

First Regular Session  
Seventy-fourth General Assembly  
STATE OF COLORADO

INTRODUCED

LLS NO. 23-0596.01 Zach Blaes x4348

HOUSE BILL 23-1081

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HOUSE SPONSORSHIP

Lindstedt and Taggart,

SENATE SPONSORSHIP

Hinrichsen,

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House Committees  
Finance

Senate Committees

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A BILL FOR AN ACT

101 CONCERNING THE EXPANSION OF THE TAX CREDIT FOR CONVERSION  
102 COSTS FOR EMPLOYEE BUSINESS OWNERSHIP.

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Bill Summary

*(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://leg.colorado.gov>.)*

Under current law, a qualified business is allowed a tax credit in the amount of 50% of the costs to convert the qualified business to a form of employee ownership. The tax credit is capped at \$25,000 for converting a qualified business to a worker-owned cooperative or employee ownership trust, and capped at \$100,000 for converting a qualified business to an employee stock ownership plan.

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.  
*Capital letters or bold & italic numbers indicate new material to be added to existing law.*  
*Dashes through the words or numbers indicate deletions from existing law.*

The bill:

- Increases the cap for converting a qualified business to a worker-owned cooperative or employee ownership trust from \$25,000 to \$40,000, and increases the cap for converting a qualified business to an employee stock ownership plan from \$100,000 to \$150,000;
- Expands the tax credit to include 50% of the costs of a qualified employee-owned business expanding its employee ownership by at least 20%, not to exceed \$25,000;
- Expands the tax credit to include 50% of the costs of a qualified business converting to or expanding an alternate equity structure, not to exceed \$25,000. An alternate equity structure is a form of employee ownership where an employer grants to employees an employee stock ownership plan, LLC membership, phantom stock, profit interest, profit sharing, restricted stock, stock appreciation right, stock option, or synthetic equity.
- Specifies that a qualified business or qualified employee-owned business may apply for and claim only one credit for the conversion or expansion costs per tax year.

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1 *Be it enacted by the General Assembly of the State of Colorado:*

2           **SECTION 1.** In Colorado Revised Statutes, 39-22-542, **amend**  
3 (2), (3)(a), (3)(b), (4), (5)(a)(III), (5)(a)(IV), (6)(a), (7), (8), (10), and (11)  
4 introductory portion; and **add** (3)(a.5), (3)(d), and (5)(a)(V) as follows:

5           **39-22-542. Tax credit for conversion costs for employee**  
6 **business ownership - definitions - declaration - repeal.**

7 (2) **Definitions.** As used in this section, unless the context otherwise  
8 requires:

9           (a) (I) "ALTERNATE EQUITY STRUCTURE" MEANS A FORM OF  
10 EMPLOYEE OWNERSHIP IN WHICH AN EMPLOYER GRANTS TO EMPLOYEES AN  
11 EMPLOYEE STOCK PURCHASE PLAN, LLC MEMBERSHIP, PHANTOM STOCK,  
12 PROFIT INTEREST, PROFIT SHARING, RESTRICTED STOCK, STOCK  
13 APPRECIATION RIGHT, STOCK OPTION, OR SYNTHETIC EQUITY.

1 (II) FOR PURPOSES OF THIS SUBSECTION (2)(a):

2 (A) "EMPLOYEE STOCK PURCHASE PLAN" MEANS A WRITTEN PLAN  
3 THAT ALLOWS AN EMPLOYER TO SELL STOCK TO EMPLOYEES.

4 (B) "LLC MEMBERSHIP" MEANS AN OWNERSHIP INTEREST IN A  
5 LIMITED LIABILITY COMPANY WITH THE RIGHTS AND OBLIGATIONS  
6 SPECIFIED IN ARTICLE 80 OF TITLE 7.

7 (C) "PHANTOM STOCK" MEANS A UNIT VALUE BASED ON THE FAIR  
8 MARKET VALUE OF A SHARE OF COMMON STOCK AWARDED TO AN  
9 EMPLOYEE AT THE END OF A VESTING PERIOD.

10 (D) "PROFIT INTEREST" MEANS AN INTEREST IN COMPANY PROFITS  
11 AND LOSSES, AN INTEREST IN DISTRIBUTIONS FROM OPERATIONS, OR AN  
12 INTEREST IN FUTURE APPRECIATION OR DEPRECIATION IN COMPANY ASSET  
13 VALUES. PROFIT INTEREST DOES NOT INCLUDE ANY EXISTING CAPITAL OF  
14 THE COMPANY AT THE TIME THE PROFIT INTEREST IS ISSUED.

15 (E) "PROFIT SHARING" MEANS A PENSION OR PROFIT SHARING PLAN  
16 THAT PROVIDES CONTRIBUTIONS OR BENEFITS TO EMPLOYEES PURSUANT  
17 TO SECTION 401 OF THE INTERNAL REVENUE CODE.

18 (F) "RESTRICTED STOCK" MEANS A FORM OF DEFERRED EQUITY  
19 COMPENSATION THAT REQUIRES CERTAIN CONDITIONS TO BE SATISFIED  
20 BEFORE THE RESTRICTED STOCK VESTS.

21 (G) "STOCK APPRECIATION RIGHT" MEANS AN ARRANGEMENT  
22 THAT ALLOWS AN EMPLOYEE TO EXERCISE THE RIGHT, DURING A SPECIFIED  
23 PERIOD, TO RECEIVE ANY INCREASE IN THE VALUE OF A STOCK.

24 (H) "SYNTHETIC EQUITY" HAS THE SAME MEANING AS SET FORTH  
25 IN SECTION 409(p)(6) OF THE INTERNAL REVENUE CODE.

26 (a) (b) "Colorado office of economic development" or "office"  
27 means the Colorado office of economic development created in section

1 24-48.5-101.

2 ~~(b)~~ (c) "Conversion costs" means professional services, including  
3 accounting, legal, and business advisory services, as detailed in the  
4 guidelines issued by the office, for the transition of a business to  
5 employee ownership trust, an employee stock ownership plan, or a  
6 worker-owned cooperative. "Conversion costs" include costs to audit the  
7 cost certification as required in subsection (7)(b) of this section.

8 ~~(c)~~ (d) "Department" means the Colorado department of revenue.

9 ~~(d)~~ (e) "Employee ownership trust" means an indirect form of  
10 employee ownership in which a trust holds a controlling stake in a  
11 qualified business and benefits all employees on an equal basis.

12 ~~(e)~~ (f) "Employee stock ownership plan" has the same meaning as  
13 set forth in section 4975 (e)(7) of the internal revenue code, as amended.

14 (g) "EXPANSION COSTS" MEANS PROFESSIONAL SERVICES,  
15 INCLUDING ACCOUNTING, LEGAL, AND BUSINESS ADVISORY SERVICES, AS  
16 DETAILED IN THE GUIDELINES ISSUED BY THE OFFICE, FOR THE EXPANSION  
17 OF A QUALIFIED EMPLOYEE-OWNED BUSINESS'S EMPLOYEE OWNERSHIP  
18 TRUST, EMPLOYEE STOCK OWNERSHIP PLAN, WORKER-OWNED  
19 COOPERATIVE, OR ALTERNATE EQUITY STRUCTURE. EXPANSION COSTS  
20 INCLUDE COSTS TO AUDIT THE COST CERTIFICATION AS REQUIRED IN  
21 SUBSECTION (7)(b) OF THIS SECTION.

22 ~~(f)~~ (h) "Owner" means the owner of a qualified business before a  
23 conversion occurs.

24 ~~(g)~~ (i) "Qualified business" means a taxpayer subject to tax under  
25 this article 22, including but not limited to a C corporation, S corporation,  
26 limited liability company, partnership, limited liability partnership, a sole  
27 proprietorship, or other similar pass-through entity, that is not owned in

1 whole or in part by an employee ownership trust, that does not have an  
2 employee stock ownership plan, ~~or~~ that is not, in whole or in part, a  
3 worker-owned cooperative, OR DOES NOT HAVE AN ALTERNATE EQUITY  
4 STRUCTURE, and that is approved by the office for the tax incentives in  
5 this section.

6 (j) "QUALIFIED EMPLOYEE-OWNED BUSINESS" MEANS A TAXPAYER  
7 THAT IS SUBJECT TO TAX UNDER THIS ARTICLE 22, INCLUDING BUT NOT  
8 LIMITED TO A C CORPORATION, S CORPORATION, LIMITED LIABILITY  
9 COMPANY, PARTNERSHIP, LIMITED LIABILITY PARTNERSHIP, SOLE  
10 PROPRIETORSHIP, OR OTHER SIMILAR PASS-THROUGH ENTITY, THAT:

11 (I) IS OWNED IN WHOLE OR IN PART BY AN EMPLOYEE OWNERSHIP  
12 TRUST;

13 (II) HAS ITS CORPORATE HEADQUARTERS LOCATED IN THIS STATE.  
14 FOR PURPOSES OF THIS SUBSECTION (2)(j), "CORPORATE HEADQUARTERS"  
15 MEANS THE SOLE LOCATION WITHIN A REGIONAL OR NATIONAL AREA  
16 WHERE THE TAXPAYER'S STAFF MEMBERS OR EMPLOYEES ARE DOMICILED  
17 AND EMPLOYED, AND WHERE THE MAJORITY OF THE TAXPAYER'S  
18 FINANCIAL, PERSONNEL, LEGAL, PLANNING, OR OTHER BUSINESS  
19 FUNCTIONS ARE CONDUCTED ON A REGIONAL OR NATIONAL BASIS.

20 (III) HAS AN EMPLOYEE STOCK OWNERSHIP PLAN, IS IN WHOLE OR  
21 IN PART A WORKER-OWNED COOPERATIVE, OR HAS AN ALTERNATE EQUITY  
22 STRUCTURE; AND

23 (IV) IS APPROVED BY THE OFFICE FOR THE TAX INCENTIVES IN THIS  
24 SECTION.

25 ~~(h)~~ (k) "Worker-owned cooperative" has the same meaning as set  
26 forth in section 1042 (c)(2) of the internal revenue code, as amended.

27 (3) (a) Subject to certification by the office pursuant to this

1 section, for income tax years commencing on or after January 1, 2022, but  
2 prior to January 1, 2027, ~~there shall be~~ A QUALIFIED BUSINESS IS allowed  
3 a credit with respect to the income taxes imposed pursuant to this article  
4 22 as follows:

5 (I) Up to fifty percent of the conversion costs, not to exceed  
6 ~~twenty-five~~ FORTY thousand dollars, incurred by a qualified business for  
7 converting the qualified business to a worker-owned cooperative or an  
8 employee ownership trust; ~~or~~

9 (II) Up to fifty percent of the conversion costs, not to exceed ~~one~~  
10 ~~hundred~~ ONE HUNDRED FIFTY thousand dollars, incurred by a qualified  
11 business for converting the qualified business to an employee stock  
12 ownership plan; OR

13 (III) UP TO FIFTY PERCENT OF THE CONVERSION COSTS, NOT TO  
14 EXCEED TWENTY-FIVE THOUSAND DOLLARS, INCURRED BY A QUALIFIED  
15 BUSINESS FOR CONVERTING THE QUALIFIED BUSINESS TO AN ALTERNATE  
16 EQUITY STRUCTURE.

17 (a.5) (I) SUBJECT TO CERTIFICATION BY THE OFFICE PURSUANT TO  
18 THIS SECTION, FOR THE INCOME TAX YEARS COMMENCING ON OR AFTER  
19 JANUARY 1, 2024, BUT PRIOR TO JANUARY 1, 2027, A QUALIFIED  
20 EMPLOYEE-OWNED BUSINESS IS ALLOWED A CREDIT WITH RESPECT TO THE  
21 INCOME TAXES IMPOSED PURSUANT TO THIS ARTICLE 22 OF UP TO FIFTY  
22 PERCENT OF THE EXPANSION COSTS, NOT TO EXCEED TWENTY-FIVE  
23 THOUSAND DOLLARS, INCURRED TO EXPAND A QUALIFIED  
24 EMPLOYEE-OWNED BUSINESS'S EMPLOYEE OWNERSHIP TRUST, EMPLOYEE  
25 STOCK OWNERSHIP PLAN, WORKER-OWNED COOPERATIVE, OR ALTERNATE  
26 EQUITY STRUCTURE.

27 (II) TO BE ELIGIBLE FOR THE CREDIT ALLOWED PURSUANT TO THIS

1 SUBSECTION (3), A QUALIFIED EMPLOYEE-OWNED BUSINESS MUST EXPAND  
2 ITS EMPLOYEE OWNERSHIP TRUST, EMPLOYEE STOCK OWNERSHIP PLAN,  
3 WORKER-OWNED COOPERATIVE, OR ALTERNATE EQUITY STRUCTURE BY AN  
4 INCREMENT OF AT LEAST TWENTY PERCENT OF THE TOTAL OWNERSHIP OF  
5 THE ENTIRE QUALIFIED EMPLOYEE-OWNED BUSINESS.

6 (b) (I) In the case of a qualified business OR QUALIFIED  
7 EMPLOYEE-OWNED BUSINESS that is a C corporation, the credit is allowed  
8 to the qualified business OR THE QUALIFIED EMPLOYEE-OWNED BUSINESS.

9 (II) In the case of a qualified business OR QUALIFIED  
10 EMPLOYEE-OWNED BUSINESS that is a partnership or an S corporation, the  
11 credit is allowed to the owner OF THE BUSINESS.

12 (d) A QUALIFIED BUSINESS OR QUALIFIED EMPLOYEE-OWNED  
13 BUSINESS MAY APPLY FOR AND CLAIM ONLY ONE TAX CREDIT FOR THE  
14 CONVERSION OR EXPANSION COSTS INCURRED PER TAX YEAR.

15 (4) A business shall submit an application to the office for the  
16 issuance of a credit certificate for the credit allowed in this section by the  
17 deadlines established in the office's guidelines. The application must  
18 include information, as set forth in the office's guidelines, regarding the  
19 type of conversion OR EXPANSION the business intends to undertake, a list  
20 of the expected conversion OR EXPANSION costs, and an estimated  
21 amount, as calculated by the business, of the expected conversion OR  
22 EXPANSION costs.

23 (5) (a) The office shall develop guidelines for the administration  
24 of this section, including, but not limited to:

25 (III) Detailed guidelines regarding conversion costs; ~~and~~

26 (IV) Guidelines and standards for certifying a business as a  
27 qualified business; AND

1 (V) GUIDELINES AND STANDARDS FOR CERTIFYING A BUSINESS AS  
2 A QUALIFIED EMPLOYEE-OWNED BUSINESS.

3 (6) (a) (I) After the office provides the written report required in  
4 subsection (5)(b) of this section, a reservation of tax credits is permitted  
5 for the tax credit allowed in this section. If the office determines that the  
6 application filed under subsection (4) of this section is complete, the  
7 office shall determine whether the business is a qualified business OR A  
8 QUALIFIED EMPLOYEE-OWNED BUSINESS, review the list of the expected  
9 conversion OR EXPANSION costs, and review the estimated conversion OR  
10 EXPANSION costs as calculated by the business. If the office approves the  
11 business as a qualified business OR A QUALIFIED EMPLOYEE-OWNED  
12 BUSINESS, the list of expected conversion OR EXPANSION costs, and the  
13 estimated conversion OR EXPANSION costs, the office may reserve for the  
14 benefit of the qualified business, THE QUALIFIED EMPLOYEE-OWNED  
15 BUSINESS, or the owner OF THE BUSINESS an allocation of a tax credit  
16 subject to the limitation specified in subsection (3)(b) of this section. The  
17 office shall notify the qualified business OR THE QUALIFIED  
18 EMPLOYEE-OWNED BUSINESS in writing of the amount of the reservation.  
19 The reservation of a tax credit does not entitle the qualified business, THE  
20 QUALIFIED EMPLOYEE-OWNED BUSINESS, or the owner OF THE BUSINESS  
21 to an issuance of a tax credit certificate until the qualified business OR  
22 QUALIFIED EMPLOYEE-OWNED BUSINESS complies with all of the other  
23 requirements specified in this section for the issuance of the tax credit  
24 certificate.

25 (II) A business may apply for a staged conversion OR STAGED  
26 EXPANSION. If the office receives an application for a staged conversion  
27 OR STAGED EXPANSION, and the office determines the requirements set

1     forth in subsection (6)(a)(I) of this section have been met, the office shall  
2     reserve tax credits for all stages of the qualified business's conversion OR  
3     THE QUALIFIED EMPLOYEE-OWNED BUSINESS'S EXPANSION in the year the  
4     application is filed. The office may certify the staged conversion costs OR  
5     STAGED EXPANSION COSTS and issue tax credit certificates under  
6     subsection (7)(b)(II) of this section when the costs are incurred.

7             (7) (a) Any qualified business OR QUALIFIED EMPLOYEE-OWNED  
8     BUSINESS with respect to which the office has made a reservation of tax  
9     credits under subsection (6) of this section shall incur not less than twenty  
10    percent of the estimated conversion OR EXPANSION costs not later than  
11    eighteen months after the date of the written notice from the office to the  
12    qualified business OR QUALIFIED EMPLOYEE-OWNED BUSINESS granting the  
13    reservation of tax credits. The qualified business OR QUALIFIED  
14    EMPLOYEE-OWNED BUSINESS shall submit evidence of compliance with  
15    the provisions of this subsection (7)(a). If the office determines that a  
16    qualified business OR QUALIFIED EMPLOYEE-OWNED BUSINESS has failed  
17    to comply with the requirements of this subsection (7)(a), the office may  
18    rescind the written notice it previously gave the business or the owner  
19    approving the reservation of tax credits and, if so, the total amount of tax  
20    credits made available for the calendar year for which reservations may  
21    be granted must be increased by the amount of the tax credits rescinded.  
22    The office shall promptly notify any qualified business, ANY QUALIFIED  
23    EMPLOYEE-OWNED BUSINESS, or the owner OF THE BUSINESS whose  
24    reservation of tax credits has been rescinded and, upon receipt of the  
25    notice, the qualified business OR QUALIFIED EMPLOYEE-OWNED BUSINESS  
26    may submit a new application.

27             (b) (I) Following the completion of the conversion OR EXPANSION,

1 the qualified business OR THE QUALIFIED EMPLOYEE-OWNED BUSINESS  
2 shall notify the office that the conversion OR EXPANSION has been  
3 completed and shall provide the office with a cost certification of the  
4 estimated conversion OR EXPANSION costs. The cost certification must be  
5 audited by a licensed certified public accountant that is not affiliated with  
6 the qualified business OR THE QUALIFIED EMPLOYEE-OWNED BUSINESS.  
7 The office shall review the cost certification, and within ninety days after  
8 receipt of the cost certification, the office shall certify the conversion OR  
9 EXPANSION costs and issue a tax credit certificate in the amounts allowed  
10 in subsection (3) of this section. The office shall promptly notify the  
11 qualified business OR THE QUALIFIED EMPLOYEE-OWNED BUSINESS of any  
12 disallowed conversion OR EXPANSION costs.

13 (II) If a conversion OR EXPANSION is a staged conversion OR  
14 STAGED EXPANSION as set forth in subsection (6)(a)(II) of this section, and  
15 the qualified business OR THE QUALIFIED EMPLOYEE-OWNED BUSINESS  
16 meets the requirements in this subsection (7), the office shall issue pro  
17 rata tax credit certificates to ~~a~~ THE qualified business, QUALIFIED  
18 EMPLOYEE-OWNED BUSINESS, or ~~the~~ owner OF THE BUSINESS based on the  
19 percent of the conversion OR EXPANSION completed during each tax year.

20 (c) Notwithstanding subsection (7)(b) of this section, the total  
21 amount of the tax credit certificate issued to a qualified business, A  
22 QUALIFIED EMPLOYEE-OWNED BUSINESS, or the owner OF THE BUSINESS  
23 shall not exceed the amount of the tax credit reservation under subsection  
24 (6)(a) of this section.

25 (d) If the amount of certified costs incurred by the qualified  
26 business OR THE QUALIFIED EMPLOYEE-OWNED BUSINESS would result in  
27 ~~a~~ THE qualified business, QUALIFIED EMPLOYEE-OWNED BUSINESS, or ~~the~~

1 owner OF THE BUSINESS being issued an amount of tax credits that  
2 exceeds the amount of tax credits reserved for the business under  
3 subsection (6)(a) of this section, the qualified business OR THE QUALIFIED  
4 EMPLOYEE-OWNED BUSINESS may apply to the office for the issuance of  
5 an amount of tax credits that equals the excess. The qualified business OR  
6 THE QUALIFIED EMPLOYEE-OWNED BUSINESS must submit its application  
7 for issuance of such excess tax credits on a form prescribed by the office.  
8 Unless the office is concerned THAT the application it received under this  
9 subsection (7)(d) is fraudulent, the office shall automatically approve the  
10 application, which it shall issue by means of a separate certificate, subject  
11 only to the availability of tax credits and the provisions concerning  
12 priority provided in subsection (6)(a) of this section.

13 (8) If the credit allowed under this section exceeds the income  
14 taxes due on the INCOME OF THE qualified ~~business's~~ BUSINESS, QUALIFIED  
15 EMPLOYEE-OWNED BUSINESS, or ~~the owner's income~~ OWNER OF THE  
16 BUSINESS, the amount of the credit not used to offset income taxes must  
17 be refunded to the qualified business, QUALIFIED EMPLOYEE-OWNED  
18 BUSINESS, or ~~the~~ owner OF THE BUSINESS.

19 (10) To claim the income tax credit allowed in this section, the  
20 qualified business, QUALIFIED EMPLOYEE-OWNED BUSINESS, or ~~the~~ owner  
21 OF THE BUSINESS shall attach a copy of the credit certificate to its state  
22 income tax return. No tax credit is allowed under this section unless the  
23 qualified business, QUALIFIED EMPLOYEE-OWNED BUSINESS, or ~~the~~ owner  
24 OF THE BUSINESS provides the copy of the credit certificate with its filed  
25 state income tax return. The amount of the credit that the qualified  
26 business OR THE QUALIFIED EMPLOYEE-OWNED BUSINESS may claim under  
27 this section is the amount stated on the tax credit certificate.

1           (11) The office shall, in a sufficiently timely manner to allow the  
2 department to process returns claiming the income tax credit allowed in  
3 this section, provide the department with an electronic report of each  
4 qualified business, ~~or the~~ QUALIFIED EMPLOYEE-OWNED BUSINESS, AND  
5 owner OF A BUSINESS that the office approved for the income tax credit  
6 allowed in this section for the preceding calendar year that includes the  
7 following information:

8           **SECTION 2. Act subject to petition - effective date -**  
9 **applicability.** (1) This act takes effect at 12:01 a.m. on the day following  
10 the expiration of the ninety-day period after final adjournment of the  
11 general assembly; except that, if a referendum petition is filed pursuant  
12 to section 1 (3) of article V of the state constitution against this act or an  
13 item, section, or part of this act within such period, then the act, item,  
14 section, or part will not take effect unless approved by the people at the  
15 general election to be held in November 2024 and, in such case, will take  
16 effect on the date of the official declaration of the vote thereon by the  
17 governor.

18           (2) This act applies to income tax years commencing on or after  
19 January 1, 2024.