



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 26-1062: EXPAND DEDUCTION FOR RETIREMENT BENEFITS

Prime Sponsors:

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Fiscal note status: The fiscal note reflects the introduced bill.

Summary Information

Overview. Starting in tax year 2027, the bill expands the pension and annuities benefits state income tax deduction for taxpayers aged 55 and over.

Types of impacts. The bill is projected to affect the following areas on an ongoing basis:

- State Revenue
- TABOR Refunds
- Minimal State Workload

Appropriations. No appropriation is required.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year FY 2026-27	Out Year FY 2027-28
State Revenue	\$42.7 million	-\$58.0 million
State Expenditures	\$0	\$0
Transferred Funds	\$0	\$0
Change in TABOR Refunds	\$42.7 million	-\$58.0 million
Change in State FTE	0.0 FTE	0.0 FTE

Fund sources for these impacts are shown in the tables below. The revenue impact above reflects the net impact of reduced revenue from the new tax credit created by the bill and increased revenue from changes to existing tax credits that are triggered as a result of this bill. For more information, see the LCS memorandum on [Treatment of Tax Credit Triggers in Fiscal Notes](#).

Table 1A
State Revenue

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund from Retirement Benefits Deduction	-\$235.1 million	-\$478.0 million
General Fund from Triggered Tax Credits	\$307.8 million	\$481.0 million
State Education Fund (Amendment 23)	-\$20.1 million	-\$40.8 million
Kids Matter Account in State Education Fund	-\$3.9 million	-\$8.0 million
Affordable Housing Financing Fund	-\$3.6 million	-\$7.4 million
Affordable Housing Support Fund	-\$2.4 million	-\$4.9 million
Total Revenue	\$42.7 million	-\$58.0 million

Summary of Legislation

Under current law, taxpayers ages 55 to 64 may deduct up to \$20,000 of pension and annuity income when calculating their Colorado taxable income, and taxpayers ages 65 and older may deduct up to \$24,000 each year. Taxpayers ages 65 and older, and taxpayers ages 55 to 64 with income below a certain level, can deduct the full amount of their federally taxable social security income instead, if that amount is higher.

Starting in tax year 2027, the bill removes the cap on pension and annuity income tax deductions so that all federally taxable pension and annuity income for taxpayers 55 and over can be deducted when calculating Colorado taxable income.

Background

Pension and Annuity Income

Pension income includes Public Employees' Retirement Association (PERA) retirement benefits, Social Security payments, pension income, and distributions from Individual Retirement Accounts (IRAs), and tax-deferred savings plans. Individuals receiving a survivor benefit, regardless of age, also qualify for the deduction. In tax year 2023, 573,941 taxpayers claimed \$14.3 billion in pension and annuity deductions, reducing revenue by \$629.7 million. The average deduction was \$24,934, resulting in an average taxpayer savings of \$1,097.

Allocation of Income Tax Revenue

Exempt from TABOR

Most income tax revenue is subject to TABOR and credited to the General Fund. However, one-third of 1 percent of Colorado taxable income is allocated to the State Education Fund (SEF) under Amendment 23. Additionally, one-tenth of 1 percent is allocated to affordable housing programs, with 60 percent directed to the Office of Economic Development and International Trade and 40 percent to the Department of Local Affairs under Proposition 123.

These allocations are exempt from TABOR. Bills that change taxable income affect both the State Education Fund and affordable housing allocations, while bills that change income tax credits only impact the General Fund.

Subject to TABOR

[House Bill 25-1320](#) creates the Kids Matter Account within the State Education Fund. Beginning July 1, 2026, 65 percent of one-tenth of 1 percent of taxable income must be deposited into this account. This amount is subject to TABOR.

Assumptions

Revenue estimates are based on taxpayer data from the Colorado Department of Revenue (CDOR) statistics of income. The revenue impact of the deduction under current law and under this bill in tax year 2027 and beyond were estimated as follows:

- The actual number of taxpayers claiming the deduction was grown by the Colorado state demographer's population forecast for those aged 55 and above.
- The average deduction claimed under current law and estimated average deduction under the bill were grown by the compound average annual growth rate in the average deduction for the four years prior to 2020, the most recent year for which federal data are available.
- Average deduction amounts were multiplied by the projected number of taxpayers claiming the deduction.
- The estimated revenue impact was adjusted to account for the expansion of the pension and annuities deduction in tax year 2025 under current law.

Applying these assumptions, in tax year 2027, it is estimated that about 610,000 taxpayers will save an estimated \$869 on average in income tax, for a total revenue reduction of \$530 million on an additional \$12.05 billion in deductions

State Revenue

On net, the bill is expected to increase state income tax revenue by \$42.7 million in FY 2026-27 and decrease revenue by \$58.0 million in FY 2027-28. The reduction in General Fund revenue from expanding the retirement benefits income tax deduction is expected to be offset by increased revenue from existing triggered tax credits.

In subsequent years, when the bill no longer affects triggered tax credits, state revenue is expected to decrease by about \$565 million annually, with further reductions as the population aged 55 and over grows and average deduction amounts increase. The FY 2026-27 figure reflects a half-year impact for tax year 2027 on an accrual accounting basis.

The impacts on different funds are presented in Table 1A. The General Fund impacts and the change in revenue to the Kids Matter Account in the SEF are subject to TABOR. The Amendment 23 allocations to the State Education Fund, the Affordable Housing Financing Fund, and the Affordable Housing Support Fund are TABOR-exempt.

Triggered Tax Credits

The bill is expected to increase revenue by \$307.8 million in FY 2026-27 and \$481.0 million in FY 2027-28 by causing triggered tax credits that are expected to be partially available under current law to become totally unavailable. The amounts and availability of these credits depend on certain state revenue conditions, known as adjustment factors, which are used to calculate the family affordability tax credit and the expanded earned income tax credit.

The revenue reduction from expanding the retirement benefits deduction is significant enough to affect these adjustment factors. As a result of the bill, these credits are expected to be unavailable in tax years 2027 and 2028. The revenue increases shown are relative to the expected impacts of the credits projected in the December 2025 forecast.

For more information, see the LCS memorandum on [Treatment of Tax Credit Triggers in Fiscal Notes](#)

State Expenditures

The bill is expected to minimally increase workload in the CDOR to program the GenTax system to remove the current cap on pension and annuity income tax deductions. This workload can be accomplished within existing resources.

TABOR Refunds

The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by \$42.7 million in FY 2026-27. For FY 2027-28, the bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by \$58.0 million. This estimate assumes the December 2025 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2027-28.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State and Local Government Contacts

Personnel

Revenue

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).