



Legislative Council Staff  
Nonpartisan Services for Colorado's Legislature

# Fiscal Note

**Drafting Number:** LLS 23-0596 **Date:** January 30, 2023  
**Prime Sponsors:** Rep. Lindstedt; Taggart **Bill Status:** House Finance  
 Sen. Hinrichsen **Fiscal Analyst:** Louis Pino | 303-866-3556  
 louis.pino@coleg.gov

**Bill Topic:** EMPLOYEE OWNERSHIP TAX CREDIT EXPANSION

- Summary of Fiscal Impact:**
- State Revenue
  - State Expenditure
  - State Transfer
  - TABOR Refund
  - Local Government
  - Statutory Public Entity

The bill makes several changes to expand the Employee Ownership Tax Credit. It decreases state revenue and increases state workload through FY 2026-27.

**Appropriation Summary:** No appropriation is required.

**Fiscal Note Status:** The fiscal note reflects the introduced bill.

**Table 1**  
**State Fiscal Impacts Under HB 23-1081**

		Budget Year FY 2023-24	Out Year FY 2024-25
<b>Revenue</b>	General Fund	(\$717,500)	(\$1.4 million)
<b>Expenditures</b>		-	-
<b>Transfers</b>		-	-
<b>Other Budget Impacts</b>	TABOR Refund	(\$717,500)	(\$1.4 million)

## Summary of Legislation

Beginning in tax year 2024, the bill makes several changes to the Employee Ownership Tax Credit. Specifically, the bill:

- increases the cap for converting a qualified business to a worker-owned cooperative or employee from \$25,000 to \$40,000;
- 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 a qualified business converting to or expanding an alternate equity structure, 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; and
- 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.

## Background

House Bill 21-1311 created the Employee Ownership Tax Credit. The state tax credit is equal to 50 percent of the conversion costs for a business that converts to a worker-owned cooperative, an employee stock ownership plan, or an employee ownership trust. The maximum amount of the income tax credit is \$25,000 when converting to a worker-owned cooperative or an employee ownership trust, and \$100,000 when converting to an employee stock ownership plan.

The tax credit is available for tax years 2022 through 2026, and the Office of Economic Development and International Trade (OEDIT) is responsible for administering the program, including advertising and reporting requirements and reserving tax credits for qualified businesses. The maximum amount of tax credits that OEDIT may reserve each tax year is \$10 million dollars. In FY 2021-22, the program received 12 applications and issued \$403,750 in credits. The credit expires after tax year 2026.

## State Revenue

The bill reduces General Fund revenue by \$717,500 in the current FY 2023-24, \$1.4 million in FY 2024-25, and \$1.5 million in FY 2024-25. The amount for FY 2022-23 represents a half-year impact for tax year 2023 on an accrual accounting basis.

The estimated reduction is based on the expected increase in applications by including alternative equity structures for eligibility and expanding the allowable amount of conversion expenses. About 30 businesses are expected to qualify for the credit each year, up from 25 under current law, and those that would qualify under current law are expected to receive larger tax credits under the expansion in the bill. To the extent that the bill incentivizes more businesses to make conversions than under current law, the revenue decrease will be greater than estimated.

## State Expenditures

The bill is expected to increase the number of applications to OEDIT for the tax credit, requiring additional time for processing and review. It is anticipated that this increase in workload will be minimal and can be absorbed within existing appropriations.

## Other Budget Impacts

**TABOR refunds.** The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above for FY 2023-24 and FY 2024-25. This estimate assumes the December 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save.

## Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed. Changes to the credit take effect in tax year 2024.

## State and Local Government Contacts

Economic Development  
Revenue

Information Technology

Personnel