

**First Regular Session
Seventy-fifth General Assembly
STATE OF COLORADO**

INTRODUCED

LLS NO. 25-0573.01 Megan McCall x4215

HOUSE BILL 25-1021

HOUSE SPONSORSHIP

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Bridges,

House Committees
Business Affairs & Labor

Senate Committees

A BILL FOR AN ACT

101 **CONCERNING TAX INCENTIVES FOR BUSINESSES THAT TRANSITION TO**
102 **EMPLOYEE-OWNED BUSINESSES IN WHOLE OR IN PART.**

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>.)

The bill creates 2 income tax subtractions for income tax years commencing on or after January 1, 2027, but before January 1, 2038. The first subtraction is for an amount equal to state capital gains that are realized by a taxpayer during the taxable year for the conversion by an increment of at least 20% ownership to a qualified employee-owned business of a qualified business. The taxpayers that are eligible for this

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.*

subtraction are the same taxpayers that would be eligible for the tax credit for conversion costs for employee business ownership.

The second subtraction is allowed to worker-owned cooperatives in an amount equal to the worker-owned cooperative's federal taxable income for the tax year not to exceed \$1 million.

The bill also makes changes to the tax credit for conversion costs for employee business ownership (credit). Under current law, the credit is available through income tax year 2026. The bill extends the credit through income tax year 2037. The bill also specifies that the aggregate amount of credits that can be claimed for each income tax year commencing on or after January 1, 2026, but before January 1, 2032, is \$3 million and that the aggregate amount of credits that can be claimed for each income tax year commencing on or after January 1, 2032, but before January 1, 2038, is \$4 million. The percentage of conversion or expansion costs that are eligible to be claimed for the credit is currently 50%; however, the bill increases this percentage to 75% beginning in tax year 2026 while maintaining the existing dollar caps for the different methods of conversion.

Additionally, the bill revises several definitions to expand eligibility for the credit and allows for qualified support entities, which are nonprofit organizations that provide services to businesses that qualify under the credit to convert or expand to employee-ownership, to be eligible to receive the credit for up to 75% of the costs incurred for providing such support, including for staff salaries and benefits, marketing and outreach, and consulting and technical assistance not to exceed \$167,000.

The bill makes conforming amendments to several of the credit's expanded definitions that are also applicable to the tax credit for new employee-owned businesses.

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

2 **SECTION 1.** In Colorado Revised Statutes, 39-22-104, **add**
3 (4)(dd) as follows:

4 **39-22-104. Income tax imposed on individuals, estates, and**
5 **trusts - single rate - report - tax preference performance statement**
6 **- legislative declaration - definitions - repeal.** (4) There shall be
7 subtracted from federal taxable income:

8 (dd) (I) FOR INCOME TAX YEARS COMMENCING ON OR AFTER

1 JANUARY 1, 2027, BUT BEFORE JANUARY 1, 2038, AN AMOUNT EQUAL TO
2 QUALIFYING CAPITAL GAINS THAT ARE SUBJECT TO TAX UNDER THIS
3 ARTICLE 22 AND THAT ARE REALIZED BY A QUALIFIED TAXPAYER DURING
4 THE TAXABLE YEAR FOR THE QUALIFIED SALE OF A QUALIFIED BUSINESS.

5 (II) AS USED IN THIS SECTION, UNLESS THE CONTEXT OTHERWISE
6 REQUIRES:

7 (A) "OWNER" HAS THE SAME MEANING AS SET FORTH IN SECTION
8 39-22-542 (2)(h).

9 (B) "QUALIFIED BUSINESS" HAS THE SAME MEANING AS SET FORTH
10 IN SECTION 39-22-542 (2)(i).

11 (C) "QUALIFIED EMPLOYEE-OWNED BUSINESS" HAS THE SAME
12 MEANING AS SET FORTH IN SECTION 39-22-542 (2)(j).

13 (D) "QUALIFIED SALE" MEANS THE CONVERSION TO A QUALIFIED
14 EMPLOYEE-OWNED BUSINESS; EXCEPT THAT THE CONVERSION MUST BE BY
15 AN INCREMENT OF AT LEAST TWENTY PERCENT OF THE TOTAL OWNERSHIP
16 OF THE ENTIRE QUALIFIED EMPLOYEE-OWNED BUSINESS.

17 (E) "QUALIFIED TAXPAYER" MEANS, IN THE CASE OF A QUALIFIED
18 BUSINESS THAT IS A C CORPORATION, THE QUALIFIED BUSINESS AND, IN
19 THE CASE OF A QUALIFIED BUSINESS THAT IS A PARTNERSHIP OR AN S
20 CORPORATION, THE OWNER.

21 (F) "QUALIFYING CAPITAL GAINS" MEANS THE AMOUNT OF NET
22 CAPITAL GAINS, AS DEFINED IN SECTION 1222 (11) OF THE INTERNAL
23 REVENUE CODE.

24 (III) IN ACCORDANCE WITH SECTION 39-21-304 (1), WHICH
25 REQUIRES EACH BILL THAT CREATES A NEW TAX EXPENDITURE TO INCLUDE
26 A TAX PREFERENCE PERFORMANCE STATEMENT AS PART OF A STATUTORY
27 LEGISLATIVE DECLARATION, THE GENERAL ASSEMBLY FINDS AND

1 DECLARES THAT THE PURPOSE OF THE INCOME TAX SUBTRACTION
2 PROVIDED IN THIS SUBSECTION (4)(dd) IS TO:

3 (A) INDUCE CERTAIN DESIGNATED BEHAVIOR BY TAXPAYERS,
4 SPECIFICALLY FOR BUSINESSES TO ESTABLISH EMPLOYEE STOCK
5 OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR TO CONVERT TO
6 A WORKER-OWNED COOPERATIVE; AND

7 (B) PROVIDE TAX RELIEF FOR CERTAIN BUSINESSES OR
8 INDIVIDUALS, SPECIFICALLY TO BUSINESSES THAT ESTABLISH EMPLOYEE
9 STOCK OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR THAT
10 CONVERT TO A WORKER-OWNED COOPERATIVE.

11 (IV) THE GENERAL ASSEMBLY AND THE STATE AUDITOR SHALL
12 MEASURE THE EFFECTIVENESS OF THE SUBTRACTION IN ACHIEVING THE
13 PURPOSE SPECIFIED IN SUBSECTION (4)(dd)(III) OF THIS SECTION BASED ON
14 THE NUMBER AND AGGREGATE AMOUNT OF SUBTRACTIONS CLAIMED IN A
15 TAX YEAR.

16 (V) THIS SUBSECTION (4)(dd) IS REPEALED, EFFECTIVE JULY 1,
17 2042.

18 **SECTION 2.** In Colorado Revised Statutes, 39-22-304, **add** (3)(s)
19 and (3)(t) as follows:

20 **39-22-304. Net income of corporation - legislative declaration**
21 **- definitions - repeal.** (3) There shall be subtracted from federal taxable
22 income:

23 (s) (I) FOR INCOME TAX YEARS COMMENCING ON OR AFTER
24 JANUARY 1, 2027, BUT BEFORE JANUARY 1, 2038, AN AMOUNT EQUAL TO
25 QUALIFYING CAPITAL GAINS THAT ARE SUBJECT TO TAX UNDER THIS
26 ARTICLE 22 AND THAT ARE REALIZED BY A QUALIFIED TAXPAYER DURING
27 THE TAXABLE YEAR FOR THE QUALIFIED SALE OF A QUALIFIED BUSINESS.

1 (II) AS USED IN THIS SECTION, UNLESS THE CONTEXT OTHERWISE
2 REQUIRES:

3 (A) "OWNER" HAS THE SAME MEANING AS SET FORTH IN SECTION
4 39-22-542 (2)(h).

5 (B) "QUALIFIED BUSINESS" HAS THE SAME MEANING AS SET FORTH
6 IN SECTION 39-22-542 (2)(i).

7 (C) "QUALIFIED EMPLOYEE-OWNED BUSINESS" HAS THE SAME
8 MEANING AS SET FORTH IN SECTION 39-22-542 (2)(j).

9 (D) "QUALIFIED SALE" MEANS THE CONVERSION TO A QUALIFIED
10 EMPLOYEE-OWNED BUSINESS; EXCEPT THAT THE CONVERSION MUST BE BY
11 AN INCREMENT OF AT LEAST TWENTY PERCENT OF THE TOTAL OWNERSHIP
12 OF THE ENTIRE QUALIFIED EMPLOYEE-OWNED BUSINESS.

13 (E) "QUALIFIED TAXPAYER" MEANS, IN THE CASE OF A QUALIFIED
14 BUSINESS THAT IS A C CORPORATION, THE QUALIFIED BUSINESS AND, IN
15 THE CASE OF A QUALIFIED BUSINESS THAT IS A PARTNERSHIP OR AN S
16 CORPORATION, THE OWNER.

17 (F) "QUALIFYING CAPITAL GAINS" MEANS THE AMOUNT OF NET
18 CAPITAL GAINS, AS DEFINED IN SECTION 1222 (11) OF THE INTERNAL
19 REVENUE CODE.

20 (III) IN ACCORDANCE WITH SECTION 39-21-304 (1), WHICH
21 REQUIRES EACH BILL THAT CREATES A NEW TAX EXPENDITURE TO INCLUDE
22 A TAX PREFERENCE PERFORMANCE STATEMENT AS PART OF A STATUTORY
23 LEGISLATIVE DECLARATION, THE GENERAL ASSEMBLY FINDS AND
24 DECLARES THAT THE PURPOSE OF THE INCOME TAX SUBTRACTION
25 PROVIDED IN THIS SUBSECTION (3)(s) IS TO:

26 (A) INDUCE CERTAIN DESIGNATED BEHAVIOR BY TAXPAYERS,
27 SPECIFICALLY FOR BUSINESSES TO ESTABLISH EMPLOYEE STOCK

1 OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR TO CONVERT TO
2 A WORKER-OWNED COOPERATIVE; AND

3 (B) PROVIDE TAX RELIEF FOR CERTAIN BUSINESSES OR
4 INDIVIDUALS, SPECIFICALLY TO BUSINESSES THAT ESTABLISH EMPLOYEE
5 STOCK OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR THAT
6 CONVERT TO A WORKER-OWNED COOPERATIVE.

7 (IV) THE GENERAL ASSEMBLY AND THE STATE AUDITOR SHALL
8 MEASURE THE EFFECTIVENESS OF THE SUBTRACTION IN ACHIEVING THE
9 PURPOSE SPECIFIED IN SUBSECTION (3)(s)(III) OF THIS SECTION BASED ON
10 THE NUMBER AND AGGREGATE AMOUNT OF SUBTRACTIONS CLAIMED IN A
11 TAX YEAR.

12 (V) THIS SUBSECTION (3)(s) IS REPEALED, EFFECTIVE JULY 1, 2042.

13 (t) (I) FOR INCOME TAX YEARS COMMENCING ON OR AFTER
14 JANUARY 1, 2027, BUT BEFORE JANUARY 1, 2038, AN AMOUNT EQUAL TO
15 A QUALIFIED TAXPAYER'S FEDERAL TAXABLE INCOME FOR THE TAX YEAR
16 NOT TO EXCEED ONE MILLION DOLLARS.

17 (II) AS USED IN THIS SECTION, UNLESS THE CONTEXT OTHERWISE
18 REQUIRES:

19 (A) "QUALIFIED TAXPAYER" MEANS A TAXPAYER THAT IS SUBJECT
20 TO TAX UNDER THIS ARTICLE 22 AND THAT IS A WORKER-OWNED
21 COOPERATIVE.

22 (B) "WORKER-OWNED COOPERATIVE" HAS THE SAME MEANING AS
23 SET FORTH IN SECTION 1042 (c)(2) OF THE INTERNAL REVENUE CODE.

24 (III) IN ACCORDANCE WITH SECTION 39-21-304 (1), WHICH
25 REQUIRES EACH BILL THAT CREATES A NEW TAX EXPENDITURE TO INCLUDE
26 A TAX PREFERENCE PERFORMANCE STATEMENT AS PART OF A STATUTORY
27 LEGISLATIVE DECLARATION, THE GENERAL ASSEMBLY FINDS AND

1 DECLARES THAT THE PURPOSE OF THE INCOME TAX SUBTRACTION
2 PROVIDED IN THIS SUBSECTION (3)(t) IS TO:

3 (A) INDUCE CERTAIN DESIGNATED BEHAVIOR BY TAXPAYERS,
4 SPECIFICALLY FOR BUSINESSES TO CONVERT TO A WORKER-OWNED
5 COOPERATIVE; AND

6 (B) PROVIDE TAX RELIEF FOR CERTAIN BUSINESSES, SPECIFICALLY
7 TO PROVIDE ONGOING SUPPORT TO BUSINESSES THAT CONVERT TO A
8 WORKER-OWNED COOPERATIVE.

9 (IV) THE GENERAL ASSEMBLY AND THE STATE AUDITOR SHALL
10 MEASURE THE EFFECTIVENESS OF THE SUBTRACTION IN ACHIEVING THE
11 PURPOSE SPECIFIED IN SUBSECTION (3)(t)(III) OF THIS SECTION BASED ON
12 THE NUMBER AND AGGREGATE AMOUNT OF SUBTRACTIONS CLAIMED IN A
13 TAX YEAR AND THE NUMBER OF SUBTRACTIONS CLAIMED YEAR OVER
14 YEAR.

15 (V) THIS SUBSECTION (3)(t) IS REPEALED, EFFECTIVE JULY 1, 2042.

16 **SECTION 3.** In Colorado Revised Statutes, 39-22-542, **amend**
17 (1)(a)(I), (1)(a)(III), (2)(e), (2)(j)(II), (3)(a) introductory portion,
18 (3)(a.5)(I), (3)(c), (3)(d), (4), (5)(a)(V), (5)(a)(VI), (6)(a)(I), (8), (10),
19 (11) introductory portion, and (14); and **add** (2)(c.5), (2)(j.5), (2)(k.5),
20 (3)(a.3), (3)(a.5)(III), (3)(a.7), (3)(b)(III), and (5)(a)(VII) as follows:

21 **39-22-542. Employee-ownership tax credit - definitions -**
22 **legislative declaration - repeal.** (1) **Legislative declaration.** (a) The
23 general assembly hereby finds and declares that:

24 (I) The purpose of this section is to provide an incentive for ~~small~~
25 businesses to establish employee stock ownership plans or employee
26 ownership trusts or to convert to a worker-owned cooperative, AND TO
27 PROVIDE AN INCENTIVE TO ENTITIES THAT SUPPORT BUSINESSES IN SUCH

1 ESTABLISHMENT OR CONVERSION;

2 (III) This section encourages ~~small~~ business owners to sell
3 ~~through three different options~~, their businesses to the very employees
4 that contributed to their success; and

5 (2) **Definitions.** As used in this section, unless the context
6 otherwise requires:

7 (c.5) "CORPORATE HEADQUARTERS" MEANS THE SOLE LOCATION
8 WITHIN A REGIONAL OR NATIONAL AREA WHERE THE MAJORITY OF THE
9 TAXPAYER'S OR QUALIFIED SUPPORT ENTITY'S STAFF MEMBERS OR
10 EMPLOYEES ARE DOMICILED AND EMPLOYED AND WHERE THE MAJORITY
11 OF THE TAXPAYER'S OR QUALIFIED SUPPORT ENTITY'S FINANCIAL,
12 PERSONNEL, LEGAL, PLANNING, OR OTHER BUSINESS FUNCTIONS ARE
13 CONDUCTED ON A REGIONAL OR NATIONAL BASIS.

14 (e) "Employee ownership trust" means an indirect form of
15 employee ownership in which a trust holds ~~a controlling stake~~ AT LEAST
16 TWENTY PERCENT OF THE FULLY DILUTED SECURITIES in a qualified
17 business and benefits all employees on an equal basis.

18 (j) "Qualified employee-owned business" means a taxpayer that
19 is subject to tax under this article 22, including but not limited to a C
20 corporation, S corporation, limited liability company, partnership, limited
21 liability partnership, sole proprietorship, or other similar pass-through
22 entity, that:

23 (II) Has its corporate headquarters located in this state. ~~For~~
24 ~~purposes of this subsection (2)(j), "corporate headquarters" means the~~
25 ~~sole location within a regional or national area where the taxpayer's staff~~
26 ~~members or employees are domiciled and employed, and where the~~
27 ~~majority of the taxpayer's financial, personnel, legal, planning, or other~~

1 ~~business functions are conducted on a regional or national basis.~~

2 (j.5) "QUALIFIED SUPPORT ENTITY" MEANS AN ORGANIZATION
3 EXEMPT FROM TAXATION UNDER SECTION 501 (c)(3) OF THE INTERNAL
4 REVENUE CODE THAT:

5 (I) HAS BEEN IN EXISTENCE FOR NOT LESS THAN TWELVE MONTHS
6 PRIOR TO JANUARY 1 OF THE INCOME TAX YEAR FOR WHICH THE QUALIFIED
7 SUPPORT ENTITY CLAIMS THE CREDIT;

8 (II) EITHER HAS PROVIDED SERVICES THAT HAVE SUPPORTED AT
9 LEAST ONE SUCCESSFUL CONVERSION OR EXPANSION TO A QUALIFIED
10 EMPLOYEE-OWNED BUSINESS IN THE INCOME TAX YEAR OR HAS PROVIDED
11 SERVICES THAT HAVE SUPPORTED AT LEAST THREE QUALIFIED BUSINESSES
12 THAT HAVE THE INTENT OF CONVERTING OR EXPANDING TO A QUALIFIED
13 EMPLOYEE-OWNED BUSINESS;

14 (III) HAS ITS CORPORATE HEADQUARTERS LOCATED IN THIS STATE;

15 AND

16 (IV) IS APPROVED BY THE OFFICE FOR THE TAX INCENTIVES IN THIS
17 SECTION.

18 (k.5) "SUPPORT COSTS" MEANS COSTS THAT ARE OR ARE RELATED
19 TO:

20 (I) STAFF SALARIES AND BENEFITS FOR STAFF THAT ARE DIRECTLY
21 INVOLVED IN PROVIDING SERVICES OF THE QUALIFIED SUPPORT ENTITY FOR
22 THE CONVERSION OR EXPANSION OF A QUALIFIED BUSINESS TO A
23 QUALIFIED EMPLOYEE-OWNED BUSINESS;

24 (II) MARKETING AND OUTREACH FOR PRODUCING EDUCATIONAL
25 MATERIALS OR HOSTING WORKSHOPS OR CONFERENCES ON CONVERTING
26 A BUSINESS TO EMPLOYEE-OWNERSHIP; AND

27 (III) CONSULTING AND TECHNICAL ASSISTANCE WHICH MAY

1 INCLUDE LEGAL, FINANCIAL, AND BUSINESS CONSULTING FOR CONVERTING
2 A QUALIFIED BUSINESS TO A QUALIFIED EMPLOYEE-OWNED BUSINESS.

3 (3) (a) EXCEPT AS OTHERWISE PROVIDED IN SUBSECTION (3)(a.3)
4 OF THIS SECTION AND subject to certification by the office pursuant to this
5 section, for income tax years commencing on or after January 1, 2022, but
6 ~~prior to January 1, 2027~~ BEFORE JANUARY 1, 2038, a qualified business
7 is allowed a credit with respect to the income taxes imposed pursuant to
8 this article 22 as follows:

9 (a.3) FOR INCOME TAX YEARS COMMENCING ON OR AFTER
10 JANUARY 1, 2026, BUT BEFORE JANUARY 1, 2038, THE ALLOWABLE
11 PERCENTAGE OF CONVERSION COSTS INCURRED BY A QUALIFIED BUSINESS
12 FOR THE APPLICABLE CONVERSION OF THE QUALIFIED BUSINESS SET FORTH
13 IN SUBSECTIONS (3)(a)(I), (3)(a)(II), AND (3)(a)(III) OF THIS SECTION FOR
14 PURPOSES OF CALCULATING THE CREDIT IS UP TO SEVENTY-FIVE PERCENT
15 OF THE CONVERSION COSTS.

16 (a.5) (I) EXCEPT AS OTHERWISE PROVIDED IN SUBSECTION
17 (3)(a.5)(III) OF THIS SECTION and subject to certification by the office
18 pursuant to this section, for ~~the~~ income tax years commencing on or after
19 January 1, 2024, but ~~prior to January 1, 2027~~ BEFORE JANUARY 1, 2038,
20 a qualified employee-owned business is allowed a credit with respect to
21 the income taxes imposed pursuant to this article 22 of up to fifty percent
22 of the expansion costs, not to exceed twenty-five thousand dollars,
23 incurred to expand a qualified employee-owned business's employee
24 ownership trust, employee stock ownership plan, worker-owned
25 cooperative, or alternate equity structure.

26 (III) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
27 1, 2026, BUT BEFORE JANUARY 1, 2038, THE ALLOWABLE PERCENTAGE OF

1 EXPANSION COSTS INCURRED BY A QUALIFIED EMPLOYEE-OWNED BUSINESS
2 TO EXPAND A QUALIFIED EMPLOYEE-OWNED BUSINESS AS SET FORTH IN
3 SUBSECTION (3)(a.5)(I) OF THIS SECTION FOR PURPOSES OF CALCULATING
4 THE CREDIT IS UP TO SEVENTY-FIVE PERCENT OF THE CONVERSION COSTS.

5 (a.7) SUBJECT TO CERTIFICATION BY THE OFFICE PURSUANT TO THIS
6 SECTION, FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
7 1, 2027, BUT PRIOR TO JANUARY 1, 2038, A QUALIFIED SUPPORT ENTITY IS
8 ALLOWED A CREDIT WITH RESPECT TO THE INCOME TAXES IMPOSED
9 PURSUANT TO THIS ARTICLE 22 OF UP TO SEVENTY-FIVE PERCENT OF THE
10 SUPPORT COSTS, BUT NOT TO EXCEED ONE HUNDRED SIXTY-SEVEN
11 THOUSAND DOLLARS, INCURRED IN PROVIDING SERVICES THAT SUPPORT
12 THE CONVERSION OR THE EXPANSION OF QUALIFIED BUSINESSES TO
13 QUALIFIED EMPLOYEE-OWNED BUSINESSES.

14 (b) (III) IN THE CASE OF A QUALIFIED SUPPORT ENTITY, THE CREDIT
15 IS ALLOWED TO THE QUALIFIED SUPPORT ENTITY.

16 (c) The maximum amount of all tax credit certificates that the
17 office may reserve under subsection (6)(a) of this section ~~in any tax year~~
18 ~~is ten million dollars.~~ IS:

19 (I) TEN MILLION DOLLARS FOR ANY INCOME TAX YEAR
20 COMMENCING ON OR AFTER JANUARY 1, 2022, BUT BEFORE JANUARY 1,
21 2026;

22 (II) THREE MILLION DOLLARS FOR ANY INCOME TAX YEAR
23 COMMENCING ON OR AFTER JANUARY 1, 2026, BUT BEFORE JANUARY 1,
24 2032; AND

25 (III) FOUR MILLION DOLLARS FOR ANY INCOME TAX YEAR
26 COMMENCING ON OR AFTER JANUARY 1, 2032, BUT BEFORE JANUARY 1,
27 2038.

1 (d) (I) A qualified business or qualified employee-owned business
2 may apply for and claim only one tax credit for the conversion or
3 expansion costs incurred per tax year.

4 (II) A QUALIFIED SUPPORT ENTITY MAY APPLY FOR AND CLAIM
5 ONLY ONE TAX CREDIT PER TAX YEAR.

6 (4) (a) A business OR, WHERE APPLICABLE, A NONPROFIT
7 ORGANIZATION shall submit an application to the office for the issuance
8 of a credit certificate for the credit allowed in this section by the deadlines
9 established in the office's guidelines. EXCEPT AS OTHERWISE PROVIDED IN
10 SUBSECTION (4)(b) OF THIS SECTION, the application must include
11 information, as set forth in the office's guidelines, regarding the type of
12 conversion or expansion the business intends to undertake, a list of the
13 expected conversion or expansion costs, and an estimated amount, as
14 calculated by the business, of the expected conversion or expansion costs.

15 (b) AN APPLICATION FOR A NONPROFIT ORGANIZATION SUBMITTING
16 THE APPLICATION TO BE APPROVED AS A QUALIFIED SUPPORT ENTITY MUST
17 INCLUDE INFORMATION, AS SET FORTH IN THE OFFICE'S GUIDELINES,
18 REGARDING THE SUPPORT SERVICES THE NONPROFIT ORGANIZATION
19 PROVIDES TO QUALIFIED BUSINESSES, WHETHER THE NONPROFIT
20 ORGANIZATION SUPPORTED A SUCCESSFUL CONVERSION OF A QUALIFIED
21 BUSINESS TO A QUALIFIED EMPLOYEE-OWNED BUSINESS IN THE TAXABLE
22 YEAR, IF THE NONPROFIT ORGANIZATION HAS NOT SUPPORTED A
23 SUCCESSFUL CONVERSION, THE NUMBER OF QUALIFIED BUSINESSES THE
24 NONPROFIT ORGANIZATION IS SUPPORTING THAT INTEND TO CONVERT OR
25 EXPAND TO QUALIFIED EMPLOYEE-OWNED BUSINESSES AND THE STATUS
26 OF THE ANTICIPATED CONVERSIONS OR EXPANSIONS, AND INFORMATION
27 REGARDING SUPPORT COSTS INCURRED IN THE INCOME TAX YEAR.

1 (5) (a) The office shall develop guidelines for the administration
2 of this section, including, but not limited to:

3 (V) Detailed guidelines regarding expansion costs; ~~and~~

4 (VI) Guidelines and standards for certifying a business as a
5 qualified employee-owned business; AND

6 (VII) GUIDELINES AND STANDARDS FOR CERTIFYING A NONPROFIT
7 ORGANIZATION AS A QUALIFIED SUPPORT ENTITY.

8 (6) (a) (I) After the office provides the written report required in
9 subsection (5)(b) of this section, a reservation of tax credits is permitted
10 for the tax credit allowed in this section. If the office determines that the
11 application filed under subsection (4) of this section is complete, the
12 office shall determine whether the business is a qualified business, ~~or~~ a
13 qualified employee-owned business, OR A QUALIFIED SUPPORT ENTITY,
14 review the list of the expected conversion or expansion costs, and review
15 the estimated conversion, ~~or~~ expansion, OR SUPPORT costs as calculated
16 by the business. If the office approves the business as a qualified
17 business, ~~or~~ a qualified employee-owned business, OR A QUALIFIED
18 SUPPORT ENTITY, the list of expected conversion or expansion costs, and
19 the estimated conversion, ~~or~~ expansion, OR SUPPORT costs, the office may
20 reserve for the benefit of the qualified business, the qualified
21 employee-owned business, ~~or~~ the owner of the business, OR THE
22 QUALIFIED SUPPORT ENTITY an allocation of a tax credit subject to the
23 limitation specified in subsection (3)(b) of this section. The office shall
24 notify the qualified business, ~~or~~ the qualified employee-owned business,
25 OR THE QUALIFIED SUPPORT ENTITY in writing of the amount of the
26 reservation. The reservation of a tax credit does not entitle the qualified
27 business, the qualified employee-owned business, ~~or~~ the owner of the

1 business, OR THE QUALIFIED SUPPORT ENTITY to an issuance of a tax credit
2 certificate until the qualified business, ~~or~~ the qualified employee-owned
3 business, OR THE QUALIFIED SUPPORT ENTITY complies with all of the
4 other requirements specified in this section for the issuance of the tax
5 credit certificate.

6 (8) If the credit allowed under this section exceeds the income
7 taxes due on the income of the qualified business, qualified
8 employee-owned business, ~~or~~ owner of the business, OR QUALIFIED
9 SUPPORT ENTITY, the amount of the credit not used to offset income taxes
10 must be refunded to the qualified business, qualified employee-owned
11 business, ~~or~~ owner of the business, OR QUALIFIED SUPPORT ENTITY.

12 (10) (a) To claim the income tax credit allowed in this section, the
13 qualified business, qualified employee-owned business, ~~or~~ owner of the
14 business, OR QUALIFIED SUPPORT ENTITY shall attach a copy of the credit
15 certificate to its state income tax return. No tax credit is allowed under
16 this section unless the qualified business, qualified employee-owned
17 business, ~~or~~ owner of the business, OR QUALIFIED SUPPORT ENTITY
18 provides the copy of the credit certificate with its filed state income tax
19 return. The amount of the credit that the qualified business, ~~or~~ the
20 qualified employee-owned business, OR THE QUALIFIED SUPPORT ENTITY
21 may claim under this section is the amount stated on the tax credit
22 certificate.

23 (b) A QUALIFIED SUPPORT ENTITY THAT CLAIMS THE CREDIT
24 ALLOWED BY THIS SECTION SHALL FILE A RETURN PURSUANT TO SECTION
25 39-22-601 (7)(b) AND ATTACH A COPY OF THE CREDIT CERTIFICATE IN
26 ACCORDANCE WITH SUBSECTION (10)(a) OF THIS SECTION.

27 (11) The office shall, in a sufficiently timely manner to allow the

1 department to process returns claiming the income tax credit allowed in
2 this section, provide the department with an electronic report of each
3 qualified business, qualified employee-owned business, ~~and~~ owner of a
4 business, AND QUALIFIED SUPPORT ENTITY that the office approved for the
5 income tax credit allowed in this section for the preceding calendar year
6 that includes the following information:

7 (14) This section is repealed, effective ~~December 31, 2033~~
8 DECEMBER 31, 2042.

9 **SECTION 4.** In Colorado Revised Statutes, 39-22-542.5, **amend**
10 (2)(d)(III) and (2)(f) as follows:

11 **39-22-542.5. Tax credit for new employee-owned businesses**
12 **- employee ownership cash fund - tax preference performance**
13 **statement - legislative declaration - definitions - repeal.**

14 (2) **Definitions.** As used in this section, unless the context otherwise
15 requires:

16 (d) "Employee-owned business" means a taxpayer that is subject
17 to tax under this article 22, including but not limited to a C corporation,
18 S corporation, limited liability company, partnership, limited liability
19 partnership, sole proprietorship, or other similar pass-through entity, that:

20 (III) Has its corporate headquarters located in this state. For
21 purposes of this subsection (2)(d), "corporate headquarters" means the
22 sole location within a regional or national area where THE MAJORITY OF
23 the taxpayer's staff members or employees are domiciled and employed,
24 and where the majority of the taxpayer's financial, personnel, legal,
25 planning, or other business functions are conducted on a regional or
26 national basis.

27 (f) "Employee ownership trust" means an indirect form of

1 employee ownership in which a trust holds ~~a controlling stake~~ AT LEAST
2 TWENTY PERCENT OF THE FULLY DILUTED SECURITIES in a business and
3 benefits all employees on an equal basis and otherwise meets the
4 definition of an alternate equity structure.

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