

Second Regular Session
Seventy-second General Assembly
STATE OF COLORADO

DRAFT
10.10.19

BILL 17

LLS NO. 20-0240.01 Pierce Lively x2059

INTERIM COMMITTEE BILL

Tax Expenditure Evaluation Interim Study Committee

BILL TOPIC: "Wage & Salary Expenses Tax Deduction"

A BILL FOR AN ACT

101 **CONCERNING THE REPEAL OF THE INCOME TAX DEDUCTION FOR**
102 **WAGES AND SALARIES DUE TO FEDERAL INTERNAL REVENUE**
103 **CODE SECTION 280C.**

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/>.)

Tax Expenditure Evaluation Interim Study Committee. Under current law, the state income tax deduction for wages and salaries due to section 280C of the federal internal revenue code allows C corporations and shareholders of S corporations to deduct wage and salary expenses that are not allowed to be deducted from their federal taxable income

*Capital letters or bold & italic numbers indicate new material to be added to existing statute.
Dashes through the words indicate deletions from existing statute.*

from their state taxable income. The bill repeals this income tax deduction.

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

2 **SECTION 1. Legislative declaration.** (1) The general assembly
3 finds and declares that:

4 (a) Under section 280C of the federal internal revenue code,
5 enacted in 1977, taxpayers who claim certain federal tax credits
6 referenced in section 280C must reduce the amount of federal wage and
7 salary deductions they claim by the amount they receive from those
8 federal tax credits.

9 (b) Colorado does not offer state tax credits equivalent to the
10 federal tax credits referenced in section 280C. Thus, Colorado C
11 corporations and shareholders of S corporations which claimed the
12 federal tax credits referenced in section 280C were not able to claim
13 corresponding state tax credits, but still had to reduce their wage and
14 salary deductions. As a result, Colorado C corporations and shareholders
15 of S corporations which claimed the federal tax credits referenced in
16 section 280C had the same reduced wage and salary deductions for both
17 their federal and state taxable incomes, but they could only claim the tax
18 credits referenced in section 280C for their federal taxable income.

19 (c) In 1979, the general assembly enacted a tax deduction that
20 allowed C corporations and shareholders of S corporations to claim the
21 wage and salary deductions for their Colorado income tax that section
22 280C prohibited them from claiming for the federal income tax.

23 (d) Tax credits are typically more valuable than tax deductions.
24 Consequently, corporations which claim federal tax credits referenced in
25 section 280C, but claim less wage and salary expense deductions,

1 ultimately have a lower tax burden than those corporations that are not
2 claiming federal tax credits, but claim more wage and salary expense
3 deductions.

4 (e) Because tax credits are more valuable than tax deductions, the
5 income tax deduction for wages and salaries due to section 280C
6 preserves the taxable income benefit granted to those Colorado C
7 corporations and shareholders of S corporations which claim the federal
8 tax credits referenced in section 280C.

9 (2) Therefore, it is the intent of the general assembly to simplify
10 the collection and administration of taxes for the state of Colorado by
11 repealing tax expenditures which do not meet their objectives.

12 **SECTION 2.** In Colorado Revised Statutes, 39-22-304, **amend**
13 (3)(i) as follows:

14 **39-22-304. Net income of corporation - legislative declaration**
15 **- definitions - repeal.** (3) There shall be subtracted from federal taxable
16 income:

17 (i) (I) PRIOR TO JANUARY 1, 2021, that portion of wages or salaries
18 paid or incurred for the taxable year, the deduction for which is
19 disallowed by section 280C of the internal revenue code;

20 (II) THIS SUBSECTION (3)(i) IS REPEALED, EFFECTIVE DECEMBER
21 31, 2024.

22 **SECTION 3. Act subject to petition - effective date.** This act
23 takes effect at 12:01 a.m. on the day following the expiration of the
24 ninety-day period after final adjournment of the general assembly (August
25 5, 2020, if adjournment sine die is on May 6, 2020); except that, if a
26 referendum petition is filed pursuant to section 1 (3) of article V of the
27 state constitution against this act or an item, section, or part of this act

1 within such period, then the act, item, section, or part will not take effect
2 unless approved by the people at the general election to be held in
3 November 2020 and, in such case, will take effect on the date of the
4 official declaration of the vote thereon by the governor.