



Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Memorandum

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TO: Interested Persons
FROM: Louis Pino, Principal Economist, 303-866-3556
SUBJECT: Overview of Colorado's Enterprise Zone Program

Colorado's Enterprise Zone Program was created by the General Assembly in 1986. The program provides state income tax credits to business and individuals for investing in economically distressed areas of the state in an effort to encourage economic development.

This memorandum describes the process for designating Colorado Enterprise Zones and Enhanced Rural Enterprise Zones, the tax expenditures available for investing in designated enterprise zone areas, and the administration and certification process of enterprise zones tax credits.

Colorado Enterprise Zones

Any county, municipality, or group of contiguous municipalities or counties may propose an area to be designated as an enterprise zone. To be designated, an area must have a population of less than 115,000 people if in an urban area or 150,000 people if in a rural area, and meet at least one of the following criteria:

- an unemployment rate at least 25 percent above the state average for the most recent 12 consecutive months for which data are available from the U.S. Census Bureau or Colorado Department of Local Affairs (DOLA);
- a population growth rate less than 25 percent of the state average for the most recent five-year period for which data are available from the U.S. Census Bureau or DOLA; or
- a per capita income of less than 75 percent of the state average for the most recent period for which data is available from the U.S. Census Bureau or DOLA.

Colorado law limits the number of state enterprise zones to sixteen areas.¹

The Colorado Economic Development Commission (EDC) within the Governor's Office of Economic Development and International Trade (OEDIT) is responsible for designating state enterprise zones. In addition, the EDC is required to review zone boundaries at least once every ten years to ensure they meet the criteria. The current enterprise zone designations became effective on January 1, 2016, and will be updated on January 1, 2026. The EDC is also responsible for designating a local enterprise administrator for each zone, which are responsible for

¹ Section 39-30-103, C.R.S.



implementing the zone’s economic development plans, as well as administering the state income tax credits available to taxpayers that invest in enterprise zones.²

Currently, almost 85 percent of the state’s land area is located in an enterprise zone. Figure 1 on page 9 illustrates the current sixteen state enterprise zones. OEDIT provides an [interactive map](#) of the zones while allows a business to determine if they are located within in an enterprise zone. The zone administrator makes the final determination if the business is located within the enterprise zone.

Enhanced Rural Enterprise Zones

Counties can apply to the EDC to have areas within their boundaries and in an enterprise zone to be designated as an enhanced rural enterprise zone. An enhanced enterprise zone allows for higher state enterprise zone tax credits. For example, taxpayers within an enhanced enterprise rural zone are eligible for an additional \$2,000 credit for each new business facility employee.

A county can be designated as an enhanced rural enterprise if it meets two or more of the following criteria:

- a population of 5,000 or less;
- an unemployment rate at least 50 percent above the state average for the most recent 12 consecutive months for which data are available from the U.S. Census Bureau or DOLA;
- a population growth rate less than 25 percent of the state average;
- an average per capita income of less than 75 percent of the state average; or
- total assessed value of all nonresidential property within the county that ranks in the lower half of all Colorado counties.³

The EDC is required to revise the list of eligible counties every two years. Figure 1 also shows the counties designated as enhanced rural enterprise zones for calendar years 2023 and 2024. Of Colorado’s 64 counties, 34 counties (or 53 percent) have been designated as Enhanced Rural Enterprise Zone.

Enterprise Zone State Tax Expenditures

As of January 1, 2024, the Enterprise Zone Program offers eight state income tax credits and one sales tax exemption for corporations, business partnerships, and individuals that locate, invest, or contribute to qualifying activities within an enterprise zone.

² Section 39-30-103.5, C.R.S.

³ Section 39-30-103.2, C.R.S.



State income tax credits. The state offers eight state enterprise zone income tax credits:

- Enterprise Zone Investment Tax Credit (ITC);
- New Business Facility Employee Credit;⁴
- Employee Sponsored Health Insurance Credit;
- Qualified Job Training Program Investment;
- Research and Experimental Activities Credit;
- Vacant Building Rehabilitation Credit;
- Commercial Vehicle Investment Tax Credit; and
- Contribution Project Credit.

Table 1 on page 6 provides a brief description of each state income tax credit. For more detail on each credit, please reference OEDIT's [Enterprise Zone Program Summary](#).

Sales and Use Tax Exemption. Machinery, machine tools, and parts thereof used solely and exclusively in an enterprise zone are exempt from state and state-administered local sales and use taxes if certain conditions are met. For specific eligibility and application requirements, review the Colorado Department of Revenue's [Enterprise Zone Income Tax Credit Guide](#).

In 2020, the Office of the State Auditor released an evaluation on enterprise zones tax expenditures. Overall, the evaluation found that enterprise zones tax expenditures are meeting their purpose, but to a limited extent. The full report can be found [here](#).

Certification and Claiming Enterprise Zone Credits

To claim a state enterprise zone income tax credit, a taxpayer must annually pre-certify and receive certification from a local zone administrator indicating they are eligible for the state income tax credit(s).

Pre-certification. A taxpayer must first complete a pre-certification application to claim an enterprise zone state income tax credit, which is reviewed and approved by the local enterprise zone administrator. As part of the pre-certification application, the taxpayer must identify that their business location is within the enterprise zone and attest that:

- they are aware of the enterprise zone credits; and
- the credits are a contributing factor to the start-up, expansion, or relocation of the taxpayer's business in the enterprise zone.

⁴ Additional credits are given if the business is located in an enhanced rural enterprise zone and/or engaged in a business that adds value through manufacturing or processing agricultural commodities.



In addition, a taxpayer must acknowledge in the application that only their activities that start after pre-certification is issued and before the end of the current the taxpayer's current income tax are eligible for enterprise zone credits.

Certification requirements. Before claiming the state income tax credit, the taxpayer must obtain final certification from the local enterprise zone administer indicating the eligible activity conducted during the pre-certification period and requirements have been satisfied.

In FY 2022-23, the EDC certified \$148.3 million in state enterprise zone credits, up 22.7 percent from the prior fiscal year. Of this, approximately 84.2 percent were from the ITC (36.6 percent) and the enterprise zone contribution project credit (47.6 percent). Table 1 shows the total number of enterprise zone credits certified by program and the total amount of these credits from FY 2017-18 to FY 2022-23. Table 4 on page 7 provides a breakout of this total by credit type.

Table 1
Total Number and Amount of Enterprise Zone Credits Certified

| Fiscal Year | Credits Certified | Total Credits Certified |
|-------------|-------------------|-------------------------|
| 2018-19 | 37,792 | \$71.1 million |
| 2019-20 | 33,467 | \$107.8 million |
| 2020-21 | 33,948 | \$92.1 million |
| 2021-22 | 31,665 | \$120.9 million |
| 2022-23 | 34,690 | \$148.3 million |

Source: Colorado Office of Economic Development and Trade.

Each year, OEDIT is required to send Department of Revenue (DOR) a list of eligible taxpayers that have been verified to be within the boundaries of an enterprise zone and satisfied the requirements for the enterprise zone credits. The DOR may audit or adjust the taxpayer's eligibility for the state income tax credit.

Claiming enterprise zone credits. Taxpayers claiming an enterprise zone tax credit are required to file their Colorado income tax return electronically. They are required include an enterprise zone credit and carry forward schedule (DR 1366) and copies of the certification forms.⁵ For specific eligibility and application requirements, review the Colorado Department of Revenue's [Enterprise Zone Income Tax Credit Guide](#).

The timing and the amount of enterprise credits claimed by the taxpayer will vary by their state income tax liability each year. If a taxpayer does not have a state tax liability, or if the amount of the credits exceeds the amount of tax due, the taxpayer, when allowed, may carry forward the

⁵ Section 39-30-111, C.R.S.



balance to claim in future tax years. Table 2 shows the total amount of enterprise credits claimed by tax year from 2018 to 2021, the most recent data available. In addition, the table also shows the number of total enterprise credits available as of tax year 2021. For example, in tax year 2021, approximately \$40.1 million credits certified in 2021 were claimed with \$82.0 million carried forward for future tax years. Similarly, in tax year 2021, \$4.8 million credits certified in 2020 were claimed, with \$55.6 million still available to be claimed in future tax years.

Table 2
Total Number of Enterprise Zone Credits Claimed from Tax Years 2018 to 2021 and Amount Available as of Tax Year 2021

| Tax Year | Number of Credits Claimed | Total Credits Available (Carry Forwards) as of Tax Year 2021 |
|-----------------|----------------------------------|---------------------------------------------------------------------|
| 2018 | \$1.1 million | \$22.1 million |
| 2019 | \$0.5 million | \$42.9 million |
| 2020 | \$4.8 million | \$55.6 million |
| 2021 | \$40.1 million | \$82.0 million |

Source: Colorado Department of Revenue.



**Table 3
Colorado Enterprise Zone Credits**

| Enterprise Zone Credit | Description | Amount of Credit | Carry Forward Period | Colorado Revised Statute |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|---------------------------------|
| Enterprise Zone Investment Tax Credit (ITC) | Credit for qualified investments in qualified properties located in an enterprise zone | Three percent of the qualified investment. Taxpayers may claim up to half their tax liability plus \$5,000 in any one year. The amount of credit a taxpayer can use for a given tax year is limited to \$750,000, unless waived EDC. | Up to 14 years | Section 39-30-104, C.R.S. |
| New Business Facility Employee Credit | A business may receive an income tax credit for each new business facility employee working within the enterprise zone | -\$1,100 for each new qualified employee -An additional \$2,000 credit for each new business facility employee if the business is located in an enhanced rural enterprise zone -If the new business facility is located in an enhanced rural enterprise zone and engaged in a business that adds value through manufacturing or processing to agricultural commodities, an additional credit of \$500 per new business employee is allowed | Up to 5 years | Section 39-30-105, C.R.S. |
| Employee Sponsored Health Insurance Credit | A business may claim a tax credit for each of their new business facility employees insured under a health insurance plan, with the taxpayer covering at least 50 percent of the cost | \$1,000 tax credit for each new business facility employee | Available for only the first two full income tax years the business is operating in an enterprise zone | Section 39-30-105, C.R.S. |
| Qualified Job Training Program Investment | Taxpayers that invest in a qualified job training program for employees working predominately in an enterprise zone | 12 percent of the qualified investment | Up to 12 years | Section 39-30-105, C.R.S. |



**Table 3 (Cont.)
Colorado Enterprise Zone Credits**

| Enterprise Zone Credit | Description | Amount of Credit | Carry Forward Period | Colorado Revised Statute |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| Research and Experimental Activities Credit | A taxpayer is allowed an income tax credit for qualified expenditures on research and experimental activities conducted in an enterprise zone | 3 percent income tax credit for qualified expenditures on research and experimental activities | No limit on the number of years | Section 39-30-105.5, C.R.S |
| Vacant Building Rehabilitation Credit | The owner or tenant of a building in an enterprise zone that is at least 20 years old and has been completely vacant for at least two years can claim an income tax credit rehabilitating the building for commercial use | 25 percent of the qualified costs of rehabilitating the building | Up to 5 years | Section 39-30-105.6, C.R.S. |
| Commercial Vehicle Investment Tax Credit | A taxpayer can earn an income tax credit for the purchase of new commercial trucks, truck tractors, tractors, semi-trailers, and associated parts registered in Colorado and used in an enterprise zone | 1.5 percent of the price of new commercial trucks, truck tractors, tractors, semi-trailers, and associated parts | Up to 12 years | Section 39-30-104, C.R.S. |
| Contribution Projects Credit | A taxpayer who makes a monetary or in-kind contribution or in-kind contribution to a zone administrator for implementing the economic development plan of the enterprise zone may claim an income tax credit | 25 percent of the value of the contribution up to the maximum credit allowed of \$100,000 per year. 12.5 percent of an in-kind donation. | Up to 14 years | Section 39-30-103.5, C.R.S. |



Table 4
Total Amount of Enterprise Zone Credits Certified by Tax Credit Type

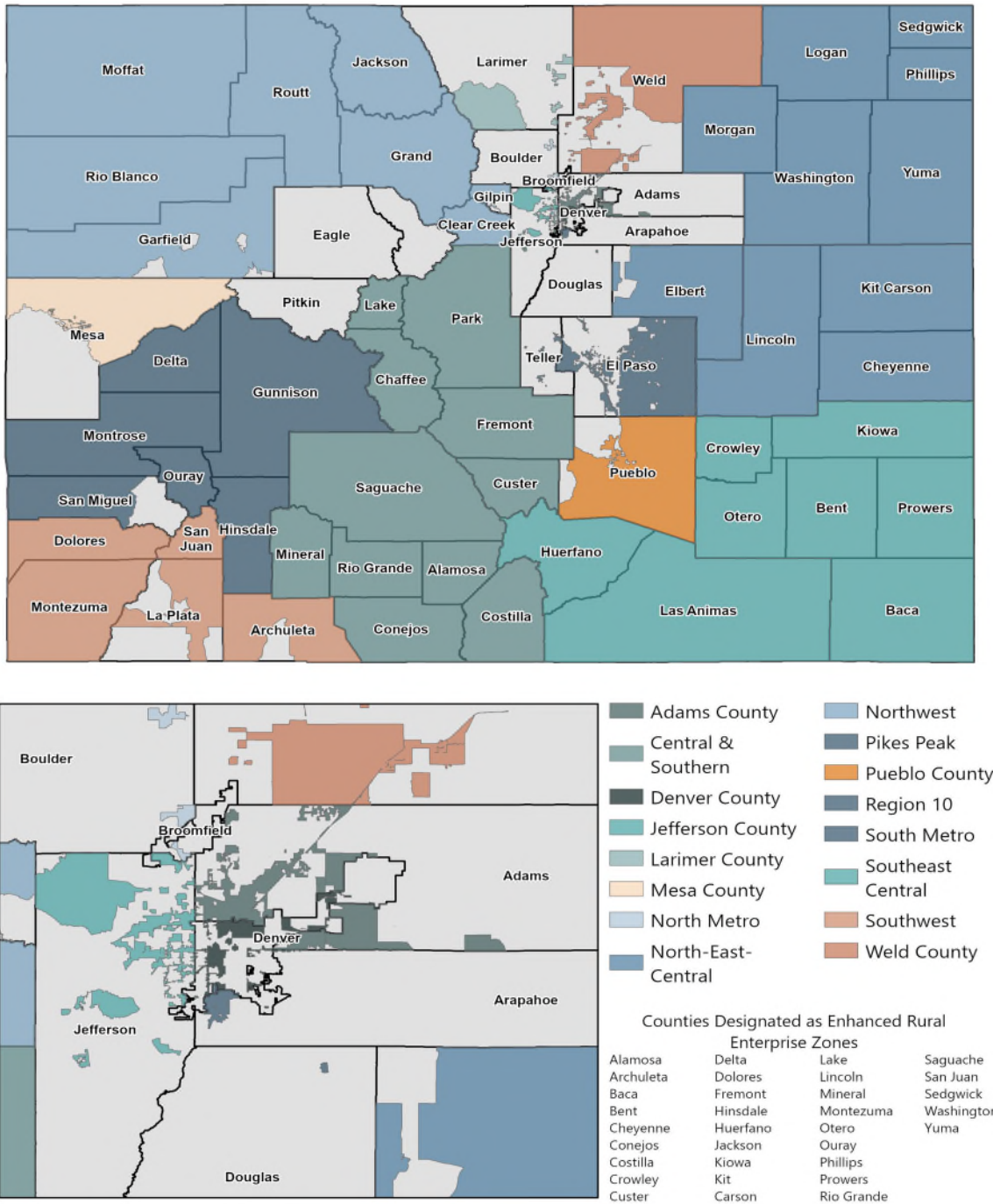
| Fiscal Year | Investment Tax Credit | Qualified Job Training Program Investment | Employee Sponsored Health Insurance Credit | New Business Facility Employee Credit | Vacant Building Rehabilitation Credit | Research and Experimental Activities Credit | Commercial Vehicle Investment Tax Credit | Contribution Projects Credit |
|--------------------|------------------------------|--------------------------------------------------|---------------------------------------------------|----------------------------------------------|----------------------------------------------|----------------------------------------------------|-------------------------------------------------|-------------------------------------|
| 2018-19 | \$40.9 million | \$5.1 million | \$740,028 | \$6.2 million | \$439,411 | \$1.6 million | \$158,768 | \$15.8 million |
| 2019-20 | \$74.0 million | \$5.2 million | \$1.5 million | \$7.9 million | \$377,785 | \$3.3 million | \$95,568 | \$15.5 million |
| 2020-21 | \$57.6 million | \$5.0 million | \$2.6 million | \$7.4 million | \$783,418 | \$2.3 million | \$86,318 | \$16.4 million |
| 2021-22 | \$85.2 million | \$4.7 million | \$4.1 million | \$8.0 million | \$309,354 | \$1.6 million | \$24,529 | \$17.0 million |
| 2022-23 | \$54.3 million | \$8.5 million | \$3.1 million | \$9.3 million | \$582,585 | \$1.9million | \$64,507 | \$70.6 million |

Source: Colorado Office of Economic Development and Trade.



Figure 1

Colorado Enterprise Zones and Counties Designated as Enhanced Rural Enterprise Zones



Source: Colorado Office of Economic Development and Trade.
Map prepared by Colorado Legislative Council Staff.