HOUSE BILL 20-1420

A BILL FOR AN ACT

CONCERNING THE ADJUSTMENT OF CERTAIN STATE TAX EXPENDITURES

IN ORDER TO ALLOCATE ADDITIONAL REVENUES TO THE STATE EDUCATION FUND.

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.)

Section 1 of the bill specifies that the act shall be known as the "Tax Fairness Act".

Sections 2 and 3 require taxpayers to add to federal taxable income:

For income tax years ending on and after the enactment of
the March 2020 "Coronavirus Aid, Relief, and Economic Security Act" (CARES Act), but before January 1, 2021, and for income tax years beginning on and after the enactment of the CARES Act, but before January 1, 2021, an amount equal to the difference between a taxpayer's net operating loss deduction as determined under federal law before the amendments made by section 2303 of the CARES Act and the taxpayer's net operating loss deduction as determined under federal law after the amendments made by section 2303 of the CARES Act;

For income tax years ending on and after the enactment of the CARES Act, but before January 1, 2021, and for income tax years beginning on and after the enactment of the CARES Act, but before January 1, 2021, an amount equal to a taxpayer's excess business loss as determined under federal law without regard to the amendments made by section 2304 of the CARES Act, but with regard to the technical amendment made in that section of the CARES Act;

For income tax years commencing on or after January 1, 2021, an amount equal to the deduction for qualified business income for an individual taxpayer who files a single return and whose adjusted gross income is greater than $75,000, and for an individual taxpayer who files a joint return and whose adjusted gross income is greater than $150,000. This federal deduction may be claimed for income tax years commencing prior to January 1, 2026.

Section 4 limits the amount of net operating loss that a corporation may carry forward to $400,000. This section also specifies that a corporation may add the amount of all net operating losses that a corporation is prohibited from subtracting, with interest, to the allowable net operating loss that is carried forward by the corporation.

Section 5 eliminates the state income tax modification for qualifying net capital gains for income tax years commencing on or after January 1, 2021.

Sections 6 and 7 repeal the exemption from the state sales and use taxes for the sales, purchase, storage, use, or consumption of electricity, coal, gas, fuel oil, steam, coke, or nuclear fuel, for use in processing,
manufacturing, mining, refining, irrigation, construction, telegraph, telephone, and radio communication, street and railroad transportation services, and all industrial uses, for filing periods on and after August 1, 2020, except not the state sales and use tax exemption for newsprint and printer's ink for use by publishers of newspapers and commercial printers.

**Section 8** creates a sales and use tax refund, not to exceed $1,000 per filing period, for filing periods on and after August 1, 2020, for all state sales and use tax paid by the taxpayer on the sale, storage, use, or consumption of electricity, coal, gas, fuel oil, steam, coke, or nuclear fuel, for use in processing, manufacturing, mining, refining, irrigation, construction, telegraph, telephone, and radio communication, and all industrial uses; except that the $1,000 per filing period limit does not apply to the sale, storage, use, or consumption of:

- Diesel fuel purchased for off-road use;
- Electricity, coal, gas, fuel oil, steam, coke, or nuclear fuel purchased for agricultural purposes;
- Coal, gas, fuel oil, steam, coke, or nuclear fuel for use in generating electricity; and
- Electricity, coal, gas, fuel oil, steam, coke, or nuclear fuel for use in street and railroad transportation services.

**Sections 9 and 10** prevent the elimination of the sales tax exemption and the creation of the sales tax refund from affecting county and municipal sales and use taxes.

**Section 11** repeals the statutes that provide an insurance premium tax rate reduction for insurance companies maintaining a home office or a regional home office in the state. Section 11 also clarifies that, for purposes of the insurance premium tax, an "annuity plan" or an "annuity consideration" does not include a deposit-type contract that does not incorporate mortality or morbidity risks, such as a guaranteed investment or interest certificate, a supplementary contract without life contingencies, an annuity certain, a premium fund or other deposit fund, a dividend accumulation, a coupon accumulation, a lottery payout, or a structured settlement.

The earned income tax credit is equal to a percentage of the federal earned income tax credit. **Section 12** increases the percentage from 10% to 20% beginning in 2023. Section 12 also specifies that for income tax years commencing on or after January 1, 2020, taxpayers filing with an individual taxpayer identification number are eligible for the earned income tax credit.

**Section 13** specifies that the state treasurer shall transfer the following amounts from the general fund to the state education fund created in section 17 (4) of article IX of the state constitution for the following fiscal years:

- $150,000,000 for the fiscal year 2021-22;
- $200,000,000 for the fiscal year 2022-23;
Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. Short title. The short title of this act is the "Tax Fairness Act".

SECTION 2. In Colorado Revised Statutes, 39-22-104, add (3)(l), (3)(m), (3)(n), and (3)(o) as follows:

39-22-104. Income tax imposed on individuals, estates, and trusts - single rate - legislative declaration - definitions - repeal.

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

(I) For income tax years ending on and after the enactment of the March 2020 "Coronavirus Aid, Relief, and Economic Security Act", Pub. L. 116-136, referred to in this section as the "CARES Act", but before January 1, 2021, and for income tax years beginning on and after the enactment of the "CARES Act", but before January 1, 2021, an amount equal to the difference between a taxpayer's net operating loss deduction as determined under section 172(a) of the Internal Revenue Code before the amendments made by section 2303 of the "CARES Act" and the taxpayer's net operating loss deduction as determined under section 172(a) of the Internal Revenue Code after the amendments made by section 2303 of the "CARES Act".

(m) For income tax years ending on and after the enactment of the "CARES Act", but before January 1, 2021, and for income tax years beginning on and after the enactment of the "CARES Act", but before January 1, 2021, an amount equal to a taxpayer's excess business loss as determined under section

$200,000,000 for the fiscal year 2023-24; and

$200,000,000 for the fiscal year 2024-25.
461 (l) OF THE INTERNAL REVENUE CODE WITHOUT REGARD TO THE
AMENDMENTS MADE BY SECTION 2304 OF THE "CARES ACT", BUT WITH
REGARD TO THE TECHNICAL AMENDMENT MADE BY SECTION 2304
(b)(2)(B) OF THE "CARES Act".

(n) FOR INCOME TAX YEARS ENDING ON AND AFTER THE
ENACTMENT OF THE "CARES Act", BUT BEFORE JANUARY 1, 2021, AND
FOR INCOME TAX YEARS BEGINNING ON AND AFTER THE ENACTMENT OF
THE "CARES Act", BUT BEFORE JANUARY 1, 2021, AN AMOUNT EQUAL TO
THE AMOUNT IN EXCESS OF THE LIMITATION ON BUSINESS INTEREST UNDER
SECTION 163 (j) OF THE INTERNAL REVENUE CODE WITHOUT REGARD TO
THE AMENDMENTS MADE BY SECTION 2306 OF THE "CARES Act".

(o) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
1, 2021, AN AMOUNT EQUAL TO THE DEDUCTION ALLOWED UNDER SECTION
199A OF THE INTERNAL REVENUE CODE FOR A TAXPAYER WHO FILES A
SINGLE RETURN AND WHOSE ADJUSTED GROSS INCOME IS GREATER THAN
SEVENTY-FIVE THOUSAND DOLLARS, AND FOR TAXPAYERS WHO FILE A
JOINT RETURN AND WHOSE ADJUSTED GROSS INCOME IS GREATER THAN
ONE HUNDRED FIFTY THOUSAND DOLLARS.

SECTION 3. In Colorado Revised Statutes, 39-22-304, add (2)(i)
as follows:

39-22-304. Net income of corporation - legislative declaration
- definitions - repeal. (2) There shall be added to federal taxable income:

(i) For income tax years ending on and after the
enactment of the March 2020 "Coronavirus Aid, Relief, and
section as the "CARES Act", but before January 1, 2021, and for
income tax years beginning on and after the enactment of the
"CARES Act", but before January 1, 2021, an amount equal to the amount in excess of the limitation on business interest under section 163 (j) of the Internal Revenue Code without regard to the amendments made by section 2306 of the "CARES Act".

SECTION 4. In Colorado Revised Statutes, 39-22-504, amend (1); and add (7) as follows:

39-22-504. Net operating losses. (1) (a) A net operating loss deduction shall be allowed in the same manner that it is allowed under the internal revenue code except as otherwise provided in this section. The amount of the net operating loss that may be carried forward and carried back for Colorado income tax purposes shall be that portion of the federal net operating loss allocated to Colorado under this article ARTICLE 22 in the taxable year that the net operating loss is sustained.

(b) For losses incurred after December 31, 2017, the eighty percent limitation set forth in section 172 (a)(2) of the internal revenue code shall apply without regard to the amendments made in section 2303 of the March 2020 "Coronavirus Aid, Relief, and Economic Security Act", Pub. L. 116-136.

(7) (a) Notwithstanding any other provision of this section, the maximum amount of net operating loss that a corporation may subtract from federal taxable income pursuant to section 39-22-304 (3)(g) for a tax year commencing on or after January 1, 2021, is four hundred thousand dollars.

(b) A corporation may add an amount equal to the amount of all net operating losses that a corporation is prohibited from subtracting from federal taxable income pursuant to subsection (7)(a) of this section multiplied by a rate of interest
EQUAL TO THREE AND ONE-QUARTER PERCENT PER ANNUM FOR THE
PERIOD DURING WHICH SUCH NET OPERATING LOSSES ARE PROHIBITED TO
THE ALLOWABLE NET OPERATING LOSS THAT IS CARRIED FORWARD BY THE
CORPORATION. FOR THE PURPOSE OF SECTION 39-22-304 (3)(g), THAT
AMOUNT IS CONSIDERED NET OPERATING LOSS.

SECTION 5. In Colorado Revised Statutes, 39-22-518, amend
(1); and add (9) as follows:

(1) For income tax years commencing on or after July 1, 1995, but
before January 1, 2021, a modification, in the form of a reduction of
income taxable by the state of Colorado, shall be allowed to any qualified
taxpayer for the amount of income attributable to qualifying gains
receiving capital treatment earned by the qualified taxpayer during the
taxable year and included in federal taxable income.
(9) This section is repealed, effective December 31, 2028.

SECTION 6. In Colorado Revised Statutes, 39-26-102, amend
(21)(a) as follows:

39-26-102. Definitions. As used in this article 26, unless the
context otherwise requires:
(21) (a) (I) For sales and purchases made before August 1, 2020, sales and purchases of electricity, coal, gas, fuel oil, steam, coke,
or nuclear fuel, for use in processing, manufacturing, mining, refining,
irrigation, construction, telegraph, telephone, and radio communication,
street and railroad transportation services, and all industrial uses, and
newsprint and printer's ink for use by publishers of newspapers and
commercial printers shall be deemed to be wholesale sales and shall be
exempt from taxation under this part 1.
(II) For sales and purchases made on and after August 1, 2020, sales and purchases of newsprint and printer’s ink for use by publishers of newspapers and commercial printers are deemed to be wholesale sales and are exempt from taxation under this part 1.

(III) Subsection (21)(a)(I) of this section is repealed, effective August 1, 2025.

SECTION 7. In Colorado Revised Statutes, 39-26-705, amend (1) as follows:

39-26-705. Miscellaneous use tax exemptions - printers ink and newsprint - manufactured goods. (1) (a) (I) For sales and purchases made before August 1, 2020, the storage, use, or consumption of printers ink and newsprint shall be exempt from taxation under the provisions of part 2 of this article.

(II) This subsection (1)(a) is repealed, effective August 1, 2025.

(b) For sales and purchases made after August 1, 2020, the storage, use, or consumption of newsprint and printer’s ink for use by publishers of newspapers and commercial printers are exempt from taxation under the provisions of part 2 of this article.

SECTION 8. In Colorado Revised Statutes, 39-26-715, amend (2) introductory portion and (2)(b)(I) as follows:

39-26-715. Fuel and oil - definitions - repeal. (2) The following are exempt from taxation under the provisions of part 2 of this article:

(b) (I) (A) For sales and purchases made before August 1,
2020, the storage, use, or consumption of electricity, coal, coke, fuel oil, steam, nuclear fuel, or gas for use in processing, manufacturing, mining, refining, irrigation, building construction, telegraph, telephone, and radio communication, street and railroad transportation services, and all industrial uses.

(B) THIS SUBSECTION (2)(b)(I) IS REPEALED, EFFECTIVE AUGUST 1, 2025.

SECTION 9. In Colorado Revised Statutes, add 39-26-730 as follows:

39-26-730. Refund of state sales and use tax for certain types of fuel - application requirements and procedures. (1) FOR SALES AND PURCHASES MADE ON AND AFTER AUGUST 1, 2020, A PURCHASER IS ALLOWED TO CLAIM A REFUND, NOT TO EXCEED ONE THOUSAND DOLLARS PER MONTH, OF ALL STATE SALES AND USE TAX PAID BY THE PURCHASER, PURSUANT TO PARTS 1 AND 2 OF THIS ARTICLE 26, ON THE SALE, STORAGE, USE, OR CONSUMPTION OF ELECTRICITY, COAL, GAS, FUEL OIL, STEAM, COKE, OR NUCLEAR FUEL, FOR USE IN PROCESSING, MANUFACTURING, MINING, REFINING, IRRIGATION, CONSTRUCTION, TELEGRAPH, TELEPHONE, AND RADIO COMMUNICATION, AND ALL INDUSTRIAL USES; EXCEPT THAT THE ONE THOUSAND DOLLAR PER MONTH LIMIT DOES NOT APPLY TO THE SALE, STORAGE, USE, OR CONSUMPTION OF THE FOLLOWING:

(a) DIESEL FUEL PURCHASED FOR OFF-ROAD USE;

(b) ELECTRICITY, COAL, GAS, FUEL OIL, STEAM, COKE, OR NUCLEAR FUEL PURCHASED FOR AGRICULTURAL PURPOSES;

(c) COAL, GAS, FUEL OIL, STEAM, COKE, OR NUCLEAR FUEL FOR USE BY A UTILITY COMPANY TO GENERATE ELECTRICITY FOR RETAIL OR WHOLESALE SALE; AND
(d) Electricity, coal, gas, fuel oil, steam, coke, or nuclear fuel for use in street and railroad transportation services.

(2) To claim the refund allowed by subsection (1) of this section, a purchaser shall submit a refund application to the department of revenue on a form provided by the department. The department shall establish by rule all necessary procedures for claiming the refund.

SECTION 10. In Colorado Revised Statutes, 39-26-127, amend (1) introductory portion; and add (1)(f) as follows:

39-26-127. Legislation modifying the state sales tax base - no impact on local government sales tax bases - no expansion of local authority to levy sales tax. (1) Notwithstanding the provisions of section 29-2-105 (1)(d), C.R.S.; any provision of title 32, C.R.S.; or any other provision of law, and except as set forth in subsection (3) of this section, the levying of sales tax on, exemption from sales tax for, or local option to levy sales tax on or provide an exemption from sales tax for any tangible personal property or services under the sales tax ordinance or resolution of any county, municipality, special district, authority, or other local government or political subdivision of the state shall not be affected in any way by the elimination, suspension, or modification of any sales tax exemption or any other legislative modification of the state sales tax base resulting from the enactment of any of the following bills:


SECTION 11. In Colorado Revised Statutes, 39-26-212, amend
(1) introductory portion; and add (1)(f) as follows:

39-26-212. Legislation modifying the state use tax base - no impact on local government use tax bases - no expansion of local authority to levy use tax. (1) Notwithstanding the provisions of section 29-2-105 (1)(d), C.R.S., any provision of title 32, C.R.S., or any other provision of law, and except as set forth in subsection (3) of this section, the levying of use tax on, exemption from use tax for, or local option to levy use tax on or provide an exemption from use tax for any tangible personal property or services under the use tax ordinance or resolution of any county, municipality, special district, authority, or other local government or political subdivision of the state shall not be affected in any way by the elimination, suspension, or modification of any use tax exemption or any other legislative modification of the state use tax base resulting from the enactment of any of the following bills:


SECTION 12. In Colorado Revised Statutes, 10-3-209, amend (1)(b)(I)(B), (1)(b)(III), and (1)(d)(IV); and repeal (1)(b)(II) as follows:

10-3-209. Tax on premiums collected - exemptions - penalties - repeal. (1) (b) (I) The rate of tax shall be as follows:

(B) For companies maintaining a home office or a regional home office in this state, the rate of tax on the gross amount FOR TAXES DUE AND PAYABLE BEFORE MARCH 1, 2021, shall be one percent.

(II) For purposes of this paragraph (b), any company is deemed to maintain a home office or regional home office in this state if such company either:
(A) Substantially performs in this state the following functions, or substantially equivalent functions, for the company for each state in which the company is licensed, or for three or more of such states:

Actuarial, medical, legal, approval or rejection of applications, issuance of policies, information and service, advertising and publications, public relations, hiring, testing, and training of sales and service forces; or

(B) Maintains significant direct insurance operations in this state that are supported by functional operations which are both necessary for and pertinent to a line or lines of business written by the company in this state.

(III) (A) Any company desiring to qualify an office in this state as a home or regional home office shall make application for qualification to the commissioner on forms prescribed by the commissioner and shall submit proof that it is operating a home or a regional home office in this state. Applications for companies that were not approved in the immediate preceding year shall be received by the commissioner by December 31 of the year immediately preceding the year for which the application for qualification is being made. Applications for companies that were approved in the immediate preceding year shall be received by the commissioner by March 1 of the year for which qualification is being made. Applications for companies that were approved in the immediate preceding year received through March 31 shall pay a late charge of one hundred dollars per day for each day after March 1 that any such application is received by the commissioner. Applications received after March 31 shall be denied. The provisions of subsection (2) of this section shall not apply to companies maintaining a home office or regional home office in this state.
(B) THIS SUBSECTION (1)(b)(III) IS REPEALED, EFFECTIVE MARCH 1, 2021.

(d) (IV) (A) Except to the extent provided in SUBSECTION (1)(d)(IV)(B) AND subsection (2) of this section, the tax imposed by this section shall not apply to premiums collected or contracted for after December 31, 1968, on policies or contracts issued in connection with a pension, profit sharing, or annuity plan established by an employer for employees if contributions by such employer thereunder are deductible by such employer in determining such employer's net income as defined in section 39-22-304, C.R.S.; and shall not apply to premiums collected or contracted for after December 31, 1968, on policies or contracts purchased for an employee by an employer if such employer is exempt under section 39-22-112, C.R.S.; from the tax imposed by article 22 of title 39, C.R.S.; or is a state, a political subdivision of a state, or an agency or instrumentality of a state or political subdivision of a state. Except to the extent provided in subsection (2) of this section, the tax imposed by this section shall not apply to annuity considerations collected or contracted for after December 31, 1976.

(B) FOR PREMIUMS COLLECTED ON AND AFTER MARCH 1, 2020, AN "ANNUITY PLAN" OR AN "ANNUITY CONSIDERATION" DOES NOT INCLUDE A DEPOSIT-TYPE CONTRACT THAT DOES NOT INCORPORATE MORTALITY OR MORBIDITY RISKS, SUCH AS A GUARANTEED INVESTMENT OR INTEREST CERTIFICATE, A SUPPLEMENTARY CONTRACT WITHOUT LIFE CONTINGENCIES, AN ANNUITY CERTAIN, A PREMIUM FUND OR OTHER DEPOSIT FUND, A DIVIDEND ACCUMULATION, A COUPON ACCUMULATION, A LOTTERY PAYOUT, OR A STRUCTURED SETTLEMENT.

SECTION 13. In Colorado Revised Statutes, 39-22-123.5,
amend (1)(h) and (2); repeal (3); and add (2.5) as follows:

39-22-123.5. Earned income tax credit - not a refund of excess state revenues - trigger - legislative declaration - definition. (1) The general assembly hereby finds and declares that:

(h) Now, therefore, it is the intent of the general assembly to establish a permanent and refundable state earned income tax credit for eligible Colorado taxpayers, which is equal to ten percent of the federal earned income tax credit. The intended purpose of this credit is to help individuals and families achieve greater financial security and to help Colorado's economy.

(2) (a) For an income tax year specified in subsection (3) of this section commencing prior to January 1, 2023, a resident individual who claims an earned income tax credit on the individual's federal tax return is allowed an earned income tax credit against the taxes due under this article ARTICLE 22 that is equal to ten percent of the federal credit that the resident individual claimed on his or her federal tax return for the same tax year.

(b) For an income tax year commencing on or after January 1, 2023, a resident individual who claims an earned income tax credit on the individual's federal tax return is allowed an earned income tax credit against the taxes due under this article ARTICLE 22 that is equal to twenty percent of the federal credit that the resident individual claimed on his or her federal tax return for the same tax year.

(2.5) (a) For income tax years commencing on or after January 1, 2020, but before January 1, 2023, a resident individual is allowed an earned income tax credit against the taxes due
UNTER THIS ARTICLE 22 THAT IS EQUAL TO TEN PERCENT OF THE FEDERAL
CREDIT THAT THE RESIDENT INDIVIDUAL WOULD HAVE BEEN ALLOWED,
BUT FOR THE FACT THAT THE RESIDENT INDIVIDUAL, THE RESIDENT
INDIVIDUAL'S SPOUSE, OR ONE OR MORE OF THE RESIDENT INDIVIDUAL'S
DEPENDENTS DO NOT HAVE A SOCIAL SECURITY NUMBER THAT IS VALID
FOR EMPLOYMENT.

(b) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
1, 2023, A RESIDENT INDIVIDUAL IS ALLOWED AN EARNED INCOME TAX
CREDIT AGAINST THE TAXES DUE UNDER THIS ARTICLE 22 THAT IS EQUAL
TO TWENTY PERCENT OF THE FEDERAL CREDIT THAT THE TAXPAYER
WOULD HAVE BEEN ALLOWED, BUT FOR THE FACT THAT THE RESIDENT
INDIVIDUAL, THE RESIDENT INDIVIDUAL'S SPOUSE, OR ONE OR MORE OF THE
RESIDENT INDIVIDUAL'S DEPENDENTS DO NOT HAVE A SOCIAL SECURITY
NUMBER THAT IS VALID FOR EMPLOYMENT.

(c) FOR PURPOSES OF THIS SUBSECTION (2.5), A "RESIDENT
INDIVIDUAL" INCLUDES A TAXPAYER FILING WITH AN INDIVIDUAL
TAXPAYER IDENTIFICATION NUMBER.

(3) If a credit is allowed under section 39-22-123 for an income
tax year commencing on or after January 1, 2013, the credit allowed
under this section may be claimed for any income tax year beginning with
the income tax year after the income tax year that the credit is allowed
under section 39-22-123.

SECTION 14. In Colorado Revised Statutes, 24-75-220, add (6)
as follows:

24-75-220. State education fund - transfers - surplus -
legislative declaration. (6) (a) On JULY 1, 2021, THE STATE TREASURER
SHALL TRANSFER ONE HUNDRED FIFTY MILLION DOLLARS FROM THE
GENERAL FUND TO THE STATE EDUCATION FUND CREATED IN SECTION 17 (4) OF ARTICLE IX OF THE STATE CONSTITUTION FOR THE FISCAL YEAR 2021-22.

(b) On July 1, 2022, the State Treasurer shall transfer two hundred million dollars from the General Fund to the State Education Fund created in Section 17 (4) of Article IX of the State Constitution for the Fiscal Year 2022-23.

(c) On July 1, 2023, the State Treasurer shall transfer two hundred million dollars from the General Fund to the State Education Fund created in Section 17 (4) of Article IX of the State Constitution for the Fiscal Year 2023-24.

(d) On July 1, 2024, the State Treasurer shall transfer two hundred million dollars from the General Fund to the State Education Fund created in Section 17 (4) of Article IX of the State Constitution for the Fiscal Year 2024-25.

SECTION 15. Effective date. This act takes effect upon passage; except that section 10-3-209 (1)(b)(II), Colorado Revised Statutes, as repealed in section 11 of this act, takes effect March 1, 2021.

SECTION 16. Safety clause. The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, or safety.