b> None required.			
<b>Local Government Impact:</b> None			

\* Because the degree to which the bill will directly create new jobs is unknown, the fiscal impact stated above does not incorporate increased revenue from potential increased economic activity.

**Summary of Legislation**

For tax years 2011 through 2016, this bill establishes a state income tax credit for contributions to fund new jobs at Colorado nonprofit organizations. The credit is equal to 25 percent of the contribution. The total amount of credits that can be claimed by all taxpayers in one year is capped at \$1 million. Any credit amount that exceeds a taxpayer's income tax liability cannot be refunded to the taxpayer, but may be carried forward and used on future tax returns for up to seven years.

To be eligible for the tax credit, taxpayers must provide their contributions for nonprofit jobs to "nonprofit intermediaries" which will voluntarily collect and distribute the contributions to nonprofits. A "nonprofit intermediary" is defined by the bill as a community chest, fund, or foundation such as the United Way, or any nonprofit organization that collects and distributes contributions on behalf of other nonprofits. Distributions of the contributions can only be made to a nonprofit when the amount is sufficient, along with any matching money provided by the nonprofit, to fund a new job. If contributions held for a nonprofit are not sufficient to fund a nonprofit job within a year after the first contribution is received, the nonprofit intermediary can provide the money to another nonprofit.

After approving a tax credit for a contribution, nonprofit intermediaries are required to provide a credit certificate to the donating taxpayer. They must also submit the credit certificates electronically to the Department of Revenue and the nonprofits for which the contributions are intended. In addition, nonprofit intermediaries are required to annually submit a report to the department with information on the contributing taxpayers and credit certificates approved. A nonprofit intermediary can use up to five percent of the contributions it receives to pay for administrative costs related to the tax credit. The department is required to notify the public and nonprofit intermediaries when it has determined that the annual cap of \$1 million in credits has been reached and that no other credits will be allowed for that year.

### **State Revenue**

This bill will reduce General Fund revenue by \$500,000 for FY 2010-11 (one-half year impact on an accrual accounting basis) and \$1 million in FY 2011-12 and FY 2012-13.

This fiscal note assumes that the \$1 million cap in tax credits will be reached each year starting in tax year 2011; thus this amount will be the annual income tax revenue loss to the state. This is assumed based on the large dollar amount of charitable giving that occurs in the state. For example, a 2008 study by the Colorado Nonprofit Association indicated that individuals contributed about \$3.8 billion to charities in 2006. Also, based on Department of Revenue data, it is estimated that individuals claiming the child care contribution state income tax credit gave over \$30 million to child care facilities alone in 2006.

***Potential other fiscal impacts to the state.*** Because the degree to which the bill will directly create new jobs is unknown, the fiscal impact stated above does not incorporate increased state revenue from potential increased economic activity resulting from the bill. To the extent that this tax credit is the sole determining reason that new jobs are created, sales and income tax revenue from that activity would serve to partially offset the estimated loss of state revenue.

This bill could also have other impacts on state revenue. Most notably, the money contributed to nonprofits as a result of this bill may have been used for something else in the economy. However, the economic and revenue effects from other uses of the money is unknown.

### **State Expenditures**

***Department of Revenue.*** Table 1 summarizes expenditures for the Department of Revenue that are necessary to implement HB10-1280.

<b>Table 1. Expenditures Under HB10-1280</b>			
<b>Cost Components</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
Personal Services	-	\$13,203	\$26,404
<i>FTE</i>	-	0.3	0.6
Operating Expenses and Capital Outlay	-	3,336	755
Computer Programming	\$60,000	32,012	-
<b>TOTAL</b>	<b>\$60,000</b>	<b>\$48,550</b>	<b>\$27,160</b>

**Personal Services and Operating Costs.** The department will incur costs of \$16,540 in FY 2011-12 in staff (0.3 FTE) and operating costs to administer the tax credit. For FY 2012-13, these costs will be \$27,160 (0.6 FTE). These resources are needed to work with taxpayers regarding the credit and to review tax returns to verify eligibility and ensure the credit is claimed correctly. The FY 2011-12 costs are for a half-year impact as credits would not start to be claimed until tax returns are filed in 2012. The FY 2012-13 costs are a full-year impact and will be ongoing until the tax credit is repealed after tax year 2016.

**Computer Programming Costs.** The department will also incur information technology-related expenses of \$60,000 in FY 2010-11 and \$32,012 in FY 2011-12 to implement the provisions of this bill.

In FY 2010-11, at an estimated cost of \$60,000, the department will need to contract with the State Internet Portal Authority (SIPA) to develop an online certification filing system. This is needed to enable nonprofit intermediaries to file tax credit certificates securely through the Colorado.gov website and to allow the information to be received by the department's tax system. This system would also allow for the amount of credits claimed to be tracked so that the department and nonprofits could determine whether and when the \$1 million annual cap in tax credits is reached each year.

The \$32,012 in expenditures needed in FY 2011-12 is based on an expected 816 hours of programming by an IT Professional III at a rate of \$39.23 per hour to modify the state's tax system, called GenTax, to allow for the new tax credit.

**Expenditures Not Included**

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. The centrally appropriated costs subject to this policy are summarized in Table 2.

<b>Table 2. Expenditures Not Included Under HB 10-1280*</b>			
<b>Cost Components</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)		\$2,185	\$4,369
Supplemental Employee Retirement Payments		597	\$1,360
<b>TOTAL</b>		<b>\$2,782</b>	<b>\$5,730</b>

*\*More information is available at: <http://www.colorado.gov/cs/Satellite/CGA-LegislativeCouncil/CLC/1200536133924>*

**State Appropriations**

For FY 2010-11, the bill requires a General Fund appropriation of \$60,000 for the Department of Revenue.

**Departments Contacted**

Law            Revenue            State