

**STATE
REVISED FISCAL IMPACT**

(replaces fiscal note dated April 15, 2010)

Drafting Number: LLS 10-0837

Date: April 30, 2010

Prime Sponsor(s): Sen. Heath; Romer
Rep. Rice

Bill Status: House Finance

Fiscal Analyst: Jason Schrock (303-866-4720)

TITLE: CONCERNING THE CREATION OF AN INCOME TAX CREDIT TO INCENTIVIZE COLORADO BUSINESSES TO REHIRE LAID-OFF WORKERS SOONER.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue General Fund	(\$2.5 million)	(\$2.5 million)
State Expenditures General Fund	\$183,533	\$85,914
FTE Position Change	2.2 FTE	1.1 FTE
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2010-2011: See State Appropriations Section.		
Local Government Impact: None.		

Summary of Legislation

This bill, as amended by the House Business Affairs Committee, creates a state income tax credit for tax year 2011 available to Colorado businesses that hire individuals who have been laid off and have been receiving unemployment benefits since March 31, 2010. The credit is equal to \$1,000 per hired employee. Businesses can only claim up to five credits each for a total of \$5,000. Any credit amounts that exceed a taxpayer's income tax liability cannot be refunded to the taxpayer, but can be carried forward and used on future tax returns for five years.

To claim the credit, businesses must submit an application to the Colorado Department of Labor and Employment (CDLE) for each qualifying individual hired. Individuals must have worked for the businesses for at least 120 days in order for the business to qualify for the credit. The credit can be claimed only for individuals hired between the effective date of the bill and August 31, 2011.

CDLE is required to review the applications, and if they are approved, issue credit certificates to businesses indicating that they qualify for the tax credit. CDLE is required to provide an electronic copy of the credit certificates to the Department of Revenue. It must also provide the department an electronic report for each business that was issued a certificate.

The aggregate amount of tax credits cannot exceed \$5.3 million, minus CDLE's costs for reviewing credit applications and issuing credit certificates. The department is required to provide public notice when the cap on credits has been reached.

State Revenue

This bill will reduce General Fund revenue by \$2.5 million in FY 2010-11 and \$2.5 million in FY 2011-12.

This fiscal note assumes that the maximum amount of credits allowed by the bill will be claimed. The maximum amount is \$5.0 million, which was derived by taking the \$5.3 million cap and subtracting CDLE's expenses for implementing the tax credit program. Because the tax credit is equal to \$1,000 per worker hired, 5,000 qualifying individuals will have to be hired to reach the cap. Since there is a large number of unemployed individuals in the state receiving unemployment benefits and because businesses are still hiring in the weak economic environment, it is assumed that the cap will easily be reached. Thus, state income tax revenue will be reduced \$5.0 million for tax year 2011. The income tax revenue reduction will be accrued half (\$2.5 million) to FY 2010-11 and half (\$2.5 million) to FY 2011-12.

Any credit not claimed in its entirety may be carried forward for up to five years. It is important to note that the estimated annual revenue impact represents the total amount of credits expected to be claimed. However, since the actual amount claimed is limited by a businesses' income tax liability, it is unknown how many of the credits will be claimed in the current year or how many credits will be carried forward.

State Expenditures

Department of Labor and Employment – \$183,533 (2.2 FTE) General Fund in FY 2010-11 and \$53,118 (1.1 FTE) General Fund in FY 2011-12. CDLE will incur costs of \$106,573 in FY 2010-11 and \$53,118 in FY 2011-12 to implement the credit program and administer the application and review process for credits.

Additional staff resources are needed to develop the forms and procedures for the credit program and to review and research each application to verify eligibility. It is expected that the department will receive about 5,300 applications for credits, some of which will be denied. Staff will also be needed to work with businesses regarding questions over the credit and to handle appeals for denied credits. Of the 2.2 FTE in FY 2010-11, 1.1 FTE will be needed in that year only to help implement the program. However, since businesses can apply for tax credits for individuals hired between the effective date of the bill and August 31, 2011, 1.1 FTE will be needed for both FY 2010-11 and FY 2011-12.

The department will also incur programming expenses of \$76,960 in FY 2010-11 to track the number of credit certificates approved and to submit the credit certificate information electronically to the Department of Revenue's systems. Expenditures are based on an expected 1,040 hours of programming at a rate of \$74 per hour.

Department of Revenue – \$32,796 General Fund in FY 2011-12. The Department of Revenue will incur programming expenses of \$32,796 in FY 2011-12 to implement the provisions of this bill. Expenditures are based on an expected 836 hours of programming by an IT Professional III to modify the department's tax systems to allow for the credit and electronic reports from CDLE at a rate of \$39.23 per hour.

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 1.

Table 1. Expenditures Not Included Under SB 10-133*		
Cost Components	FY 2010-11	FY 2011-12
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$15,835	\$8,107
Supplemental Employee Retirement Payments	\$3,873	\$2,355
TOTAL	\$19,708	\$10,462

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

State Appropriations

The Colorado Department of Labor and Employment will need a General Fund appropriation of \$183,533 and 2.2 FTE in FY 2010-11.

Departments Contacted

Labor and Employment

Revenue