

Second Regular Session
Seventy-fifth General Assembly
STATE OF COLORADO

INTRODUCED

LLS NO. 26-0464.01 Alison Killen x4350

HOUSE BILL 26-1222

HOUSE SPONSORSHIP

Garcia and McCormick,

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House Committees

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A BILL FOR AN ACT

101 **CONCERNING THE MODIFICATION OF TAX EXPENDITURES, AND, IN**
102 **CONNECTION THEREWITH, MAKING ADDITIONS TO THE**
103 **DEFINITION OF FEDERAL TAXABLE INCOME FOR TAX YEARS**
104 **COMMENCING ON OR AFTER JANUARY 1, 2027, AND CREATING**
105 **THE FAMILY AFFORDABILITY CREDIT.**

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>.)

Recent changes to the federal income tax code significantly increased the amount of business-related expenses that may be deducted

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.
Capital letters or bold & italic numbers indicate new material to be added to existing law.
Dashes through the words or numbers indicate deletions from existing law.

for federal income tax purposes as follows:

- Expanded the business interest deduction limitation pursuant to section 163 (j) of the internal revenue code (IRC) by adding back depreciation, amortization, and depletion for calculation of adjusted taxable income and determination of the deduction base, resulting in many taxpayers, especially capital intensive businesses, being able to deduct a larger portion of their business interest expense;
- Expanded the bonus depreciation deduction pursuant to section 168 (k) of the IRC by permanently restoring the 100% first-year bonus depreciation deduction for "qualified property" acquired and placed in service on or after January 20, 2025;
- Created an elective 100% depreciation deduction in section 168 (n) of the IRC for "qualified production property", which is property largely tied to manufacturing, production, or refining facilities and that would not otherwise qualify for section 168 (k) bonus depreciation; and
- Created a new section 174A of the IRC that allows taxpayers to immediately deduct domestic research and experimental expenditures paid or incurred during the taxable year, rather than requiring such costs to be capitalized and amortized over time.

Because the state income tax is imposed on federal taxable income, these changes to the definition of federal income also exclude these business-related expenses from state income taxation. The bill reverses these changes to the federal tax code for purposes of the state income tax code and creates a new tax credit using the resulting revenue.

Sections 2 and 4 of the bill provide, for income tax years commencing on or after January 1, 2027, that individual and corporate state income taxpayers must add the following to their federal taxable income for purposes of applying the state income tax:

- An amount equal to the federal deduction claimed by the taxpayer for business interest pursuant to the limitation in section 163 (j) of the IRC to the extent the amount exceeds the amount the taxpayer would have been allowed to claim before the limitation was changed as described above;
- An amount equal to the federal deduction claimed by the taxpayer for qualified property depreciation pursuant to section 168 (k) of the IRC to the extent the amount claimed exceeds the amount the taxpayer would have been allowed to claim under section 168 (k) prior to the change described above; except that, the taxpayer may reduce the amount required to be added back by the amount of depreciation

the taxpayer would have been allowed to claim for the taxable year with respect to the same property pursuant to any section other than section 168 (k) of the IRC prior to the recent federal changes;

- An amount equal to the federal deduction claimed by the taxpayer for qualified production property depreciation pursuant to section 168 (n) of the IRC; except that, the taxpayer may reduce the amount required to be added back by the amount of depreciation the taxpayer would have been allowed to claim for the taxable year with respect to the same property pursuant to any section other than section 168 (k) of the IRC prior to the recent federal change; and
- An amount equal to the federal deduction claimed by the taxpayer for the income tax year for domestic research and experimental expenditures pursuant to section 174A of the IRC; except that, the taxpayer may reduce the amount required to be added back by the amount of the deduction the taxpayer would have been allowed to claim for the taxable year with respect to the same research and experimental expenditures pursuant to section 174 of the IRC prior to the recent federal changes.

Sections 2 and 4 allow taxpayers who are required to make additions to their federal taxable income pursuant to the new provisions to subtract the amounts of their disallowed federal deductions over time, using time periods that reflect how the property or expense would have been treated prior to the recent changes to the federal tax code.

Section 3 creates a new tax credit. The new tax credit allows taxpayers to claim a refundable tax credit, in addition to the child tax credit and the family affordability tax credit, in an amount determined by the amount and age of the taxpayer's children and the taxpayer's income. The total amount of the new tax credit is adjusted annually based on legislative council staff projections, such that the total amount of the new tax credit claimed in an income tax year is projected to be the same as the amount of revenue raised in **sections 2 and 4**.

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

2 **SECTION 1. Legislative declaration.**

3 (1) The general assembly finds and declares that:

4 (a) The general assembly has an ongoing responsibility to review,
5 evaluate, and update the state tax code within constitutional limitations

1 to ensure that the state code is effective, equitable, and aligned with
2 Colorado's priorities;

3 (b) (I) Recent changes in the federal tax code materially expanded
4 certain business-related deductions, including deductions related to
5 business interest expense, bonus depreciation, qualified production
6 property, and domestic research and experimental expenditures (business
7 deductions).

8 (II) The business deductions significantly reduce federal taxable
9 income without regard to a taxpayer's ability to pay or connection to
10 household economic security.

11 (c) (I) Colorado state income tax is determined based on the
12 amount of a person's federal taxable income.

13 (II) The material expansion of the federal business deductions
14 modified the computation of federal taxable income and so impacted
15 Colorado state income tax revenue.

16 (III) The net impact of the recent federal tax code modification to
17 the computation of federal taxable income was a reduction in state
18 income tax revenue.

19 (IV) The amount and availability of the family affordability tax
20 credit is determined in part by the amount of state income tax revenue.

21 (V) Therefore, by modifying the computation of federal taxable
22 income, the expansion of the business deductions impacted the amount
23 and availability of the family affordability tax credit.

24 (VI) At least in part due to the enactment of recent changes to the
25 federal tax code, the family affordability tax credit will not be available
26 for the 2026 state income tax year and will be available in a reduced
27 amount for income tax years 2027 and 2028.

1 (d) (I) In establishing the family affordability tax credit, the
2 general assembly found and declared that:

3 (A) Colorado families struggle to afford many necessary goods
4 and services, such as child care, housing, and health care. Eighty-three
5 percent of Colorado parents worry that their children won't be able to
6 afford to live in the state in the future.

7 (B) Targeted tax credits are a proven tool to lift families out of
8 poverty. Research has shown that families that claim these types of tax
9 credits, such as the state and federal child tax credit and the state and
10 federal earned income tax credit, have better health, improved schooling
11 outcomes, and increased adult earning potential. As the cost of raising
12 children has increased, a family affordability tax credit is critical for the
13 well-being of many children and families across Colorado.

14 (C) According to the Institute on Taxation and Economic Policy,
15 "[t]o cut child poverty rates by half, the majority of states would require
16 a base credit value of between three thousand dollars and four thousand
17 five hundred dollars per child plus a twenty percent boost for young
18 children". When coupled with the state and federal earned income tax
19 credit and the state and federal child tax credit, the additional investment
20 provided by the family affordability tax credit would establish Colorado
21 as a national leader in equitable economic policy.

22 (D) Colorado is dealing with rising costs and funding shortfalls in
23 many areas across our state, and it is necessary to provide tax credits to
24 the people who need it most in a way that will do the most good.
25 Establishing the family affordability tax credit is a proven way to do that;
26 and

27 (E) By prioritizing the state's lowest-income households,

1 expanding the child age eligibility, and including more families, the state
2 can provide research-backed investments for families. Through
3 thoughtful and strategic investment, Colorado can cut child poverty nearly
4 in half.

5 (II) Therefore, it is a priority of Colorado to provide a tax credit
6 that targets the same taxpayers that the family affordability tax credit
7 targeted, to offset the reduction in the family affordability tax credit.

8 (e) (I) This House Bill 26-_____ constitutes a single
9 comprehensive tax policy change that better aligns the state tax code with
10 Colorado's priorities by, at least partially, mitigating the modified federal
11 income tax code's effects on the family affordability tax credit by creating
12 a tax credit that targets the same population that the family affordability
13 tax credit targeted while also requiring taxpayers to add back to their
14 taxable income only the incremental income amounts attributable to the
15 recent expansion of the federal business deductions. The expanded
16 business deductions disproportionately benefit large and capital-intensive
17 businesses, while providing little or no direct benefit to low- and
18 moderate-income households, which households are particularly sensitive
19 to changes in tax policy and public investment. While Colorado's income
20 tax system is designed to conform to federal law generally, state law also
21 preserves the general assembly's authority to decouple from federal tax
22 provisions that undermine state fiscal stability, equity, or policy priorities.
23 This House Bill 26-_____ preserves the integrity of the state's
24 commitment to support low-income households, while maintaining
25 long-standing federal conformity for core income calculations and the
26 state income tax base.

27 (II) The income tax credit created in this House Bill 26-_____

1 reduces state tax revenue in an amount equal to or greater than the
2 amount of state revenue gain attributable to the changes made in this
3 House Bill 26-_____;

4 (III) Any net district revenue gain resulting from the tax policy
5 change in this House Bill 26-_____ is incidental and de minimis; and

6 (IV) Therefore, consistent with the Colorado Supreme Court's
7 holding in *TABOR Found. v. Reg'l Transp. Dist.*, 2018 CO 29, that a tax
8 policy change that causes either no net district tax revenue gain or a net
9 district tax revenue gain that is only incidental and de minimis does not
10 require voter approval under section 20 (4)(a) of article X of the state
11 constitution, this House Bill 26-_____ is not a tax policy change that
12 requires voter approval.

13 **SECTION 2.** In Colorado Revised Statutes, 39-22-104, **add**
14 (3)(v), (3)(w), (3)(x), (3)(y), and (4)(ff) as follows:

15 **39-22-104. Income tax imposed on individuals, estates, and**
16 **trusts - single rate - report - tax preference performance statement**
17 **- legislative declaration - definitions - repeal.**

18 (3) There shall be added to the federal taxable income:

19 (v) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
20 1, 2027, AN AMOUNT EQUAL TO THE FEDERAL DEDUCTION CLAIMED BY THE
21 TAXPAYER FOR THE INCOME TAX YEAR FOR BUSINESS INTEREST PURSUANT
22 TO SECTION 163 OF THE INTERNAL REVENUE CODE TO THE EXTENT THE
23 AMOUNT CLAIMED EXCEEDS THE AMOUNT THE TAXPAYER WOULD HAVE
24 BEEN ALLOWED TO CLAIM PURSUANT TO THE LIMITATION ON BUSINESS
25 INTEREST SET FORTH IN SECTION 163 (j) OF THE INTERNAL REVENUE CODE
26 WITHOUT REGARD TO ANY AMENDMENT BY PUB. L. 119-21;

27 (w) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY

1 1,2027, AN AMOUNT EQUAL TO THE FEDERAL DEDUCTION CLAIMED BY THE
2 TAXPAYER FOR THE INCOME TAX YEAR FOR QUALIFIED PROPERTY
3 DEPRECIATION PURSUANT TO SECTION 168 (k) OF THE INTERNAL REVENUE
4 CODE TO THE EXTENT THE AMOUNT CLAIMED EXCEEDS THE AMOUNT THE
5 TAXPAYER WOULD HAVE BEEN ALLOWED TO CLAIM PURSUANT TO SECTION
6 168 (k) OF THE INTERNAL REVENUE CODE WITHOUT REGARD TO ANY
7 AMENDMENT BY PUB. L. 119-21; EXCEPT THAT, THE TAXPAYER MAY
8 REDUCE THE AMOUNT OTHERWISE REQUIRED TO BE ADDED TO THE
9 TAXPAYER'S FEDERAL TAXABLE INCOME PURSUANT TO THIS SUBSECTION
10 (3)(w) BY THE AMOUNT OF QUALIFIED PROPERTY DEPRECIATION THE
11 TAXPAYER WOULD HAVE BEEN ALLOWED TO CLAIM FOR THE INCOME TAX
12 YEAR WITH RESPECT TO THE SAME PROPERTY PURSUANT TO ANY SECTION
13 OTHER THAN SECTION 168 (k) OF THE INTERNAL REVENUE CODE WITHOUT
14 REGARD TO ANY AMENDMENT BY PUB. L. 119-21;

15 (x) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
16 1,2027, AN AMOUNT EQUAL TO THE FEDERAL DEDUCTION CLAIMED BY THE
17 TAXPAYER FOR THE INCOME TAX YEAR FOR QUALIFIED PRODUCTION
18 PROPERTY DEPRECIATION PURSUANT TO SECTION 168 (n) OF THE INTERNAL
19 REVENUE CODE; EXCEPT THAT, THE TAXPAYER MAY REDUCE THE AMOUNT
20 OTHERWISE REQUIRED TO BE ADDED TO THE TAXPAYER'S FEDERAL
21 TAXABLE INCOME PURSUANT TO THIS SUBSECTION (3)(x) BY THE AMOUNT
22 OF QUALIFIED PRODUCTION PROPERTY DEPRECIATION THE TAXPAYER
23 WOULD HAVE BEEN ALLOWED TO CLAIM FOR THE INCOME TAX YEAR WITH
24 RESPECT TO THE SAME PROPERTY PURSUANT TO ANY SECTION OTHER THAN
25 SECTION 168 (k) OF THE INTERNAL REVENUE CODE WITHOUT REGARD TO
26 ANY AMENDMENT BY PUB. L. 119-21; AND

27 (y) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY

1 1, 2027, AN AMOUNT EQUAL TO THE FEDERAL DEDUCTION CLAIMED BY THE
2 TAXPAYER FOR THE INCOME TAX YEAR FOR DOMESTIC RESEARCH AND
3 EXPERIMENTAL EXPENDITURES PURSUANT TO SECTION 174A OF THE
4 INTERNAL REVENUE CODE; EXCEPT THAT, THE TAXPAYER MAY REDUCE
5 THE AMOUNT OTHERWISE REQUIRED TO BE ADDED TO THE TAXPAYER'S
6 FEDERAL TAXABLE INCOME PURSUANT TO THIS SUBSECTION (3)(y) BY THE
7 AMOUNT OF THE DEDUCTION THE TAXPAYER WOULD HAVE BEEN ALLOWED
8 TO CLAIM FOR THE INCOME TAX YEAR WITH RESPECT TO THE SAME
9 RESEARCH AND EXPERIMENTAL EXPENDITURES PURSUANT TO SECTION 174
10 OF THE INTERNAL REVENUE CODE WITHOUT REGARD TO ANY AMENDMENT
11 BY PUB. L. 119-21.

12 (4) There shall be subtracted from federal taxable income:

13 (ff) (I) FOR INCOME TAX YEARS COMMENCING ON OR AFTER
14 JANUARY 1, 2028, A TAXPAYER REQUIRED TO MAKE AN ADDITION TO
15 FEDERAL TAXABLE INCOME PURSUANT TO SUBSECTION (3)(v), (3)(w),
16 (3)(x), OR (3)(y) OF THIS SECTION, IS ALLOWED TO APPLY THE FOLLOWING
17 SUBTRACTIONS IN ACCORDANCE WITH THIS SUBSECTION (4)(ff):

18 (A) AN AMOUNT EQUAL TO ONE-FIFTH OF THE CUMULATIVE
19 AMOUNT ADDED TO FEDERAL TAXABLE INCOME AS REQUIRED BY
20 SUBSECTION (3)(v) OF THIS SECTION FOR EACH OF THE FIVE INCOME TAX
21 YEARS IMMEDIATELY FOLLOWING THE INCOME TAX YEAR IN WHICH THE
22 ADDITION WAS REQUIRED PURSUANT TO SUBSECTION (3)(v) OF THIS
23 SECTION;

24 (B) AN AMOUNT EQUAL TO ONE-TENTH OF THE CUMULATIVE
25 AMOUNT ADDED TO FEDERAL TAXABLE INCOME AS REQUIRED BY
26 SUBSECTION (3)(w) OF THIS SECTION FOR EACH OF THE TEN INCOME TAX
27 YEARS IMMEDIATELY FOLLOWING THE INCOME TAX YEAR IN WHICH THE

1 ADDITION WAS REQUIRED PURSUANT TO SUBSECTION (3)(w) OF THIS
2 SECTION;

3 (C) AN AMOUNT EQUAL TO ONE THIRTY-EIGHTH OF THE
4 CUMULATIVE AMOUNT ADDED TO FEDERAL TAXABLE INCOME AS REQUIRED
5 BY SUBSECTION (3)(v) OF THIS SECTION FOR EACH OF THE THIRTY-EIGHT
6 INCOME TAX YEARS IMMEDIATELY FOLLOWING THE INCOME TAX YEAR IN
7 WHICH THE ADDITION WAS REQUIRED PURSUANT TO SUBSECTION (3)(v) OF
8 THIS SECTION; AND

9 (D) AN AMOUNT EQUAL TO ONE-FOURTH OF THE CUMULATIVE
10 AMOUNT ADDED TO FEDERAL TAXABLE INCOME AS REQUIRED BY
11 SUBSECTION (3)(y) OF THIS SECTION FOR EACH OF THE FOUR INCOME TAX
12 YEARS IMMEDIATELY FOLLOWING THE INCOME TAX YEAR IN WHICH THE
13 ADDITION WAS REQUIRED PURSUANT TO SUBSECTION (3)(y) OF THIS
14 SECTION.

15 (II) THE TOTAL AMOUNT OF EACH SUBTRACTION ALLOWED
16 PURSUANT TO SUBSECTIONS (4)(ff)(I), (4)(ff)(II), (4)(ff)(III), AND
17 (4)(ff)(IV) OF THIS SECTION FOR A TAXPAYER SHALL NOT EXCEED THE
18 CUMULATIVE AMOUNT ADDED TO FEDERAL TAXABLE INCOME PURSUANT
19 TO EACH CORRESPONDING ADDITION REQUIRED BY SUBSECTIONS (3)(v),
20 (3)(w), (3)(x), AND (3)(y) OF THIS SECTION FOR THAT SAME TAXPAYER.

21 (III) THE SUBTRACTIONS ALLOWED PURSUANT TO THIS SUBSECTION
22 (4)(ff) APPLY AFTER THE APPLICATION OF THE OTHER SUBTRACTIONS
23 PROVIDED FOR IN THIS SUBSECTION (4), EXCEPT FOR THE SUBTRACTION
24 ALLOWED PURSUANT TO SUBSECTION (4)(z) OF THIS SECTION. IF THE
25 AMOUNT OF THE SUBTRACTIONS ALLOWED UNDER THIS SUBSECTION (4)(ff)
26 EXCEEDS A TAXPAYER'S FEDERAL TAXABLE INCOME AS CALCULATED
27 PURSUANT TO THIS SECTION WITHOUT REGARD TO THE SUBTRACTION

1 ALLOWED PURSUANT TO SUBSECTION (4)(z) OF THIS SECTION, THE AMOUNT
2 NOT SUBTRACTED FROM THE TAXPAYER'S FEDERAL TAXABLE INCOME
3 PURSUANT TO THIS SECTION MAY BE CARRIED FORWARD AND USED AS A
4 SUBTRACTION FROM THE TAXPAYER'S FEDERAL TAXABLE INCOME AS
5 CALCULATED PURSUANT TO THIS SECTION WITHOUT REGARD TO THE
6 SUBTRACTION ALLOWED PURSUANT TO SUBSECTION (4)(z) OF THIS
7 SECTION IN SUBSEQUENT YEARS FOR A PERIOD NOT TO EXCEED TEN YEARS
8 AND MUST BE APPLIED FIRST TO THE EARLIEST POSSIBLE INCOME TAX
9 YEAR. ANY SUBTRACTION REMAINING AFTER THE PERIOD IS NOT
10 REFUNDED OR CREDITED TO THE QUALIFIED TAXPAYER.

11 **SECTION 3.** In Colorado Revised Statutes, **add** 39-22-131 as
12 follows:

13 **39-22-131. Family affordability credit - tax preference**
14 **performance statement - legislative declaration - definitions.**

15 (1) (a) IN ACCORDANCE WITH SECTION 39-21-304 (1), WHICH
16 REQUIRES EACH BILL THAT CREATES A NEW TAX EXPENDITURE TO INCLUDE
17 A TAX PREFERENCE PERFORMANCE STATEMENT AS PART OF A STATUTORY
18 LEGISLATIVE DECLARATION, THE GENERAL ASSEMBLY HEREBY FINDS AND
19 DECLARES THAT THE PURPOSES OF THE INCOME TAX CREDIT CREATED IN
20 THIS SECTION ARE THE SAME AS THE FAMILY AFFORDABILITY TAX CREDIT:
21 TO SUBSTANTIALLY REDUCE CHILD POVERTY, MAKE COLORADO MORE
22 AFFORDABLE FOR FAMILIES, AND HELP FAMILIES AFFORD EXPENSES
23 ASSOCIATED WITH HAVING CHILDREN BY PROVIDING TAX RELIEF FOR
24 CERTAIN INDIVIDUALS.

25 (b) THE GENERAL ASSEMBLY AND THE STATE AUDITOR, IN
26 CONSULTATION WITH THE DEPARTMENT, SHALL MEASURE THE
27 EFFECTIVENESS OF THE INCOME TAX CREDIT CREATED IN THIS SECTION IN

1 COMBINATION WITH THE FAMILY AFFORDABILITY TAX CREDIT AND, IN THE
2 SAME MANNER AS THE GENERAL ASSEMBLY AND THE STATE AUDITOR
3 MEASURE THE EFFECTIVENESS OF THE FAMILY AFFORDABILITY TAX CREDIT
4 BY DETERMINING THE NUMBER OF COLORADO FAMILIES THAT, AFTER
5 CLAIMING A CREDIT PURSUANT TO THIS SECTION AND THE FAMILY
6 AFFORDABILITY CREDIT, NO LONGER FALL BELOW THE FEDERAL POVERTY
7 LEVEL IN THE TAX YEAR IN WHICH THEY CLAIMED THE CREDITS.

8 (2) AS USED IN THIS SECTION, UNLESS THE CONTEXT OTHERWISE
9 REQUIRES:

10 (a) "CREDIT" MEANS THE CREDIT AGAINST INCOME TAX CREATED
11 IN THIS SECTION.

12 (b) "DEPARTMENT" MEANS THE DEPARTMENT OF REVENUE.

13 (c) "ELIGIBLE CHILD" MEANS A QUALIFYING CHILD, AS DEFINED IN
14 SECTION 152 (c) OF THE FEDERAL "INTERNAL REVENUE CODE OF 1986";
15 EXCEPT THAT THE AGE REQUIREMENTS ARE SET FORTH IN SUBSECTIONS
16 (3)(a)(I), (3)(a)(II), (3)(b)(I), AND (3)(b)(II) OF THIS SECTION.

17 (d) "FEDERAL POVERTY LEVEL" MEANS THE POVERTY LINE THAT
18 IS REQUIRED TO BE UPDATED ANNUALLY WITHIN THE FEDERAL POVERTY
19 GUIDELINES ADOPTED BY THE UNITED STATES DEPARTMENT OF HEALTH
20 AND HUMAN SERVICES PURSUANT TO 42 U.S.C. SEC. 9902 (2).

21 (e) "INFLATION" MEANS THE ANNUAL PERCENTAGE CHANGE IN THE
22 UNITED STATES DEPARTMENT OF LABOR BUREAU OF LABOR STATISTICS
23 CONSUMER PRICE INDEX FOR DENVER-AURORA-LAKEWOOD FOR ALL
24 ITEMS PAID BY ALL URBAN CONSUMERS, OR ITS APPLICABLE SUCCESSOR
25 INDEX.

26 (3) (a) IN ADDITION TO THE CHILD TAX CREDIT ALLOWED BY
27 SECTION 39-22-129 AND THE FAMILY AFFORDABILITY TAX CREDIT

1 ALLOWED BY SECTION 39-22-130, FOR INCOME TAX YEARS COMMENCING
2 ON OR AFTER JANUARY 1, 2027, A RESIDENT INDIVIDUAL WHO FILES A
3 SINGLE RETURN IS ALLOWED A CREDIT AGAINST THE INCOME TAXES
4 IMPOSED PURSUANT TO THIS ARTICLE 22 FOR:

5 (I) EACH ELIGIBLE CHILD OF THE RESIDENT INDIVIDUAL WHO IS
6 FIVE YEARS OLD OR YOUNGER AT THE CLOSE OF THE INCOME TAX YEAR IN
7 AN AMOUNT DETERMINED BY STAFF OF THE LEGISLATIVE COUNCIL
8 PURSUANT TO SUBSECTION (5)(b) OF THIS SECTION; AND

9 (II) EACH ELIGIBLE CHILD OF THE RESIDENT INDIVIDUAL WHO IS SIX
10 YEARS OLD OR OLDER BUT LESS THAN SEVENTEEN YEARS OLD AT THE
11 CLOSE OF THE INCOME TAX YEAR IN AN AMOUNT THAT IS SEVENTY-FIVE
12 PERCENT OF THE AMOUNT ALLOWED IN SUBSECTION (3)(a)(I) OF THIS
13 SECTION.

14 (b) IN ADDITION TO THE CHILD TAX CREDIT ALLOWED BY SECTION
15 39-22-129 AND THE FAMILY AFFORDABILITY TAX CREDIT ALLOWED BY
16 SECTION 39-22-130, FOR INCOME TAX YEARS COMMENCING ON OR AFTER
17 JANUARY 1, 2027, TWO RESIDENT INDIVIDUALS WHO FILE A JOINT RETURN
18 ARE ALLOWED A FAMILY AFFORDABILITY TAX CREDIT AGAINST THE
19 INCOME TAXES DUE IMPOSED PURSUANT TO THIS ARTICLE 22 FOR:

20 (I) EACH ELIGIBLE CHILD OF THE RESIDENT INDIVIDUAL WHO IS
21 FIVE YEARS OLD OR YOUNGER AT THE CLOSE OF THE INCOME TAX YEAR IN
22 AN AMOUNT DETERMINED BY STAFF OF THE LEGISLATIVE COUNCIL
23 PURSUANT TO SUBSECTION (5)(b) OF THIS SECTION; AND

24 (II) EACH ELIGIBLE CHILD OF THE RESIDENT INDIVIDUAL WHO IS SIX
25 YEARS OLD OR OLDER BUT LESS THAN SEVENTEEN YEARS OLD AT THE
26 CLOSE OF THE INCOME TAX YEAR IN AN AMOUNT THAT IS SEVENTY-FIVE
27 PERCENT OF THE AMOUNT ALLOWED IN SUBSECTION (3)(b)(I) OF THIS

1 SECTION.

2 (4) (a) NOTWITHSTANDING SUBSECTION (3) OF THIS SECTION, FOR
3 INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY 1, 2027, THE
4 CREDIT AMOUNTS IN:

5 (I) SUBSECTION (3)(a)(I) OF THIS SECTION ARE REDUCED, BUT NOT
6 BELOW ZERO, BY AN AMOUNT EQUAL TO SIX AND EIGHT HUNDRED
7 SEVENTY-FIVE ONE-THOUSANDTHS PERCENT FOR EACH FIVE THOUSAND
8 DOLLARS BY WHICH A RESIDENT INDIVIDUAL'S ADJUSTED GROSS INCOME
9 EXCEEDS FIFTEEN THOUSAND DOLLARS; AND

10 (II) SUBSECTION (3)(b)(I) OF THIS SECTION ARE REDUCED, BUT NOT
11 BELOW ZERO, BY AN AMOUNT EQUAL TO SIX AND EIGHT HUNDRED
12 SEVENTY-FIVE ONE-THOUSANDTHS PERCENT FOR EACH FIVE THOUSAND
13 DOLLARS BY WHICH TWO RESIDENT INDIVIDUALS' ADJUSTED GROSS
14 INCOME EXCEEDS TWENTY-FIVE THOUSAND DOLLARS.

15 (b) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
16 1, 2028, THE DEPARTMENT SHALL ADJUST THE FEDERAL ADJUSTED GROSS
17 INCOME AMOUNTS SET FORTH IN THIS SUBSECTION (4) TO REFLECT
18 INFLATION FOR EACH INCOME TAX YEAR IN WHICH THE CREDIT DESCRIBED
19 IN THIS SECTION IS ALLOWED IF CUMULATIVE INFLATION SINCE THE LAST
20 ADJUSTMENT, WHEN APPLIED TO THE CURRENT LIMITS, RESULTS IN AN
21 INCREASE OF AT LEAST ONE THOUSAND DOLLARS WHEN THE ADJUSTED
22 LIMITS ARE ROUNDED TO THE NEAREST ONE THOUSAND DOLLARS.

23 (5) BEGINNING WITH THE QUARTERLY DECEMBER REVENUE
24 FORECAST THAT LEGISLATIVE COUNCIL STAFF PRESENTS IN DECEMBER OF
25 2027, AND FOR EACH DECEMBER REVENUE FORECAST THEREAFTER, AS
26 PART OF THE QUARTERLY DECEMBER REVENUE FORECAST, LEGISLATIVE
27 COUNCIL STAFF SHALL DETERMINE:

1 (a) FOR THE CURRENT INCOME TAX YEAR, A PROJECTION OF THE
2 NET AMOUNT OF REVENUE GAIN DIRECTLY ATTRIBUTABLE TO THE
3 CHANGES MADE IN THIS HOUSE BILL 26-_____, NOTWITHSTANDING THE
4 TAX CREDIT CREATED IN THIS SECTION;

5 (b) A DOLLAR AMOUNT OF THE CREDIT AVAILABLE PURSUANT TO
6 SUBSECTIONS (3)(a)(I) AND (3)(b)(I) OF THIS SECTION, WHICH DOLLAR
7 AMOUNT MUST BE THE SAME FOR BOTH SUBSECTIONS (3)(a)(I) AND
8 (3)(b)(I) OF THIS SECTION, SUCH THAT THE STAFF OF THE LEGISLATIVE
9 COUNCIL PROJECTS, FOR THE CURRENT STATE INCOME TAX YEAR, THAT
10 THE TOTAL DOLLAR AMOUNT OF CREDITS CLAIMED PURSUANT TO
11 SUBSECTION (3) WILL EQUAL THE DOLLAR AMOUNT THAT STAFF OF THE
12 LEGISLATIVE COUNCIL DETERMINE PURSUANT TO SUBSECTION (5)(a) OF
13 THIS SECTION.

14 (6) NO LATER THAN TWO WEEKS BEFORE THE QUARTERLY
15 DECEMBER REVENUE FORECAST THAT LEGISLATIVE COUNCIL STAFF
16 PRESENTS IN DECEMBER OF 2028, AND EACH DECEMBER REVENUE
17 FORECAST THEREAFTER, THE DEPARTMENT SHALL DELIVER A REPORT TO
18 THE STAFF OF THE LEGISLATIVE COUNCIL THAT DESCRIBES THE REVENUE
19 GAIN DIRECTLY ATTRIBUTABLE TO THE CHANGES MADE IN THIS HOUSE
20 BILL 26-_____ FOR THE PREVIOUS INCOME TAX YEAR, NOTWITHSTANDING
21 THE TAX CREDIT CREATED IN THIS SECTION.

22 (7) IN THE CASE OF A PART-YEAR RESIDENT, THE CREDIT ALLOWED
23 UNDER THIS SECTION IS APPORTIONED IN THE RATIO DETERMINED UNDER
24 SECTION 39-22-110 (1).

25 (8) THE CREDIT ALLOWED UNDER THIS SECTION IS NOT
26 CONSIDERED TO BE INCOME OR RESOURCES FOR THE PURPOSE OF
27 DETERMINING ELIGIBILITY FOR THE PAYMENT OF PUBLIC ASSISTANCE

1 BENEFITS AND MEDICAL ASSISTANCE BENEFITS AUTHORIZED UNDER STATE
2 LAW OR FOR A PAYMENT MADE UNDER ANY OTHER PUBLICLY FUNDED
3 PROGRAM.

4 (9) THE AMOUNT OF THE CREDIT ALLOWED UNDER THIS SECTION
5 THAT EXCEEDS THE RESIDENT INDIVIDUAL'S INCOME TAXES DUE IS
6 REFUNDED TO THE INDIVIDUAL.

7 (10) THE DEPARTMENT IS AUTHORIZED AND ENCOURAGED TO
8 DEVELOP A MEANS OF REFUNDING THE CREDITS ALLOWED BY THIS SECTION
9 TO RESIDENT INDIVIDUALS WHO QUALIFY FOR THE CREDITS IN TWELVE
10 EQUAL MONTHLY REFUNDS RATHER THAN ANNUALLY.

11 (11) NOTWITHSTANDING SECTION 39-21-304 (4), THE CREDIT DOES
12 NOT REPEAL AFTER A SPECIFIED PERIOD OF TAX YEARS.

13 **SECTION 4.** In Colorado Revised Statutes, 39-22-304, **add**
14 (2)(m), (2)(n), (2)(o), (2)(p), and (3)(u) as follows:

15 **39-22-304. Net income of corporation - legislative declaration**
16 **- definitions - repeal.**

17 (2) There shall be added to federal taxable income:

18 (m) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
19 1, 2027, AN AMOUNT EQUAL TO THE FEDERAL DEDUCTION CLAIMED BY THE
20 TAXPAYER FOR THE INCOME TAX YEAR FOR BUSINESS INTEREST PURSUANT
21 TO SECTION 163 OF THE INTERNAL REVENUE CODE TO THE EXTENT THE
22 AMOUNT CLAIMED EXCEEDS THE AMOUNT THE TAXPAYER WOULD HAVE
23 BEEN ALLOWED TO CLAIM PURSUANT TO THE LIMITATION ON BUSINESS
24 INTEREST SET FORTH IN SECTION 163 (j) OF THE INTERNAL REVENUE CODE
25 WITHOUT REGARD TO ANY AMENDMENT BY PUB. L. 119-21;

26 (n) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
27 1, 2027, AN AMOUNT EQUAL TO THE FEDERAL DEDUCTION CLAIMED BY THE

1 TAXPAYER FOR THE INCOME TAX YEAR FOR QUALIFIED PROPERTY
2 DEPRECIATION PURSUANT TO SECTION 168 (k) OF THE INTERNAL REVENUE
3 CODE TO THE EXTENT THE AMOUNT CLAIMED EXCEEDS THE AMOUNT THE
4 TAXPAYER WOULD HAVE BEEN ALLOWED TO CLAIM PURSUANT TO SECTION
5 168 (k) OF THE INTERNAL REVENUE CODE WITHOUT REGARD TO ANY
6 AMENDMENT BY PUB. L. 119-21; EXCEPT THAT, THE TAXPAYER MAY
7 REDUCE THE AMOUNT OTHERWISE REQUIRED TO BE ADDED TO THE
8 TAXPAYER'S FEDERAL TAXABLE INCOME PURSUANT TO THIS SUBSECTION
9 (2)(n) BY THE AMOUNT OF QUALIFIED PROPERTY DEPRECIATION THE
10 TAXPAYER WOULD HAVE BEEN ALLOWED TO CLAIM FOR THE STATE
11 INCOME TAX YEAR WITH RESPECT TO THE SAME PROPERTY PURSUANT TO
12 ANY SECTION OTHER THAN SECTION 168 (k) OF THE INTERNAL REVENUE
13 CODE WITHOUT REGARD TO ANY AMENDMENT BY PUB. L. 119-21;

14 (o) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
15 1, 2027, AN AMOUNT EQUAL TO THE FEDERAL DEDUCTION CLAIMED BY THE
16 TAXPAYER FOR THE INCOME TAX YEAR FOR QUALIFIED PRODUCTION
17 PROPERTY DEPRECIATION PURSUANT TO SECTION 168 (n) OF THE INTERNAL
18 REVENUE CODE; EXCEPT THAT, THE TAXPAYER MAY REDUCE THE AMOUNT
19 OTHERWISE REQUIRED TO BE ADDED TO THE TAXPAYER'S FEDERAL
20 TAXABLE INCOME PURSUANT TO THIS SUBSECTION (2)(o) BY THE AMOUNT
21 OF QUALIFIED PRODUCTION PROPERTY DEPRECIATION THE TAXPAYER
22 WOULD HAVE BEEN ALLOWED TO CLAIM FOR THE STATE INCOME TAX YEAR
23 WITH RESPECT TO THE SAME PROPERTY PURSUANT TO ANY SECTION OTHER
24 THAN SECTION 168 (k) OF THE INTERNAL REVENUE CODE WITHOUT REGARD
25 TO ANY AMENDMENT BY PUB. L. 119-21;

26 (p) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
27 1, 2027, AN AMOUNT EQUAL TO THE FEDERAL DEDUCTION CLAIMED BY THE

1 TAXPAYER FOR THE INCOME TAX YEAR FOR DOMESTIC RESEARCH AND
2 EXPERIMENTAL EXPENDITURES PURSUANT TO SECTION 174A OF THE
3 INTERNAL REVENUE CODE; EXCEPT THAT, THE TAXPAYER MAY REDUCE
4 THE AMOUNT OTHERWISE REQUIRED TO BE ADDED TO THE TAXPAYER'S
5 FEDERAL TAXABLE INCOME PURSUANT TO THIS SUBSECTION (2)(p) BY THE
6 AMOUNT OF THE DEDUCTION THE TAXPAYER WOULD HAVE BEEN ALLOWED
7 TO CLAIM FOR THE STATE INCOME TAX YEAR WITH RESPECT TO THE SAME
8 RESEARCH AND EXPERIMENTAL EXPENDITURES PURSUANT TO SECTION 174
9 OF THE INTERNAL REVENUE CODE WITHOUT REGARD TO ANY AMENDMENT
10 BY PUB. L. 119-21.

11 (3) There shall be subtracted from federal taxable income:

12 (u) (I) FOR INCOME TAX YEARS COMMENCING ON OR AFTER
13 JANUARY 1, 2028, A TAXPAYER REQUIRED TO MAKE AN ADDITION TO
14 FEDERAL TAXABLE INCOME PURSUANT TO SUBSECTION (2)(m), (2)(n),
15 (2)(o), OR (2)(p) OF THIS SECTION, IS ALLOWED TO APPLY THE FOLLOWING
16 SUBTRACTIONS IN ACCORDANCE WITH THIS SUBSECTION (3)(u):

17 (A) AN AMOUNT EQUAL TO ONE-FIFTH OF THE CUMULATIVE
18 AMOUNT ADDED TO FEDERAL TAXABLE INCOME AS REQUIRED BY
19 SUBSECTION (2)(m) OF THIS SECTION FOR EACH OF THE FIVE STATE INCOME
20 TAX YEARS IMMEDIATELY FOLLOWING THE STATE INCOME TAX YEAR IN
21 WHICH THE ADDITION WAS REQUIRED;

22 (B) AN AMOUNT EQUAL TO ONE-TENTH OF THE CUMULATIVE
23 AMOUNT ADDED TO FEDERAL TAXABLE INCOME AS REQUIRED BY
24 SUBSECTION (2)(n) OF THIS SECTION FOR EACH OF THE TEN TAXABLE
25 YEARS IMMEDIATELY FOLLOWING THE TAXABLE YEAR IN WHICH THE
26 ADDITION WAS REQUIRED;

27 (C) AN AMOUNT EQUAL TO ONE THIRTY-EIGHTH OF THE

1 CUMULATIVE AMOUNT ADDED TO FEDERAL TAXABLE INCOME AS REQUIRED
2 BY SUBSECTION (2)(o) OF THIS SECTION FOR EACH OF THE THIRTY-EIGHT
3 STATE INCOME TAX YEARS IMMEDIATELY FOLLOWING THE STATE INCOME
4 TAX YEAR IN WHICH THE ADDITION WAS REQUIRED; AND

5 (D) AN AMOUNT EQUAL TO ONE-FOURTH OF THE CUMULATIVE
6 AMOUNT ADDED TO FEDERAL TAXABLE INCOME AS REQUIRED BY
7 SUBSECTION (2)(p) OF THIS SECTION FOR EACH OF THE FOUR STATE INCOME
8 TAX YEARS IMMEDIATELY FOLLOWING THE STATE INCOME TAX YEAR IN
9 WHICH THE ADDITION WAS REQUIRED.

10 (II) THE TOTAL AMOUNT OF EACH SUBTRACTION ALLOWED
11 PURSUANT TO SUBSECTIONS (3)(u)(I), (3)(u)(II), (3)(u)(III), AND
12 (3)(u)(IV) OF THIS SECTION SHALL NOT EXCEED THE CUMULATIVE AMOUNT
13 ADDED TO FEDERAL TAXABLE INCOME PURSUANT TO EACH
14 CORRESPONDING ADDITION REQUIRED BY SUBSECTIONS (2)(m), (2)(n),
15 (2)(o), AND (2)(p) OF THIS SECTION.

16 (III) THE SUBTRACTIONS ALLOWED IN THIS SUBSECTION (3)(u)
17 APPLY AFTER THE APPLICATION OF THE OTHER SUBTRACTIONS PROVIDED
18 FOR IN THIS SUBSECTION (3), EXCEPT FOR THE SUBTRACTION ALLOWED
19 PURSUANT TO SUBSECTION (3)(p) OF THIS SECTION. IF THE AMOUNT OF THE
20 SUBTRACTIONS ALLOWED UNDER THIS SUBSECTION (3)(u) EXCEEDS A
21 TAXPAYER'S FEDERAL TAXABLE INCOME AS CALCULATED PURSUANT TO
22 THIS SECTION WITHOUT REGARD TO THE SUBTRACTION ALLOWED
23 PURSUANT TO SUBSECTION (3)(p) OF THIS SECTION, THE AMOUNT NOT
24 SUBTRACTED FROM THE TAXPAYER'S FEDERAL TAXABLE INCOME
25 PURSUANT TO THIS SECTION MAY BE CARRIED FORWARD AND USED AS A
26 SUBTRACTION FROM THE TAXPAYER'S FEDERAL TAXABLE INCOME AS
27 CALCULATED PURSUANT TO THIS SECTION WITHOUT REGARD TO THE

1 SUBTRACTION ALLOWED PURSUANT TO SUBSECTION (3)(p) OF THIS
2 SECTION IN SUBSEQUENT YEARS FOR A PERIOD NOT TO EXCEED TEN YEARS
3 AND MUST BE APPLIED FIRST TO THE EARLIEST POSSIBLE INCOME TAX
4 YEAR. ANY SUBTRACTION REMAINING AFTER THE PERIOD IS NOT
5 REFUNDED OR CREDITED TO THE QUALIFIED TAXPAYER.

6 **SECTION 5. Act subject to petition - effective date.** This act
7 takes effect at 12:01 a.m. on the day following the expiration of the
8 ninety-day period after final adjournment of the general assembly (August
9 12, 2026, if adjournment sine die is on May 13, 2026); except that, if a
10 referendum petition is filed pursuant to section 1 (3) of article V of the
11 state constitution against this act or an item, section, or part of this act
12 within such period, then the act, item, section, or part will not take effect
13 unless approved by the people at the general election to be held in
14 November 2026 and, in such case, will take effect on the date of the
15 official declaration of the vote thereon by the governor.