



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 26-1221: TAX EXPENDITURE ADJUSTMENTS

Prime Sponsors:

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Sen. Amabile; Wallace

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

Summary Information

Overview. The bill modifies two state tax expenditures, creates a new corporate income tax addback, and establishes a new state income tax credit.

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

- State Revenue
- State Expenditures
- TABOR Refunds

Appropriations. FY 2026-27, the bill requires an appropriation of \$38,466 to the Department of Revenue.

Table 1
State Fiscal Impacts

Type of Impact	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
State Revenue	\$0	\$0	\$0	\$0
State Expenditures	\$0	\$38,466	\$471,204	\$240,174
Transferred Funds	\$0	\$0	\$0	\$0
Change in TABOR Refunds	\$0	\$0	\$0	\$0
Change in State FTE	0.0 FTE	0.0 FTE	4.0 FTE	2.5 FTE

Fund sources for these impacts are shown in the tables below.

The bill has offsetting positive and negative impacts on state revenue. See Table 1A and State Revenue section.

**Table 1A
 State Revenue**

Fund Source	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund from Tax Expenditures Modifications and Addback	\$3.2 million	\$87.9 million	\$167.4 million	\$167.6 million
General Fund from Family Affordability Credit	-\$3.2 million	-\$87.9 million	-\$167.4 million	-\$167.6 million
Total Revenue	\$0	\$0	\$0	\$0

**Table 1B
 State Expenditures**

Fund Source	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2027-28
General Fund	\$0	\$38,466	\$389,257	\$189,428
Cash Funds	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0
Centrally Appropriated	\$0	\$0	\$81,947	\$50,746
Total Expenditures	\$0	\$38,466	\$471,204	\$240,174
Total FTE	0.0 FTE	0.0 FTE	4.0 FTE	2.5 FTE

Summary of Legislation

The bill modifies two current state tax expenditures, creates a new corporate income tax addback, and creates a new state income tax credit, as discussed below.

Executive Compensation Addback

Beginning in tax year 2027, the bill requires corporate taxpayers claiming a deduction for compensation of officers under [Section 162\(m\) of the Internal Revenue Code](#) to add back this deduction when calculating their state taxable income.

Colorado Alternative Minimum Tax Credit

Beginning in tax year 2026, the bill repeals the Colorado Alternative Minimum Tax (AMT) credit.

Colorado Net Operating Loss Deduction

Current federal law limits deductible net operating losses (NOL) to 80 percent of taxable income. Beginning in tax year 2027, for state tax purposes, the bill reduces deductible NOLs to 70 percent of Colorado taxable income. The increment that the bill makes nondeductible must be added back on the taxpayer's state income tax return.

The bill also specifies that losses incurred after January 1, 2027, may be carried forward for up to 10 tax years. NOLs incurred before this date may continue to carry forward for up to 20 years.

Expanded Family Affordability Credit

Starting in tax year 2026, the bill creates an expanded family affordability credit (EFAC) for Coloradans who are, or would be, eligible under current law. The credit is refundable, meaning any amount by which the credit exceeds a taxpayer's tax liability is refunded to the taxpayer.

The credit amount depends on the estimated amount of the state revenue increase that results from the new employee remuneration addback, the repeal of the AMT credit, and modifications to the NOL deduction. Beginning with the December 2026 forecast and continuing annually, Legislative Council Staff (LCS) must determine the maximum dollar amounts of the EFAC so that the projected aggregate total of tax credits claimed equals the revenue increase attributable to the other provisions of the bill. Additionally, the Department of Revenue (DOR) is required to submit a report to the LCS detailing the revenue increase attributable to the bill from the previous income tax year, two weeks prior to the December 2027 economic and revenue forecast, and each subsequent December forecast.

Background

Executive Compensation Deductions

The federal Internal Revenue Code permits corporations to deduct salaries and wages paid to employees, including executives. Section 162(m) specifically restricts the deduction to \$1 million for the executive and financial officers of the corporation during each tax year. In 2022, corporations filing federal IRS Form 1120 claimed nearly \$564 billion in such deductions nationwide.

Colorado Alternative Minimum Tax Credit

Colorado offers a tax credit to individuals, estates, and trusts paying the federal alternative minimum tax. The credit equals 12 percent of the federal minimum tax credit. In 2023, about 3,900 taxpayers claimed \$5.1 million in state credits, a 5 percent increase from the previous year.

Colorado Net Operating Loss Deduction

A business may claim a NOL deduction when its business expenses exceed taxable income. Under current state law, losses from 2018 onward are capped at 80 percent of Colorado taxable income, with a 20 year carry forward period.

Family Affordability Tax Credit

Enacted by [House Bill 24-1311](#), the FATC is a refundable income tax credit available to Coloradans with children under age 17 and a federal adjusted gross income (AGI) in 2024 up to \$85,000 for single filers and up to \$95,000 for joint filers. Credit amounts and AGI are adjusted annually for inflation. The amounts and availability of the credit are dependent on state revenue conditions. For tax year 2024, approximately 320,490 Coloradans claimed the FATC for a total of \$865.9 million in income tax credits.

Assumptions

Executive Compensation Addback

State level data on federal corporate deductions are unavailable. However, [IRS data](#) provide estimates of line item values on corporate returns, including federal corporate deductions. Estimates for deducted executive compensation were adjusted according to Colorado's share of U.S. corporate taxable income and applying the statewide apportionment adjustment, resulting in an assumed deduction of \$2.74 billion for corporate taxpayers in Colorado. Consequently, it is estimated that these deductions reduced Colorado tax liability by \$120.6 million in 2022, the most recent year with available data.

The fiscal note uses this estimate as a baseline and projects annual increases throughout the estimation period. By tax year 2027, the first year of the income tax addback, the fiscal note projects that approximately \$3.18 billion will be added back to Colorado taxable income, thereby increasing state revenue by approximately \$140.0 million per year once the bill is fully implemented.

Due to data constraints, the revenue estimate for this section of the bill carries high, bidirectional risk. A greater or lesser revenue increase than expected would correspondingly increase or decrease the amount of the EFAC.

Colorado Alternative Minimum Tax Credit

The number of taxpayers claiming the state AMT credit declined after the 2017 Tax Cuts and Jobs Act (TCJA), which raised exemption amounts and extended phaseout thresholds. In 2023, about 3,900 taxpayers claimed the credit, down from over 7,000 in 2016. The 2025 One Big Beautiful Bill Act (OBBBA) permanently extended AMT exemptions but lowered income thresholds, which is expected to increase the number of taxpayers subject to the AMT starting in 2026. The fiscal note estimates just under 4,000 taxpayers would claim the state AMT credit, totaling \$6.6 million for tax year 2026.

Colorado Net Operating Loss Deduction

Based on historical data on the amount of NOL deduction claims made between tax years 2020 through 2023, the most recent data available, these deductions were adjusted on the 70 percent of losses as specified in the bill.

Expanded Family Affordability Tax Credit

Assuming the amounts outlined above, the expanded FATC will reduce state revenue by \$167.4 million in the bill’s first full implantation year, as detailed in the State Revenue section.

State Revenue

The bill requires the amount of revenue generated from the modifications to the two current state tax expenditures and from the creation of the new corporate income tax addition to be reduced by the expanded child care income tax credit in the bill. As a result, the bill is estimated to have no net impact on state revenue. Table 2 below presents the state revenue impact by General Fund source.

General Fund impacts from the modification to the two current state tax expenditures and the new income tax deduction are based on assumptions described in the section above.

**Table 2
 State Revenue**

Source	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
General Fund from Executive Compensation Addback	\$0	\$70.1 million	\$142.1 million	\$146.4 million
General Fund from repeal of AMT credit	\$3.2 million	\$6.6 million	\$7.0 million	\$7.4 million
General Fund from NOL modification	\$0	\$11.4 million	\$18.3 million	\$13.9 million
General Fund from Family Affordability Credit	-\$3.2 million	-\$87.9 million	-\$167.4 million	-\$167.6 million
Total	\$0	\$0	\$0	\$0

Executive Compensation Addback

The addition is estimated to increase General Fund revenue by \$70.0 million in FY 2026-27 (a half-year impact for tax year 2027), \$142.1 million in FY 2027-28, and by similar, increasing amounts in future years. This expected increase is expected will be offset by the EFAC in the bill.

Colorado Alternative Minimum Tax Credit

Repealing the Colorado AMT credit is expected to increase state revenue by \$3.2 million in FY 2025-26 (a half-year impact for tax year 2026), \$6.6 million in FY 2026-27, and \$7.0 million in FY 2027-28, \$7.4 million in FY 2028-29, and by similar amounts in the future. This expected increase will be offset by the EFAC in the bill.

Colorado Net Operating Loss Deduction

The bill is estimated to increase General Fund revenue by \$11.4 million in FY 2026-27 (a half-year impact for tax year 2027), \$18.3 million in FY 2027-28, and by similar amounts in future years. This expected increase is expected to be offset by the EFAC in the bill.

Extended Family Affordability Credit

The amount of the EFAC depends on the estimated amount of the state revenue generated from the other elements of the bill. The AMT credit repeal starts in tax year 2026, while the executive compensation addback and NOL modification begins in tax year 2027.

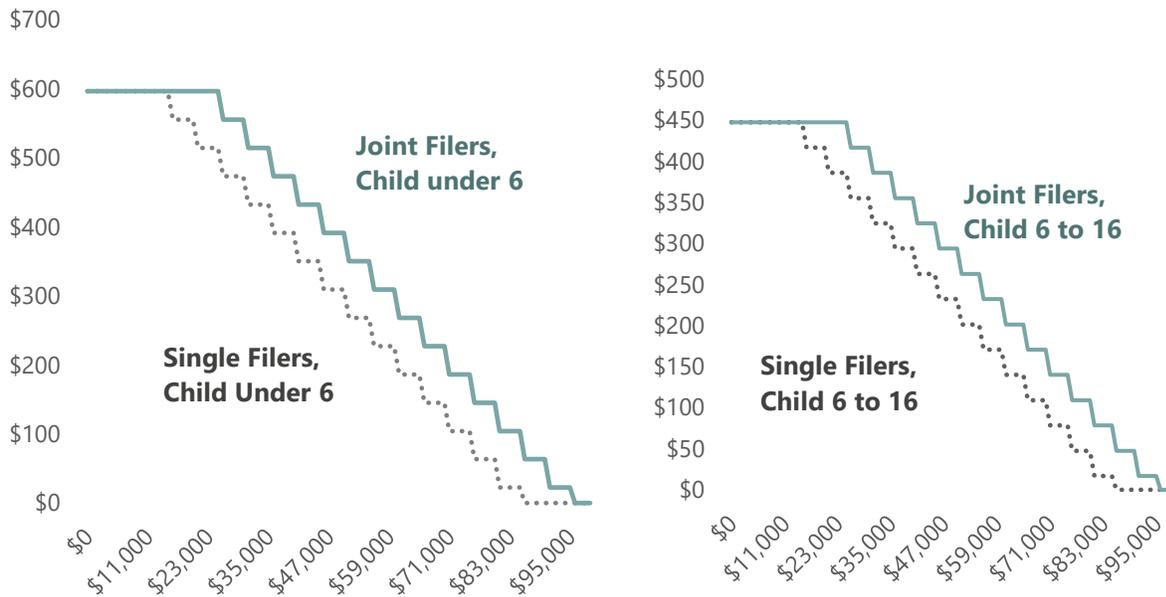
For tax year 2026, the fiscal note projects a revenue increase of \$6.4 million from the repeal of AMT credit. Consequently, the average EFAC is estimated to be \$19 per taxpayer.

In December 2027, Legislative Council Staff will determine the revenue generated from the other elements of the bill to determine the amount of the EFAC. Based on the estimate for this fiscal note, the projected amount of the EFAC in tax year 2027 is:

- for each child under age 6, \$597 for single filers with AGI of \$16,000 or less, reduced by \$41 (6.875 percent) for every \$5,000 of AGI above \$16,000; and
- for each child ages 6 to 16, \$448 for single filers with AGI of \$16,000 or less (75 percent of the credit for children under age 6), reduced by \$31 (6.875 percent) for every \$5,000 of AGI above \$16,000; or
- for each child under age 6, \$597 for joint filers with AGI of \$26,000 or less, reduced by \$41 (6.875 percent) for every \$5,000 of AGI above \$26,000; and
- for each child ages 6 to 16, \$448 for joint filers with AGI or \$26,000 or less (75 percent of the credit for children under age 6), reduced by \$31 (6.875 percent) for every \$5,000 of AGI above \$26,000.

Figure 1 shows the amount of credit allowed in tax year 2027 for taxpayers for each eligible child, depending on their AGI and the child's age. Starting with tax year 2027, credit amounts and AGI amounts are adjusted for inflation.

Figure 1
HB 26-1221 Tax Credit Amounts
by Adjusted Gross Income, Filing Status, and Child's Age
 Tax Year 2027



State Expenditures

The bill increases General Fund expenditures for the Department of Revenue by about \$40,000 in FY 2026-27, \$470,000 in FY 2027-28, \$240,000 in FY 2028-29, and by similar amounts in the future. Expenditures are summarized in Table 3 and described below.

**Table 3
 State Expenditures
 Department of Revenue**

Cost Component	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
Personal Services	\$0	\$0	\$257,451	\$155,850
Operating Expenses	\$0	\$0	\$5,120	\$3,200
Capital Outlay Costs	\$0	\$0	\$28,000	\$0
Software Programing Costs	\$0	\$8,656	\$23,216	\$0
Office of Research and Analysis	\$0	\$8,778	\$17,480	\$17,404
User Acceptance Testing	\$0	\$1,886	\$6,724	\$0
Postage	\$0	\$0	\$9,917	\$5,130
DPA Form Change	\$0	\$19,146	\$41,349	\$7,844
Centrally Appropriated Costs	\$0	\$0	\$81,947	\$50,746
Total Costs	\$0	\$38,466	\$471,204	\$240,174
Total FTE	0.0 FTE	0.0 FTE	4.0 FTE	2.5 FTE

Department of Revenue

Staff

In FY 2027-28, the DOR requires 3.7 FTE for tax examiners to review corporate income tax forms to ensure the new executive compensation addback and NOL modification is properly applied. This includes 0.2 FTE for program management. In addition, the DOR will require 0.3 FTE for additional workload in the department’s Tax Conferee office. Based on the department’s historical experience, the Tax Conferee office sees an increase in protests, taxation disputes, and administrative hearings when changes to the tax code occur.

Beginning in FY 2028-29, DOR staff is reduced to 2.5 FTE as taxpayers become more familiar with the tax changes under the bill and review and tax disputes decline. These costs are expected to be similar for future years.

Software Programming and Testing

In FY 2026-27, the DOR will require \$8,656 in programming costs and \$1,886 in user acceptance testing to remove the AMT credit and alter the NOL deduction in their GenTax software system.

In FY 2027-28, this bill requires expenditures to program and test the new executive compensation addback. Programming costs represent about 368 hours of contract programming at a rate of \$63.09 per hour. Costs for testing at the department are estimated about 164 hours of innovation, strategy, and delivery programming support at a rate of \$41 per hour.

Data Analysis and Reporting

Expenditures in the Office of Research and Analysis are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$8,778 in FY 2026-27, representing 231 hours for data management and reporting at \$38 per hour, increasing to \$17,480 in FY 2027-28.

Postage and Form Changes

The DOR will have additional costs for postage to administer the tax expenditure, and must make changes to tax forms to include the new income tax addback and process paper returns claiming the credit. New forms are a purchased service from the Department of Personnel and Administration (DPA).

Legislative Department

The bill requires the Legislative Council Staff to make determinations related to the revenue impacts of this bill. This work will be accomplished within existing appropriations.

Centrally Appropriated Costs

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance, supplemental employee retirement payments, and other costs, are shown in the Table 3 above.

TABOR Refunds

While the bill impacts state revenue streams subject to TABOR, the net revenue impact to the state is \$0. As a result, the bill has no impact to TABOR refunds.

Technical Note

The bill sets AGI thresholds of the EFAC equal to the FATC thresholds prior to inflation adjustments; however, the inflation adjustments occur on a different timeline and result in different eligibility thresholds across the two credits. The fiscal note assumes the bill will be amended to align the AGI thresholds of the EFAC with the thresholds for the FATC. If the AGI thresholds for the EFAC do not mirror those for the FATC, the bill will require workload and programming costs for the DOR, and will result in different credit amounts per claim.

Effective Date

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

State Appropriations

For FY 2026-27, the bill requires a General Fund appropriation of \$38,466 to the Department of Revenue, of which \$19,146 will be reappropriated to Department of Personnel and Administration for form changes.

State and Local Government Contacts

Legislative Council Staff

Personnel

Revenue