

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

PREAMENDED

*This Unofficial Version Includes Committee
Amendments Not Yet Adopted on Second Reading*

LLS NO. 25-0573.01 Megan McCall x4215

HOUSE BILL 25-1021

HOUSE SPONSORSHIP

Lindstedt and Taggart,

SENATE SPONSORSHIP

Bridges,

House Committees

Business Affairs & Labor
Finance

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 AN OWNER DURING THE TAXABLE
4 YEAR FOR THE QUALIFIED SALE OF A QUALIFIED BUSINESS.


5 (II) AS USED IN THIS SUBSECTION (4)(dd), UNLESS THE CONTEXT
6 OTHERWISE 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 
18 (E) "QUALIFYING CAPITAL GAINS" MEANS THE AMOUNT OF NET
19 CAPITAL GAINS, AS DEFINED IN SECTION 1222 (11) OF THE INTERNAL
20 REVENUE CODE.

21 (III) IN ACCORDANCE WITH SECTION 39-21-304 (1), WHICH
22 REQUIRES EACH BILL THAT CREATES A NEW TAX EXPENDITURE TO INCLUDE
23 A TAX PREFERENCE PERFORMANCE STATEMENT AS PART OF A STATUTORY
24 LEGISLATIVE DECLARATION, THE GENERAL ASSEMBLY FINDS AND
25 DECLARES THAT THE PURPOSE OF THE INCOME TAX SUBTRACTION
26 PROVIDED IN THIS SUBSECTION (4)(dd) IS TO:

27 (A) INDUCE CERTAIN DESIGNATED BEHAVIOR BY TAXPAYERS,

1 SPECIFICALLY FOR BUSINESSES TO ESTABLISH EMPLOYEE STOCK
2 OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR TO CONVERT TO
3 A WORKER-OWNED COOPERATIVE; AND

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

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

13 (V) THIS SUBSECTION (4)(dd) IS REPEALED, EFFECTIVE JULY 1,
14 2042.

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

17 **39-22-304. Net income of corporation - legislative declaration**
18 **- definitions - repeal.** (3) There shall be subtracted from federal taxable
19 income:

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

25 (II) AS USED IN THIS SUBSECTION (3)(s), UNLESS THE CONTEXT
26 OTHERWISE REQUIRES:

27 (A) "OWNER" HAS THE SAME MEANING AS SET FORTH IN SECTION

1 39-22-542 (2)(h).

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

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

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

10

11 (E) "QUALIFYING CAPITAL GAINS" MEANS THE AMOUNT OF NET
12 CAPITAL GAINS, AS DEFINED IN SECTION 1222 (11) OF THE INTERNAL
13 REVENUE CODE.

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

20 (A) INDUCE CERTAIN DESIGNATED BEHAVIOR BY TAXPAYERS,
21 SPECIFICALLY FOR BUSINESSES TO ESTABLISH EMPLOYEE STOCK
22 OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR TO CONVERT TO
23 A WORKER-OWNED COOPERATIVE; AND

24 (B) PROVIDE TAX RELIEF FOR CERTAIN BUSINESSES OR
25 INDIVIDUALS, SPECIFICALLY TO BUSINESSES THAT ESTABLISH EMPLOYEE
26 STOCK OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR THAT
27 CONVERT TO A WORKER-OWNED COOPERATIVE.

1 (IV) THE GENERAL ASSEMBLY AND THE STATE AUDITOR SHALL
2 MEASURE THE EFFECTIVENESS OF THE SUBTRACTION IN ACHIEVING THE
3 PURPOSE SPECIFIED IN SUBSECTION (3)(s)(III) OF THIS SECTION BASED ON
4 THE NUMBER AND AGGREGATE AMOUNT OF SUBTRACTIONS CLAIMED IN A
5 TAX YEAR.

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

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

11 (II) AS USED IN THIS SUBSECTION (3)(t), UNLESS THE CONTEXT
12 OTHERWISE REQUIRES:

13 (A) "QUALIFIED TAXPAYER" MEANS A TAXPAYER THAT IS SUBJECT
14 TO TAX UNDER THIS ARTICLE 22 AND THAT IS A WORKER-OWNED
15 COOPERATIVE.

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

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

24 (A) INDUCE CERTAIN DESIGNATED BEHAVIOR BY TAXPAYERS,
25 SPECIFICALLY FOR BUSINESSES TO CONVERT TO A WORKER-OWNED
26 COOPERATIVE; AND

27 (B) PROVIDE TAX RELIEF FOR CERTAIN BUSINESSES, SPECIFICALLY

1 TO PROVIDE ONGOING SUPPORT TO BUSINESSES THAT CONVERT TO A
2 WORKER-OWNED COOPERATIVE.

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

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

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

16 **39-22-542. Employee-ownership tax credit - definitions -**
17 **legislative declaration - repeal.** (1) **Legislative declaration.** (a) The
18 general assembly hereby finds and declares that:

19 (I) The purpose of this section is to provide an incentive for ~~small~~
20 businesses to establish employee stock ownership plans or employee
21 ownership trusts or to convert to a worker-owned cooperative, AND TO
22 PROVIDE AN INCENTIVE TO ENTITIES THAT SUPPORT BUSINESSES IN SUCH
23 ESTABLISHMENT OR CONVERSION;

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

27 (2) **Definitions.** As used in this section, unless the context

1 otherwise requires:

2 (a) (II) The office shall develop guidelines that clarify the types
3 of employee ownership grants that qualify as an alternate equity structure.

4 ~~THE OFFICE MAY DEVELOP GUIDELINES THAT ADJUST THE PERCENTAGES~~
5 ~~SET FORTH IN SUBSECTION (2)(a)(I) OF THIS SECTION; EXCEPT THAT THE~~
6 ~~PERCENTAGES SHALL NOT BE ADJUSTED TO AN AMOUNT LESS THAN~~
7 ~~TWENTY PERCENT. The office may periodically update any guidelines~~
8 ~~issued pursuant to this subsection (2)(a)(II).~~

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

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

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

25 (I) ~~Is owned in whole or in part by an employee ownership trust;~~

26 (II) Has its corporate headquarters located in this state; ~~For~~
27 ~~purposes of this subsection (2)(j), "corporate headquarters" means the~~

1 ~~sole location within a regional or national area where the taxpayer's staff~~
2 ~~members or employees are domiciled and employed, and where the~~
3 ~~majority of the taxpayer's financial, personnel, legal, planning, or other~~
4 ~~business functions are conducted on a regional or national basis.~~

5 (III) (A) IS OWNED IN WHOLE OR IN PART BY AN EMPLOYEE
6 OWNERSHIP TRUST;

7 (B) Has an employee stock ownership plan;

8 (C) Is in whole or in part a worker-owned cooperative; or

9 (D) Has an alternate equity structure; and

10 (j.5) "QUALIFIED SUPPORT ENTITY" MEANS AN ORGANIZATION
11 EXEMPT FROM TAXATION UNDER SECTION 501 (c)(3) OF THE INTERNAL
12 REVENUE CODE OR A TAXPAYER SUBJECT TO TAX UNDER THIS ARTICLE 22,
13 INCLUDING A C CORPORATION, S CORPORATION, LIMITED LIABILITY
14 COMPANY, PARTNERSHIP, LIMITED LIABILITY PARTNERSHIP, SOLE
15 PROPRIETORSHIP, OR OTHER SIMILAR PASS-THROUGH ENTITY THAT:

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

19 (II) EITHER HAS PROVIDED SERVICES THAT HAVE SUPPORTED AT
20 LEAST ONE SUCCESSFUL CONVERSION TO OR EXPANSION OF A QUALIFIED
21 EMPLOYEE-OWNED BUSINESS IN THE INCOME TAX YEAR OR HAS PROVIDED
22 SERVICES THAT HAVE SUPPORTED AT LEAST THREE EITHER QUALIFIED
23 BUSINESSES THAT HAVE THE INTENT OF CONVERTING TO QUALIFIED
24 EMPLOYEE-OWNED BUSINESSES OR QUALIFIED EMPLOYEE-OWNED
25 BUSINESSES THAT HAVE THE INTENT OF EXPANDING;

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

27 AND

1 (IV) IS APPROVED BY THE OFFICE FOR THE TAX INCENTIVES IN THIS
2 SECTION.

3 (k.5) (I) "SUPPORT COSTS" MEANS, SUBJECT TO GUIDELINES
4 DEVELOPED BY THE OFFICE PURSUANT TO SUBSECTION (5)(a) OF THIS
5 SECTION, COSTS THAT ARE OR ARE RELATED TO:

6 (A) STAFF SALARIES AND BENEFITS FOR STAFF INVOLVED IN
7 BUSINESS DEVELOPMENT, MARKETING, AND OUTREACH;

8 (B) MARKETING AND OUTREACH FOR PRODUCING EDUCATIONAL
9 MATERIALS OR HOSTING WORKSHOPS OR CONFERENCES ON CONVERTING
10 A BUSINESS TO EMPLOYEE-OWNERSHIP AND SIMILAR COSTS; AND

11
12 (C) A PROPORTIONAL AMOUNT OF BASIC ORGANIZATIONAL
13 OVERHEAD COSTS INCLUDING GENERAL OR ADMINISTRATIVE COSTS,
14 EXPENSES, RENT, AND FACILITIES COSTS.

15 (II) "SUPPORT COSTS" DOES NOT INCLUDE ANY COSTS THAT ARE
16 CONVERSION COSTS.

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

23 (a.3) FOR INCOME TAX YEARS COMMENCING ON OR AFTER
24 JANUARY 1, 2026, BUT BEFORE JANUARY 1, 2038, THE ALLOWABLE
25 PERCENTAGE OF CONVERSION COSTS INCURRED BY A QUALIFIED BUSINESS
26 FOR THE APPLICABLE CONVERSION OF THE QUALIFIED BUSINESS SET FORTH
27 IN SUBSECTIONS (3)(a)(I), (3)(a)(II), AND (3)(a)(III) OF THIS SECTION FOR

1 PURPOSES OF CALCULATING THE CREDIT IS UP TO SEVENTY-FIVE PERCENT
2 OF THE CONVERSION COSTS.

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

13 (III) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
14 1, 2026, BUT BEFORE JANUARY 1, 2038, THE ALLOWABLE PERCENTAGE OF
15 EXPANSION COSTS INCURRED BY A QUALIFIED EMPLOYEE-OWNED BUSINESS
16 TO EXPAND A QUALIFIED EMPLOYEE-OWNED BUSINESS AS SET FORTH IN
17 SUBSECTION (3)(a.5)(I) OF THIS SECTION FOR PURPOSES OF CALCULATING
18 THE CREDIT IS UP TO SEVENTY-FIVE PERCENT OF THE CONVERSION COSTS.

19 (a.7) SUBJECT TO CERTIFICATION BY THE OFFICE PURSUANT TO THIS
20 SECTION, FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY
21 1, 2027, BUT PRIOR TO JANUARY 1, 2038, A QUALIFIED SUPPORT ENTITY IS
22 ALLOWED A CREDIT WITH RESPECT TO THE INCOME TAXES IMPOSED
23 PURSUANT TO THIS ARTICLE 22 OF UP TO SEVENTY-FIVE PERCENT OF THE
24 SUPPORT COSTS, BUT NOT TO EXCEED ONE HUNDRED SIXTY-SEVEN
25 THOUSAND DOLLARS, INCURRED IN PROVIDING SERVICES THAT SUPPORT
26 THE CONVERSION █████ OF QUALIFIED BUSINESSES TO QUALIFIED
27 EMPLOYEE-OWNED █████ BUSINESSES OR THE EXPANSION OF QUALIFIED

1 EMPLOYEE-OWNED BUSINESSES.

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

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

7 (I) TEN MILLION DOLLARS FOR ANY INCOME TAX YEAR
8 COMMENCING ON OR AFTER JANUARY 1, 2022, BUT BEFORE JANUARY 1,
9 2026;

10 (II) THREE MILLION DOLLARS FOR ANY INCOME TAX YEAR
11 COMMENCING ON OR AFTER JANUARY 1, 2026, BUT BEFORE JANUARY 1,
12 2032; AND

13 (III) FOUR MILLION DOLLARS FOR ANY INCOME TAX YEAR
14 COMMENCING ON OR AFTER JANUARY 1, 2032, BUT BEFORE JANUARY 1,
15 2038.

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

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

21 (4) (a) A business OR, WHERE APPLICABLE, A NONPROFIT
22 ORGANIZATION shall submit an application to the office for the issuance
23 of a credit certificate for the credit allowed in this section by the deadlines
24 established in the office's guidelines. EXCEPT AS OTHERWISE PROVIDED IN
25 SUBSECTION (4)(b) OF THIS SECTION, the application must include
26 information, as set forth in the office's guidelines, regarding the type of
27 conversion or expansion the business intends to undertake, a list of the

1 expected conversion or expansion costs, and an estimated amount, as
2 calculated by the business, of the expected conversion or expansion costs.

3 (b) AN APPLICATION FOR A BUSINESS OR A NONPROFIT
4 ORGANIZATION SUBMITTING THE APPLICATION TO BE APPROVED AS A
5 QUALIFIED SUPPORT ENTITY MUST INCLUDE INFORMATION, AS SET FORTH
6 IN THE OFFICE'S GUIDELINES, REGARDING THE SUPPORT SERVICES THE
7 BUSINESS OR THE NONPROFIT ORGANIZATION PROVIDES TO QUALIFIED
8 BUSINESSES OR QUALIFIED EMPLOYEE-OWNED BUSINESSES, WHETHER THE
9 BUSINESS OR THE NONPROFIT ORGANIZATION SUPPORTED A SUCCESSFUL
10 CONVERSION OF A QUALIFIED BUSINESS TO A QUALIFIED EMPLOYEE-OWNED
11 BUSINESS OR EXPANSION OF A QUALIFIED EMPLOYEE-OWNED BUSINESS IN
12 THE TAXABLE YEAR, IF THE BUSINESS OR THE NONPROFIT ORGANIZATION
13 HAS NOT SUPPORTED A SUCCESSFUL CONVERSION OR EXPANSION, THE
14 NUMBER OF QUALIFIED BUSINESSES OR QUALIFIED EMPLOYEE-OWNED
15 BUSINESSES THE BUSINESS OR THE NONPROFIT ORGANIZATION IS
16 SUPPORTING THAT INTEND TO CONVERT OR EXPAND, AS APPLICABLE, AND
17 THE STATUS OF THE ANTICIPATED CONVERSIONS OR EXPANSIONS, AND
18 INFORMATION REGARDING SUPPORT COSTS INCURRED IN THE INCOME TAX
19 YEAR.

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

22 (V) Detailed guidelines regarding expansion costs; and

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

25 (VII) GUIDELINES AND STANDARDS FOR CERTIFYING A BUSINESS
26 OR A NONPROFIT ORGANIZATION AS A QUALIFIED SUPPORT ENTITY.

27 (6) (a) (I) After the office provides the written report required in

1 subsection (5)(b) of this section, a reservation of tax credits is permitted
2 for the tax credit allowed in this section. If the office determines that the
3 application filed under subsection (4) of this section is complete, the
4 office shall determine whether the business OR, IF APPLICABLE, THE
5 NONPROFIT ORGANIZATION is a qualified business, or a qualified
6 employee-owned business, OR A QUALIFIED SUPPORT ENTITY, review the
7 list of the expected conversion or expansion costs, and review the
8 estimated conversion, or expansion, OR SUPPORT costs as calculated by
9 the business. If the office approves the business OR, IF APPLICABLE, THE
10 NONPROFIT ORGANIZATION as a qualified business, or a qualified
11 employee-owned business, OR A QUALIFIED SUPPORT ENTITY, the list of
12 expected conversion or expansion costs, and the estimated conversion, or
13 expansion, OR SUPPORT costs, the office may reserve for the benefit of the
14 qualified business, the qualified employee-owned business, or the owner
15 of the business, OR THE QUALIFIED SUPPORT ENTITY an allocation of a tax
16 credit subject to the limitation specified in subsection (3)(b) of this
17 section. The office shall notify the qualified business, or the qualified
18 employee-owned business, OR THE QUALIFIED SUPPORT ENTITY in writing
19 of the amount of the reservation. The reservation of a tax credit does not
20 entitle the qualified business, the qualified employee-owned business, or
21 the owner of the business, OR THE QUALIFIED SUPPORT ENTITY to an
22 issuance of a tax credit certificate until the qualified business, or the
23 qualified employee-owned business, OR THE QUALIFIED SUPPORT ENTITY
24 complies with all of the other requirements specified in this section for
25 the issuance of the tax credit certificate.

26 (8) If the credit allowed under this section exceeds the income
27 taxes due on the income of the qualified business, qualified

1 employee-owned business, ~~or~~ owner of the business, OR QUALIFIED
2 SUPPORT ENTITY, the amount of the credit not used to offset income taxes
3 must be refunded to the qualified business, qualified employee-owned
4 business, ~~or~~ owner of the business, OR QUALIFIED SUPPORT ENTITY.

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

16 (b) A QUALIFIED SUPPORT ENTITY THAT IS AN ORGANIZATION
17 EXEMPT FROM TAXATION UNDER SECTION 501 (c)(3) OF THE INTERNAL
18 REVENUE CODE AND THAT CLAIMS THE CREDIT ALLOWED BY THIS SECTION
19 SHALL FILE A RETURN PURSUANT TO SECTION 39-22-601 (7)(b) AND
20 ATTACH A COPY OF THE CREDIT CERTIFICATE IN ACCORDANCE WITH
21 SUBSECTION (10)(a) OF THIS SECTION.

22 (11) The office shall, in a sufficiently timely manner to allow the
23 department to process returns claiming the income tax credit allowed in
24 this section, provide the department with an electronic report of each
25 qualified business, qualified employee-owned business, ~~and~~ owner of a
26 business, AND QUALIFIED SUPPORT ENTITY that the office approved for the
27 income tax credit allowed in this section for the preceding calendar year

1 that includes the following information:

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

4 **SECTION 4.** In Colorado Revised Statutes, 39-22-542.5, **amend**
5 (2)(a) introductory portion, (2)(d)(II), (2)(d)(III), and (2)(f); and **repeal**
6 (2)(d)(I) as follows:

7 **39-22-542.5. Tax credit for new employee-owned businesses**
8 **- employee ownership cash fund - tax preference performance**
9 **statement - legislative declaration - definitions - repeal.**

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

12 (a) "Alternate equity structure" means a mechanism under which
13 an employer grants to employees a form of employee ownership,
14 including but not limited to an employee stock purchase plan, LLC
15 membership, phantom stock, profit interest, restricted stock, stock
16 appreciation right, stock option, or synthetic equity. The office may
17 develop guidelines that clarify the types of employee ownership grants
18 that qualify as an alternate equity structure. ~~THE OFFICE MAY DEVELOP~~
19 ~~GUIDELINES THAT ADJUST THE PERCENTAGES SET FORTH IN THIS~~
20 ~~SUBSECTION (2)(a); EXCEPT THAT THE PERCENTAGES SHALL NOT BE~~
21 ~~ADJUSTED TO AN AMOUNT LESS THAN TWENTY PERCENT.~~ An alternate
22 equity structure must at a minimum:

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

27 (I) ~~Is owned in whole or in part by an employee ownership trust;~~

1 (II) (A) IS OWNED IN WHOLE OR IN PART BY AN EMPLOYEE
2 OWNERSHIP TRUST;

3 (B) Has an employee stock ownership plan;

4 (C) Is beneficially owned in whole or in part by a worker-owned
5 cooperative; or

6 (D) Has an alternate equity structure; and

7 (III) Has its corporate headquarters located in this state. For
8 purposes of this subsection (2)(d), "corporate headquarters" means the
9 sole location within a regional or national area where THE MAJORITY OF
10 the taxpayer's staff members or employees are domiciled and employed,
11 and where the majority of the taxpayer's financial, personnel, legal,
12 planning, or other business functions are conducted on a regional or
13 national basis.

14 (f) "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 business and
17 benefits all employees on an equal basis and otherwise meets the
18 definition of an alternate equity structure.

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