



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado’s Legislature

SB 26-056: STATE OVERTIME COMPENSATION INCOME TAX

Prime Sponsors:

Sen. Kirkmeyer
Rep. Caldwell

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

Summary Information

Overview. The bill repeals the state overtime compensation income tax addback beginning in tax 2027.

Types of impacts. The bill is projected to affect the following areas through FY 2028-29:

- State Revenue
- Minimal State Workload
- TABOR Refunds

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	\$65.9 million	\$1.8 million
State Expenditures	\$0	\$0
Transferred Funds	\$0	\$0
Change in TABOR Refunds	\$65.9 million	\$1.8 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 tax changes under 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 Overtime Addback Repeal	-\$58.5 million	-\$117.8 million
General Fund from Triggered Tax Credits	\$124.4 million	\$119.6 million
Total Revenue	\$65.9 million	\$1.8 million

Summary of Legislation

The bill repeals the state overtime compensation income tax addback beginning in tax year 2027.

Background

A federal income tax deduction for qualified overtime compensation is available for tax year 2025 through 2028 under 2025 H.R. 1, the One Big Beautiful Bill Act (OBBBA). [House Bill 25-1296](#) creates a state income tax addition, which requires taxpayers to add the amount of any overtime compensation excluded from their federal income tax revenue to their Colorado taxable income beginning in tax year 2026.

State Revenue

On net, the bill is estimated to increase General Fund revenue by \$65.9 million in FY 2026-27 and by \$1.8 million in FY 2027-28. The federal income tax deduction is no longer available after tax year 2028, so there is no state fiscal impact after FY 2028-29. The bill affects individual income tax revenue, which is subject to TABOR. It decreases state revenue by repealing the overtime addback, and increases state revenue by causing triggered tax credits to become available at a lower level than expected under current law.

Repeal of Overtime Addback

Repealing the overtime addback is expected to decrease state revenue by \$58.5 million in FY 2026-27, a half-year impact for tax year 2027, \$117.8 million in FY 2027-28, and \$59.3 million in FY 2028-29, a final half-year impact for tax year 2028.

Triggered Tax Credits

The bill is expected to increase revenue by \$124.4 million in FY 2026-27 and \$119.6 million in FY 2027-28 by causing triggered tax credits that are expected to be partially available under current law to be available at a lower level than expected under current law. 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 repealing the state overtime compensation addback is significant enough to affect these adjustment factors. As a result of the bill, these credits are expected to be reduced 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 may reduce costs and FTE for tax services and tax conferees following removal of the addback. However, the Department of Revenue (DOR) has not received appropriations or staff to implement the overtime compensation addback created in HB 25-1296 or to make other system and staffing changes related to passage of the OBBBA. The DOR's FY 2026-27 budget request includes a [decision item](#) for implementation of this addback and the OBBBA. The DOR may also incur minimal GenTax programming costs to undo the addback. This fiscal note will be updated if additional information on the outcome of this decision item becomes available and the specific FTE savings can be identified.

TABOR Refunds

The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by \$68.9 million in FY 2026-27 and \$1.8 million in FY 2027-28. This estimate assumes the December 2025 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2027-28. Because TABOR refunds are paid from the General Fund, increased General Fund revenue will increase 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.

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](#).