



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 25-1012: INCOME TAX EXPENDITURES FOR SERVICE MEMBERS

Prime Sponsors:

Rep. Marshall; Joseph
Sen. Liston

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Fiscal note status: The fiscal note reflects the introduced bill, which was recommended by the Legislative Oversight Committee Concerning Tax Policy.

Summary Information

Overview. The bill eliminates an existing income tax deduction for certain active-duty military service members who reacquire Colorado residency, and creates a new refundable income tax credit that expands available tuition assistance for eligible members of the Colorado National Guard.

Types of impacts. The bill is projected to affect the following areas from FY 2026-27 to FY 2031-32:

- State Revenue
- State Expenditures
- TABOR Refunds

Appropriations. No appropriation is required.

Table 1
State Fiscal Impacts

Type of Impact ¹	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
State Revenue (General Fund)	\$0	up to -\$415,000	up to -\$830,000
State Expenditures (General Fund)	\$0	\$98,478	\$79,592
Transferred Funds	\$0	\$0	\$0
Change in TABOR Refunds	\$0	up to -\$415,000	up to -\$830,000
Change in State FTE	0.0 FTE	0.6 FTE	0.6 FTE

Summary of Legislation

The bill eliminates an income tax deduction for certain active-duty military service members reacquiring Colorado residency beginning with tax year 2027. The bill creates a new refundable income tax credit for tax years 2027 to 2031 for tuition assistance for actively serving members of the Colorado National Guard who are eligible for tuition assistance under an existing statutorily-authorized program administered by the Department of Military and Veterans Affairs (DMVA).

To claim the credit, eligible National Guard members are required to obtain a tax credit certificate from DMVA each semester or quarter. Credit certificates are limited by the number of members eligible for the current tuition assistance program, and may not exceed \$1 million for any income tax year.

By the end of calendar year, beginning with 2028, the DMVA is required to report the number of credit certificates issued, the amount of tuition assistance proved through the tax credits, the average amount per recipient, and the amount of any credit recaptured if a credit was revoked.

Background

Military Service Persons Reacquiring Residency Deduction

Under current law, an active-duty military service person who reacquires Colorado residency, has a home of record in Colorado on their military record, and was a resident of a state other than Colorado since 2016, may deduct their military pay when calculating their Colorado income tax liability. The deduction was enacted in 2015. Based on a 2022 [report](#) by the Office of the State Auditor, the deduction was applied by about 60 taxpayers for tax year 2018. The most recent [Tax Profile and Expenditure Report](#) from the Department of Revenue indicates the revenue impact of the deduction was about \$160,000 for tax year 2022, and about \$170,000 in tax years 2018 and 2020.

Tuition Assistance for Members of the National Guard

Under current law, members of the Colorado National Guard may receive tuition assistance while attending designated institutions of higher education including state supported institutions, technical colleges, and eligible private institutions, if any. The most recent appropriation for the tuition assistance program was \$1.4 million, and the program served an average of 170 members for each of the fall and spring semesters of the last school year and about 70 members during the summer. The DMVA currently limits tuition assistance to \$5,000 per student per semester. Tuition assistance is paid to institutions from the Colorado National Guard Tuition Fund Cash Fund.

State Revenue

The bill is expected to decrease state General Fund revenue by a net amount up to \$415,000 in FY 2026-27, and up to \$830,000 in FY 2027-28, with similar impacts in future years through FY 2031-32, when a half-year impact will occur. The net revenue impact for FY 2026-27 represents a half-year impact on an accrual accounting basis, both for the last year of the residency deduction and for the new income tax credit. The bill reduces individual income tax revenue, which is subject to TABOR.

The amount of the credit utilized each year will depend on the number of eligible National Guard members, tuition rates, which institutions are attended, tuition assistance awarded under the current program, and federal aid awards, and could likely be less than the estimates in this analysis. According to data from the Colorado Department of Higher Education, the statewide average full-year undergraduate tuition for the 2023-24 school year for a public 4-year university was \$9,853 and \$4,623 for a 2-year public college.

**Table 2
State Revenue**

General Fund	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
Reacquisition of Colorado Residency Deduction	\$0	\$85,000	\$170,000
National Guard Tuition Assistance Credit	\$0	up to -\$500,000	up to -\$1 million
Net Revenue	\$0	up to -\$415,000	up to -\$830,000

State Expenditures

The bill increases state expenditures by \$98,478 in FY 2026-27 and by \$79,592 in FY 2027-28, and similar amounts through FY 2031-32. Costs are for administrative and software update expenditures for the Department of Military and Veterans Affairs and for the Department of Revenue. Expenditures are shown in Tables 3 to 3B and detailed below.

**Table 3
State Expenditures
All Departments**

Department	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
Department of Military and Veterans Affairs	\$0	\$98,478	\$64,476
Department of Revenue	\$0	\$0	\$15,116
Total Costs	\$0	\$98,478	\$79,592
Total FTE	0.0 FTE	0.6 FTE	0.6 FTE

Department of Military and Veterans Affairs

Personal Services

Beginning July 2026, the bill requires ongoing additional staff assistance, estimated at 0.6 FTE, to administer the tax credit and issue income tax credit certificates to members of the Colorado National Guard. The estimate includes 0.3 FTE for a Program Coordinator position, and 0.3 FTE for a Controller I position, and is based on the current tuition assistance program that requires 1.0 FTE to administer. The program coordinator will perform program outreach, customer support, and data collection, while the controller will record and reconcile certificates issued and perform program audits. Table 3A shows expenditures for these staff and standard operating and capital outlay costs.

Computer Programming

Software utilized for the existing tuition assistance program requires a one-time update in FY 2026-27 estimated at \$30,000, to be performed by the Office of Information Technology. This estimate assumes that the existing system can be modified for the new tax credit certificates in the bill.

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 may include employee insurance, supplemental employee retirement payments, indirect cost assessments, and other costs, are shown in Table 3A.

**Table 3A
State Expenditures
Department of Military and Veterans Affairs**

Cost Component	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
Personal Services	\$0	\$51,468	\$51,468
Standard Operating Costs	\$0	\$768	\$768
Capital Outlay Costs	\$0	\$4,002	\$0
Computer Programming	\$0	\$30,000	\$0
Centrally Appropriated Costs	\$0	\$12,240	\$12,240
Total Costs	\$0	\$98,478	\$64,476
Total FTE	0.0 FTE	0.6 FTE	0.6 FTE

Department of Revenue

For FY 2027-28 only, the bill requires a one-time cost of \$14,084 for GenTax software programming and testing, and to update forms, process tax credit claims, and provide technical assistance to taxpayers. Programming costs are estimated at 50 hours at a rate of \$231.75 per hour for a total cost of \$11,288. User acceptance testing is estimated at 78 hours at a rate of \$32.00 per hour for a total cost of \$2,496. Workload for ISD programming support is estimated to be absorbable. Workload for form updates, processing credit claims, and technical assistance are expected to be partially offset by eliminating the tax deduction and are also expected to be absorbable within existing appropriations.

The bill also requires a one-time cost in FY 2027-28 to the Department of Personnel and Administration of \$1,032 for document management and tax form changes using reappropriated funds.

**Table 3B
State Expenditures
Department of Revenue**

Cost Component	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
GenTax Programming	\$0	\$0	\$11,588
User Acceptance Testing	\$0	\$0	\$2,496
Document Management and Tax Form	\$0	\$0	\$1,032
Total Costs	\$0	\$0	\$15,116
Total FTE	0.0 FTE	0.0 FTE	0.0 FTE

TABOR Refunds

The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate assumes the December 2024 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2026-27. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save.

Departmental Difference

The Department of Military and Veterans Affairs estimates the bill requires \$269,941 in FY 2025-26, \$378,261 in FY 2026-27, and \$214,921 annually from FY 2027-28 through FY 2031-32. This estimate assumes 2.0 FTE and additional computer programming costs are

required by the bill. The staffing level assumes the development of a new program, including extensive stakeholder outreach and support with institutions of higher education and National Guard members. The computer costs assume the development of a new software system at a cost of \$269,941 in FY 2025-26, and \$150,000 in FY 2026-27 for system licensing and maintenance, and then absorbable system maintenance in future years. Computer costs assume the current system lacks security to collect social security or taxpayer identification numbers, is unable to track whether service members apply for federal tuition assistance as required in the bill, and is unable to calculate and report the difference in tuition owed and total state and federal assistance offered.

The fiscal note does not include these costs for the following reasons:

- **Staff.** The fiscal note includes 0.6 FTE, which is proportional to the program's existing staff. This analysis assumes, consistent with current law requirements for the existing tuition assistance program, that the department and institutions have information on the amount of federal tuition assistance awarded to National Guard members so that total tuition assistance offered does not exceed tuition costs. It assumes minimal work for ensuring that service members apply for federal government tuition assistance as required by the bill. And it assumes there will be sufficient lead time before January 2027, when certificates will need to be evaluated and issued, to update educational materials, conduct outreach with the Department of Revenue, and steer updates to the IT systems, with workload within existing appropriations.
- **Computer programming.** The fiscal note includes only the cost to program the current computer system to provide service members with a way to submit verification of applying for federal tuition assistance and perform tax credit certificate processing. This analysis assumes a system overhaul is not required by the bill. It assumes that security enhancements can be accomplished within existing appropriations for ongoing maintenance to the system. The fiscal note will be updated as more information becomes available.

Effective Date

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

State and Local Government Contacts

Information Technology

Revenue

Military and Veterans Affairs

State Auditor

Personnel

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the General Assembly website.