

**FINAL
FISCAL NOTE**

Drafting Number: LLS 11-0067	Date: July 29, 2011
Prime Sponsor(s): Rep. Ferrandino Sen. Steadman	Bill Status: Postponed Indefinitely
	Fiscal Analyst: Natalie Mullis (303-866-4778)

TITLE: CONCERNING A TAX EXPENDITURE REPORT.

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013
State Revenue		
State Expenditures		
General Fund	\$303,552	\$182,891
FTE Position Change	2.4 FTE	2.3 FTE
Effective Date: The bill was postponed indefinitely by the House Finance Committee on February 25, 2011.		
Appropriation Summary for FY 2011-2012: See the State Appropriations section.		
Local Government Impact: None.		

Summary of Legislation

This bill requires the Department of Revenue to prepare an annual tax expenditure report on or before January 1 of each year, beginning in 2012. The bill applies to tax expenditures for the federal income tax and all state taxes, including but not limited to income, sales and use, excise, severance, motor fuel, and gaming taxes. The bill defines a tax expenditure as any provision that provides a:

- definition for gross tax or taxable income;
- deduction from taxable income;
- exemption;
- credit; or
- a differentiated rate for certain persons, types of income, transactions, or property that results in reduced tax revenue.

The bill requires the report to quantify the total impact on state revenue from all tax expenditures for the current year and the next three tax years. To the extent data are available, the report must include the following for each expenditure:

- a statutory citation or other legal authority;
- the year of enactment;
- an estimate of the impact on state revenue for the current year and the next three tax years;

- a statement of the intended purpose of the expenditure (provided by Legislative Council Staff);
- an analysis of whether the expenditure is achieving its intended purpose (provided by Legislative Council Staff);
- the effect on the distribution of the tax burden by income class and industry or business class, as appropriate; and
- the effect on the distribution of income.

For purposes of determining the impact of each expenditure on the distribution of the tax burden and income, the bill requires that corporate and individual taxpayers be considered separately and specifies minimum requirements for income brackets.

The Department is required to present the report to the House and Senate Finance Committees annually on or before February 1 and to publish the report on the Department's web site.

State Expenditures

State expenditures are estimated at \$303,552 and 2.4 FTE in FY 2011-12 and \$182,891 and 2.3 FTE in FY 2012-13. Table 1 summarizes expenditures for House Bill 11-1104.

Department of Revenue — \$262,484 and 1.6 FTE in FY 2011-12 and \$167,295 and 2.0 FTE in FY 2012-13 and each year thereafter. The Department will need to develop a statistical input/output model to analyze the impact of state and local taxes on businesses. If the decision were made to purchase an "off the shelf" model, several options could be considered. For example, Regional Economic Models, Inc. (REMI) is one company that offers these models for a fee. According to REMI, a model specific to analyzing tax expenditures is currently priced at \$136,000. In addition, annual maintenance costs of \$27,200 per year would be necessary beginning in FY 2012-13 and each year thereafter. Other costs include the purchase of Bureau Labor Statistics data, which will cost \$600 in FY 2011-12 and \$165 each year thereafter.

The department will require 0.8 FTE Statistical Analyst III and 0.8 FTE Economist IV in FY 2011-12 and 2.0 FTE in FY 2012-13 and each year thereafter. These positions will be necessary to collect and analyze data, develop incidence and expenditure data using the statistical input/output model, and develop reports as required by the bill. Annual operating costs are estimated at \$800 in FY 2011-12 and \$1,000 each year thereafter, with a one-time capital cost of \$10,060 for computers and office equipment.

Legislative Branch — \$41,068 and 0.8 FTE in FY 2011-12 and \$15,596 and 0.3 FTE in FY 2012-13 and each year thereafter. The bill requires Legislative Council Staff to provide the Department of Revenue with the original intended purpose of each tax expenditure and the results of an analysis of whether each tax expenditure is fulfilling its intended purpose. There are a number of uncertainties regarding how this would be implemented, including the amount of research required to comply with the requirements in the bill, the data available to perform the relevant analysis, and the level of detail required for the analysis.

A total of 260 tax expenditures have been identified that would be required to be included in the report, including 86 federal income tax expenditures and 174 state tax expenditures.

The majority of the work required to perform Legislative Council Staff's duties for the report will occur in FY 2011-12, the first year the report will be published. There is limited information available to analyze tax expenditures enacted prior to 1975. Thus, in FY 2011-12 it is assumed that staff would require one hour to analyze each tax expenditure enacted prior to 1975 and 12 hours to analyze each tax expenditure enacted after 1975. Analyses would include researching the intended purpose of the expenditure, accessing and analyzing available data, analyzing the impact of the expenditure, and reporting findings to the Department of Revenue.

In FY 2012-13 and each year thereafter, it is assumed that an analysis of each tax expenditure will require one-third of the time required in FY 2011-12.

Table 1. Expenditures Under HB11-1104		
Cost Components	FY 2011-12	FY 2012-13
Department of Revenue		
Personal Services	\$115,024	\$138,030
FTE	1.6	2.0
Operating Expenses and Capital Outlay	147,460	29,265
Legislative Branch - LCS		
Personal Services	40,306	15,307
FTE	0.8	0.3
Operating Expenses and Capital Outlay	762	289
TOTAL	\$303,552	\$182,891
FTE	2.4	2.3

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.

Table 2. Expenditures Not Included Under HB11-1104*		
Cost Components	FY 2011-12	FY 2012-13
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$17,058	\$16,364
Supplemental Employee Retirement Payments	7,148	8,344
TOTAL	\$24,206	\$24,708

**More information is available at: <http://colorado.gov/fiscalnotes>*

State Appropriations

The Department of Revenue requires an appropriation of \$262,484 General Fund and 1.6 FTE and Legislative Council Staff requires an appropriation of \$41,068 General Fund and 0.8 FTE in FY 2011-12.

Departments Contacted

Revenue Legislative Council Staff