



## Fiscal Note

### Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

## HB 25-1296: TAX EXPENDITURE ADJUSTMENT

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Sen. Weissman

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### Summary Information

**Overview.** The bill makes various changes to Colorado income tax policy, including income tax credits and exemptions, and the tax treatment of certain insurance companies.

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

- State Expenditures
- State Revenue
- TABOR Refunds
- Local Government

**Appropriations.** On net, the bill requires that appropriations to the Department of Revenue be reduced by of \$6.4 million for FY 2025-26.

**Table 1**  
**State Fiscal Impacts**

Type of Impact	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
State Revenue	\$19.8 million	\$38.9 million	\$15.1 million	-\$1.3 million
State Expenditures	\$0	-\$26.2 million	-\$11.9 million	-\$12.8 million
Transferred Funds	\$0	\$0	\$0	\$0
Change in TABOR Refunds	\$19.8 million	\$38.9 million	\$15.1 million	not estimated
Change in State FTE	0.0 FTE	0.0 FTE	11.6 FTE	5.0 FTE

**Table 1A  
 State Revenue**

<b>Fund Source</b>	<b>Current Year FY 2024-25</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>	<b>Out Year FY 2027-28</b>
General Fund	\$19.8 million	\$35.6 million	\$11.8 million	-\$4.5 million
Highway Users Tax Fund	\$0	\$3.2 million	\$3.2 million	\$3.2 million
Aviation Fund	\$0	\$0.02 million	\$0.02 million	\$0.02 million
<b>Total Revenue</b>	<b>\$19.8 million</b>	<b>\$38.9 million</b>	<b>\$15.1 million</b>	<b>-\$1.3 million</b>

**Table 1B  
 State Expenditures**

<b>Fund Source</b>	<b>Current Year FY 2024-25</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>	<b>Out Year FY 2027-28</b>
General Fund	\$0	-\$26,192,850	-\$12,097,316	-\$12,909,747
Cash Funds	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0
Centrally Appropriated	\$0	\$0	\$208,434	\$90,573
<b>Total Expenditures</b>	<b>\$0</b>	<b>-\$26,192,850</b>	<b>-\$11,888,882</b>	<b>-\$12,810,472</b>
<b>Total FTE</b>	<b>0.0 FTE</b>	<b>0.0 FTE</b>	<b>11.6 FTE</b>	<b>5.0 FTE</b>

## Summary of Legislation and Background

The bill makes various changes to Colorado tax policy, including income tax credits and exemptions, sales and use tax exemptions, special fuel taxes, and the tax treatment of certain insurance companies.

Specifically, the bill impacts the following areas as described below:

### PTC Rebates

Under current law, low-income Colorado residents over the age of 65, surviving spouses, and those with a disability are eligible for a property tax and rent assistance rebate and a heat and fuel expenses rebate, if they meet certain conditions. These are commonly known as the PTC rebates.

Starting in tax year 2025 under current law, PTC rebates for individuals with a disability are replaced with a refundable income tax credit. Beginning in tax year 2026, this bill ends PTC rebates for remaining qualified individuals, namely, seniors and surviving spouses, and replaces them with a refundable income tax credit. Credit amounts and income thresholds for tax year 2025 are shown in Table 2, and are adjusted thereafter for inflation.

**Table 2A**  
**Colorado Income Tax Credit for Qualified Single Filers**  
**Tax Year 2025**

<b>Federal Adj. Gross Income</b>	<b>Amount of Credit</b>
Up to \$10,000	\$1,200
\$10,001 to \$12,500	\$1,000
\$12,501 to \$15,000	\$800
\$15,001 to \$17,500	\$600
\$17,501 to \$20,000	\$400

**Table 2B**  
**Colorado Income Tax Credit for Qualified Joint Filers**  
**Tax Year 2025**

<b>Federal Adj. Gross Income</b>	<b>Amount of Credit</b>
Up to \$16,000	\$1,200
\$16,001 to \$20,000	\$1,000
\$20,001 to \$24,000	\$800
\$24,001 to \$28,000	\$600
\$28,001 to \$32,000	\$400

### **Regional Home Office Insurance Premium Rate Reduction**

Under current law, Colorado allows insurers that maintain a “home office” or “regional home office” in Colorado to have a 1 percent premium tax rate, commonly called the regional home office insurance premium tax rate reduction (RHO rate reduction). If the insurer does not maintain a home or regional home office in the state, the insurance premium tax is 2 percent of premiums collected. To be considered to maintain a home or regional home office, an insurer must either substantially perform certain functions related to insurance business operations in the state or maintain significant direct insurance operations in the state, and maintain at least 2.5 percent of its total domestic workforce in the state

Beginning in tax year 2025, the bill increases the required amount an insurance company’s total workforce must be in Colorado to qualify for the RHO rate reduction to 7 percent.

## Downloaded Software Exemption

Under current law, only software that is prepackaged via a tangible physical medium is subject to the state sales and use tax. Examples of software that are exempt from sales and use tax include:

- software that is used over the internet without being downloaded to the user's computer, such as with "cloud computing";
- software downloaded from the internet to the customer's computer or other electronic device;
- software that is manually installed on a consumer's computer or electronic device by a vendor's representative; and
- custom software.

The bill narrows the downloaded software exemption to include only custom software, such that the other types of software that appear in the bullets above are subject to the state sales and use tax beginning July 1, 2025.

## Colorado Alternative Minimum Tax Credit

Under current law, Colorado provides an alternative minimum tax credit (AMT) to individual, estates, and trusts that claim the federal AMT credit. The amount of the state AMT credit is equal to twelve percent of the federal AMT credit.

The bill repeals the state AMT credit beginning in tax year 2025.

## Enterprise Zone Investment Tax Credit

Under current law, the Enterprise Zone Investment Tax Credit is a state income tax credit for taxpayers that make qualified investments in qualified properties located in an enterprise zone. The amount of the credit is three percent of the qualified investment. Though the amount of the credit a taxpayer can claim for a given tax year is limited to \$750,000, the aggregate amount that may be claimed over multiple years is not capped.

The bill limits the aggregate amount of enterprise zone credits that a taxpayer may claim to a total of \$2 million beginning in tax year 2026, unless a waiver is granted by the Colorado Economic Development Commission (EDC). In addition, the bill specifies that any taxpayer involved in the extraction of oil and gas or hard rock minerals, aviation, the retail of fuel products, or the construction of wireless telecommunications infrastructure may not claim the credit.

## Special Fuel Excise Tax Deduction

Special fuel used to power airplanes and motor vehicles required to be licensed for operation on public highways in Colorado is subject to a state excise tax. The tax is generally imposed at the time the fuel is removed from a terminal, except for the tax on liquefied petroleum gas and compressed natural gas is generally imposed at the time the fuel is placed into the fuel tank of a motor vehicle.

The bill repeals the special fuel excise tax deduction associated with bad debt and the administrative costs for payment of the special fuel excise tax.

## Interstate Telecommunication Services

Under current law, intrastate telecommunication services are included in the state sales tax base while interstate telecommunication services are excluded. Interstate telecommunication services may include phone calls, messages, or video calls, including those made over the internet so long as the communication originates in Colorado and goes elsewhere outside of the state.

The bill makes interstate telecommunication services taxable.

## Preservation of Historic Structures Tax Credit

Under current law, property owners who rehabilitate or preserve a residential or commercial certified historic structure in Colorado are eligible for the state preservation of historic structures tax credit. The credit is calculated as a percentage of qualified rehabilitation expenditures. Preserving historic commercial structures qualifies for a base credit of 25 percent for structures with less than \$2 million in qualified expenditures and 20 percent for structures with over \$2 million in qualified expenditures. The base percent is increased by 5 percentage points for commercial structures in a declared disaster area and 10 percent for structures in a rural area.

The bill amends the preservation of historic structures tax credit to disallow projects in disaster areas from having an additional 5 percent of their expenditures reimbursed.

## Credit for Child Care Facilities

Under current law, the state child care contribution tax credit is available through tax year 2027 to taxpayers who make a monetary contribution to promote child care in Colorado. The credit is nonrefundable, meaning that the amount claimed cannot exceed a taxpayer's income tax liability for a given year. The credit is equal to the lesser of 50 percent of the total contribution, up to \$100,000 per taxpayer per year or the taxpayer's actual income tax liability. Qualifying contributions include those to facilities, schools, or programs that provide child care, programs that train child care providers, and grant or loan programs for parents requiring financial assistance for child care purposes.

The bill extends the state child care contribution tax credit through tax year 2029.

## **Business Personal Property Tax Income Tax Credit**

Under current law, taxpayers may claim a refundable income tax credit equal to the business personal property tax paid, up to \$18,000 of the actual value of the taxpayer's personal property. The bill repeals the business personal property tax income tax credit beginning in tax year 2026.

## **Deduction of Wages and Salaries Due to IRC 280C**

The deduction for wages and salaries due to Internal Revenue Code Section 280C (IRC 280C deduction) allows businesses that cannot deduct wage and salary expenses for federal tax purposes due to a certain provision of federal law to deduct these wage and salary expenses from their state taxable income. IRC 280C prevents taxpayers from deducting expenses that they use to qualify for several federal tax credits from federal taxable income so that they will not receive a double benefit at the federal level. Colorado uses federal taxable income as the basis for determining Colorado taxable income, but does not offer similar credits, so businesses that cannot deduct expenses under IRC 280C have a higher state tax liability if the expenses are not deductible at the state level. Under current law, only C and S corporations can claim the state income tax deduction.

The bill expands the state deduction to more business entities beginning in tax year 2025.

## **Alternative Transportation Options Credit**

The bill expands the definition of local government to include counties for the purpose of the alternative transportation options tax credit.

## **Insurance Reporting of Exempt Entities**

The bill requires insurance companies to identify the total amount of premiums received by entities that are exempt from taxation.

## **State Revenue and Assumptions**

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The bill is expected to increase state revenue by \$19.8 million in the current FY 2024-25, \$38.9 million in FY 2025-26, and by \$15.1 million in FY 2026-27. In FY 2027-28, the bill is expected to decrease state revenue by \$1.3 million. The bill impacts various tax revenue streams, all of which are subject to TABOR. The bill's changes to the special fuel excise tax increase cash fund revenue, while all other impacts are to General Fund revenue. Revenue impacts are presented in Table 3 and discussed below.

**Table 3**  
**State Revenue**  
 Dollars in Millions

	<b>Current Year FY 2024-25</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>	<b>Out Year FY 2027-28</b>
Tax Credit for Low-Income Seniors	\$0	-\$30.6	-\$62.8	-\$66.0
RHO Insurance Premium Rate	\$17.0	\$34.2	\$34.5	\$34.7
Software Exemption	\$0	\$18.7	\$20.9	\$23.3
Colorado AMT Credit	\$2.7	\$5.7	\$6.2	\$6.7
Enterprise Zone Investment Tax Credit	\$0	\$5.3	\$10.5	\$10.5
Special Fuel Excise Tax Deduction (see Table 4)	\$0	\$3.3	\$3.3	\$3.3
Interstate Telecommunication Services	\$0	\$2.3	\$2.4	\$2.5
Business Personal Property Tax Income Tax Credit	\$0	\$0.1	\$0.2	\$0.2
Preservation of Historic Structures Tax Credit	\$0	\$0	\$0	\$0
Credit for Child Care Facility Donations	\$0	\$0	\$0	-\$16.5
Alternative Transportation Options Credit	\$0	\$0	\$0	\$0
Deduction of Wages and Salaries Due to IRC 280C	\$0	\$0	\$0	\$0
<b>Total State Revenue Impact</b>	<b>\$19.8</b>	<b>\$38.9</b>	<b>\$15.1</b>	<b>-\$1.3</b>

**Tax Credit for Seniors with Low Incomes**

By expanding the refundable tax credit for low-income individuals with a disability to low-income seniors and surviving spouses, the bill is assumed to reduce General Fund revenue by \$30.6 million in FY 2025-26 (a half-year impact), by \$62.8 million in FY 2026-27, and by increasing amounts in future years as the senior population, credit amounts and utilization rates rise. These amounts reflect the assumptions stated below; however, the bill’s actual impact may be higher or lower depending on the rate at which the credit is utilized. The bill decreases revenue from income taxes, which are subject to TABOR.

The fiscal note assumes inflation and economic activity consistent with the March 2025 LCS forecast, as well as changes in the senior PTC claimant population and expenditures consistent with recent historical trends. Utilization rates for the new income tax credit are assumed to be consistent with those of similar tax credits. Based on these assumptions as well as on Department of Revenue data on the distribution of income for seniors by income and filing status, the fiscal note assumes that approximately 78,000 people will claim the new tax credit, up from 17,400 people who would claim the PTC grant in tax year 2026 under current law.

## Regional Home Office Insurance Premium Rate Reduction

By increasing the total workforce amount that an insurer must have in the state to qualify for the RHO rate reduction, state General Fund revenue will increase by \$17.0 million in FY 2024-25 (half-year), \$34.2 million in FY 2025-26, \$34.5 million in FY 2026-27, and by similar amounts in future years.

Based on 2024 insurance premium data, it is estimated that an additional \$34 million would have been generated by increasing the workforce criteria from 2.5 percent to 7 percent. It is estimated that 47 insurers qualify for the 1 percent rate under current law. By increasing the workforce criteria, it is estimated that about 30 of these insurers would no longer qualify for the RHO rate reduction and will be subject to the 2 percent premium insurance tax rate. The 2024 rate was adjusted for future years using the March 2025 Legislative Council Staff forecast. This reduces state income tax revenue, which is subject to TABOR.

## Colorado Alternative Minimum Tax Credit

By eliminating the Colorado alternative minimum tax credit beginning in tax year 2024, state General Fund will increase by \$2.7 million (half-year) in FY 2024-25, \$5.7 million in FY 2025-26, \$6.2 million in FY 2026-27, and by steadily increasing amounts in future tax years.

In tax year 2024, the latest data available, approximately \$4.3 million in alternative minimum tax credits were claimed. On average, since 2017, the amount of credits claimed have increased by 8.2 percent each year. The fiscal note assumes this average rate to estimate the number of credits to be claimed by 2024, the first year the credit is no longer available, and for future years. This reduces state income tax revenue, which is subject to TABOR.

## Preservation of Historic Structures Tax Credit

The bill is not expected to impact state revenue through the preservation of historic structures tax credit. The aggregate maximum credit amount is expected to be reached under current law and under this bill. Over the most recent five years for which data are available, the disaster allowance accounted for an additional \$4.6 million in tax credit reservations, resulting in an additional \$920,000 in credits per year awarded to projects in disaster areas. The removal of the disaster allowance will decrease total reservations for projects in disaster areas by an estimated \$920,000 per year, which will result in \$920,000 per year available for additional projects to receive a tax credit reservation, and no net impact on income tax revenue.

## Credit for Child Care Facility Donations

The bill is estimated to decrease General Fund revenue by \$16.5 million in FY 2027-28 (a half-year impact), by \$33.3 million in FY 2028-29, and by \$16.8 million in FY 2029-30 (a final half-year impact), on an accrual accounting basis.

The extension of the tax credit for tax years 2028 and 2029 is estimated to reduce revenue by between \$33 million and \$33.5 million in the two tax years as the value of contributions increases over time. The bill decreases income tax revenue, which is subject to TABOR.



### **Business Personal Property Tax Income Tax Credit**

Repealing the business personal property tax income tax credit will increase General Fund revenue by an estimated \$89,600 in FY 2026-27 (half-year), \$178,600 in FY 2027-28, and by similar amounts in future tax years. The analysis assumes an average value of the credit of about \$440, and about 410 credit claims each year.

### **Downloaded Software Exemption**

The modifications to the downloaded software exemption is expected to increase General Fund revenue by \$18.7 million in FY 2025-26 and \$20.9 million in FY 2026-27 with increasing amounts in future years. Estimates were based on actual data from the Department of Revenue (DOR) and grown by population and inflation estimates. Inflation is typically higher for software than for other goods, posting an inflation rate of 12.3 percent in 2024 compared to 2.3 percent across all goods.

### **Interstate Telecommunication Services**

The inclusion of interstate telecommunication services in the state sales tax base is expected to increase General Fund revenue by \$2.3 million in FY 2025-26 and \$2.4 million in FY 2026-27 with comparable amounts in future years. This estimate is based on very limited information and the amount of the revenue increase may be significantly greater or less than estimated.

New Mexico administers a 4.25 percent tax on interstate telecommunication services, which generated \$1.2 million in FY 2023-24. Revenue is estimated based on revenue generated by the New Mexico tax, adjusted for Colorado’s population size and sales tax rate, and grown by population and inflation estimates from the LCS March 2025 forecast.

### **Special Fuel Excise Tax Deduction**

The bill is expected to increase special fuel excise tax revenue by \$3.3 million in FY 2025-26 and future years, as shown in Table 4 below.

**Table 4**  
**State Revenue from Special Fuel Excise Tax Changes**

<b>Fund Source</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>
Aviation Fund	\$18,830	\$19,523
Highway Users Tax Fund (HUTF)	\$3,239,094	\$3,245,677
<b>Total Revenue</b>	<b>\$3,257,924</b>	<b>\$3,265,200</b>

Of the revenue from motor and special fuel that is distributed to the HUTF, about 62 percent is allocated to the State Highway Fund within CDOT, 23 percent is allocated to counties, and 15 percent is allocated to municipalities. The State Highway Fund portion of revenue gain is estimated to be \$2.0 million in FY 2025-26 and future years.

**Enterprise Zone Investment Tax Credit**

By limiting the amount that a taxpayer may claim for the Enterprise Zone ITC to a total of \$2 million, state General Fund will increase by \$5.3 million in FY 2025-26, \$10.5 million in FY 2026-27, \$10.5 million in FY 2027-28, and by similar amounts in future tax years. These estimates are based on the following assumptions.

For a taxpayer to generate a \$2 million Enterprise Zone ITC, the total qualified investment must be at least \$67 million. From 2015 to 2024, on average, about 3 projects generated an ITC greater than \$2 million dollars each year. The average ITC credit for these projects was \$7.3 million dollars. Beginning in tax year 2026, the fiscal note assumes at least 2 projects will generate an ITC credit greater than \$2 million. The average ITC credit would have been approximately \$7.3 million without the \$2 million cap. To the extent the amount of foregone ITC credits is greater, state savings will be higher. Finally, the fiscal note does not assume the EDC will waive the \$2 million cap for any of the qualified projects. If so, the amount of state savings will be less.

**Alternative Transportation Options Credit**

The fiscal note assesses the state revenue impact of expanding the definition of local government to include counties for purposes of the alternative transportation options credit to be minimal.

**Deduction of Wages and Salaries Due to IRC 280C**

As of the date of this fiscal note, a revenue estimate of allowing more businesses to claim the Wages and Salaries Due to IRC 280C deduction has not yet been determined. This estimate will be updated in revised versions of the fiscal note as more information becomes available.

**State Expenditures**

The bill decreases General Fund expenditures by \$26.2 million in FY 2025-26, \$11.9 million in FY 2026-27, \$12.8 million in FY 2027-28 and similar amounts in future years. These amounts reflect the net impact of reducing PTC rebates and costs for DOR to manage the new tax credit. For FY 2025-26 only, the amounts also include reduced expenditures in the Department of the Treasury for homestead exemption reimbursements.

**Table 5  
 State Expenditures – All Agencies**

<b>Department</b>	<b>Current Year FY 2024-25</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>	<b>Out Year FY 2027-28</b>
Department of Revenue	\$0	-\$6,439,010	-\$11,888,882	-\$12,810,472
Department of Treasury	\$0	-\$19,753,840	\$0	\$0
<b>Total Costs</b>	<b>\$0</b>	<b>-\$26,192,850</b>	<b>-\$11,888,882</b>	<b>-\$12,810,472</b>

**Department of Revenue**

The department will have staff and legal services costs beginning in FY 2025-26 to implement the bill. Department expenditures are presented in Table 5 and detailed below.

**Table 5A  
 State Expenditures  
 Department of Revenue**

<b>Cost Component</b>	<b>Current Year FY 2024-25</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>	<b>Out Year FY 2027-28</b>
PTC Rebates	\$0	-\$6,464,031	-\$13,025,619	-\$13,222,205
Personal Services	\$0	\$0	\$691,826	\$306,058
Operating Expenses	\$0	\$0	\$14,848	\$6,400
Capital Outlay Costs	\$0	\$0	\$80,040	\$0
Computer Programming/Testing	\$0	\$17,673	\$81,532	\$0
Data Analysis and Reporting	\$0	\$0	\$8,702	\$8,702
Document Management Form	\$0	\$7,348	\$51,355	\$0
Centrally Appropriated Costs	\$0	\$0	\$208,434	\$90,573
<b>Total Costs</b>	<b>\$0</b>	<b>-\$6,439,010</b>	<b>-\$11,888,882</b>	<b>-\$12,810,472</b>
<b>Total FTE</b>	<b>0.0 FTE</b>	<b>0.0 FTE</b>	<b>11.6 FTE</b>	<b>5.0 FTE</b>

**PTC Rebates**

The bill reduces expenditures for PTC rebates for seniors and surviving spouses. These expenditure reductions are estimated at \$6.5 million in FY 2025-26 (a half-year impact), \$13.0 million in FY 2026-27, \$13.2 in FY 2027-28, and increasing amounts in future years, reflecting an expected increase in the number of seniors among PTC recipients.

**Tax Credit Administration**

For FY 2026-27, the DOR will require 12.0 FTE tax examiners to review credit claims, verify documentation, and communicate with taxpayers for the new for seniors and individuals with disabilities income tax credit. In general, refundable income tax credits have a higher review rate the first year the credit is available due to inquiries about the new income tax credit. In addition, the workload demand for this tax credit is elevated due to the large population of eligible taxpayers. It is estimated that about 78,000 taxpayers will claim the credit the first year it is available. In FY 2027-28 and ongoing, the DOR will require 5.8 FTE to administer the income tax credit. Standard operating and capital outlay costs are included, and account for the bill's effective date. The estimated personnel needs are net of a decrease in administrative workload for the current law PTC program.

Beginning in FY 2026-27, the bill decreases administrative workload for the business personal property tax by 1.4 FTE over four years. The DOR will phase out 0.4 FTE in FY 2026-27, 0.4 FTE in FY 2027-28, and the remainder of the next two fiscal years

## Computer Programming and Testing

GenTax programming is required in order to add, modify, or remove tax expenditures. These costs arise to remove the business personal property tax credit, modify the Enterprise Zone ITC, and add the new tax credit for seniors with low incomes to the GenTax system.

In FY 2025-26 only, the DOR will require \$17,673 to remove the business personal property tax from the system, which is set to be repealed in tax year 2025. Programming costs are estimated at \$11,588 representing 50 hours of contract programming at a rate of \$231.75 per hour. Costs for testing to ensure that programming changes are functioning properly are estimated at \$6,085, representing 175 hours for the Innovation, Strategy, and Delivery section in the Executive Director's Office at \$35 per hour, and 95 hours of user acceptance testing at a rate of \$32 per hour.

In FY 2026-27, the DOR will require \$81,532 to modify the Enterprise Zone ITC for the \$2 million total cap and add the new tax credit for seniors and individuals with disabilities income tax credit. Programming costs are estimated at \$57,938 representing 250 hours of contract programming at a rate of \$231.75 per hour. Costs for testing to ensure that programming changes are functioning properly are estimated at \$23,594, representing 462 hours for the Innovation, Strategy, and Delivery section in the Executive Director's Office at \$35 per hour, and 334 hours of user acceptance testing at a rate of \$32 per hour.

## Research and Analysis

Beginning in FY 2026-27, the Office of Research and Analysis within DOR will have costs of \$8,702 each year to collect and report data on the new tax credit.

## Document Management and Tax Form Changes

In FY 2025-26, the bill requires changes to two tax forms and requires additional processing for paper tax returns at a cost of \$7,348. In FY 2026-27, six tax forms will require changes at a total cost of \$51,355. Expenditures for form changes and paper returns occur in the Department of Personnel and Administration using reappropriated funds.

## Office of Economic Development and International Trade

OEDIT will need to review, audit and verify that the \$2 million cap for the Enterprise Zone ITC is met. This workload can be accomplished within existing resources.

## **Department of Regulatory Agencies**

Workload to the Division of Insurance within the Department of Regulatory Agencies will increase to add the additional reporting requirements for entities that are exempt from taxation and post information the new workforce requirements. This workload can be accomplished within existing resources.

## **Department of the Treasury**

### **Homestead Property Tax Exemptions**

The bill is expected to decrease General Fund expenditures to reimburse local governments for the homestead exemptions for seniors, veterans with disabilities, and Gold Star surviving spouses by \$19.8 million in FY 2025-26 only. This amount is equal to the amount by which the bill increases the state TABOR refund obligation for FY 2024-25, which is payable in FY 2025-26.

The bill does not change the population of taxpayers eligible for the homestead exemption or the amount of the exemption that any homeowner will receive. Under current law, reimbursements for the homestead exemption are the first mechanism used to refund each year's TABOR refund obligation to taxpayers. The March 2025 LCS Forecast expects that state revenue will exceed the TABOR limit (Referendum C cap) by \$108.4 million in FY 2024-25, less than the \$177.4 million expected to be required to fully fund the homestead exemption for FY 2025-26. Therefore, the remaining amount is required to be paid from the General Fund. By increasing the refund obligation for FY 2024-25, the bill decreases the General Fund requirement for homestead exemption reimbursements by the same amount in FY 2025-26.

The March 2025 Office of State Planning and Budgeting (OSPB) Forecast selected by the Joint Budget Committee for budget balancing anticipates a large enough TABOR surplus in FY 2024-25 to fully fund FY 2025-26 homestead reimbursements under current law. Under that forecast, the bill has no impact on FY 2025-26 homestead expenditures and no appropriation is required.

Under both forecasts, state TABOR surpluses collected in FY 2025-26 and FY 2026-27 are expected to be large enough to fully fund homestead exemption reimbursements in FY 2026-27 and FY 2027-28, respectively.

## **Office of the State Auditor**

The OSA performs an [evaluation of all tax expenditures](#). It can accomplish these tax credits within its existing evaluation appropriations.

## **Centrally Appropriated Costs**

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which may include employee insurance, supplemental employee retirement payments, leased space, and indirect cost assessments, are shown in the expenditure table above.

## TABOR Refunds

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For FY 2024-25 to FY 2026-27, the bill is expected to increase 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 March 2025 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, increased General Fund revenue will increase the TABOR refund obligation, but result in no net change to the amount of General Fund available to spend or save. The increase in Highway Users Tax Fund and Aviation Fund revenue attributable to the special fuel excise tax changes in the bill will increase the TABOR refund obligation payable from the General Fund, decreasing the amount of General Fund revenue available to spend or save.

Under current law and assuming the March 2025 LCS Forecast, the TABOR refund obligation collected in FY 2024-25 is expected to be less than the state obligation for homestead exemption reimbursements in FY 2025-26. The bill is expected to increase the amount refunded via homestead exemption reimbursements in FY 2025-26, which reduces General Fund expenditures as explained in the State Expenditures section above. Under the March 2025 OSPB Forecast, this impact does not occur.

## Local Government

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The bill impacts local government revenue by the amounts shown in Table 6 below. Impacts by tax expenditure are described in the following sections.

**Table 6**  
**Local Government Impacts**

<b>Local Government</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>
Counties	\$0.8 million	\$0.8 million
Municipalities	\$0.5 million	\$0.5 million
Regional Transportation District	\$4.3 million	\$4.7 million
Science and Cultural Facilities District	\$0.4 million	\$0.5 million
<b>Total Local Government Revenue</b>	<b>\$5.9 million</b>	<b>\$6.4 million</b>

## Downloaded Software Exemption

The bill will increase sales and use tax revenue for the state-collected local governments that incorporate the exemption and conform to the state tax base. Special districts and state-collected city and county governments are allowed to modify the exemption in their sales tax base, but are not required to do so.

The Regional Transportation District (RTD) and Scientific and Cultural Facilities District (SCFD) are the two special districts that use the state's sales tax base in all instances, and the exemption modifications in the bill would apply to those districts. Therefore, the bill will increase revenue for RTD and SCFD. Based on the amount of sales and use tax revenue collected in these special districts compared to that for the state, increased revenue is estimated as follows:

- RTD – The bill will increase revenue to RTD by an estimated \$3.8 million in FY 2025-26, and \$4.2 million in FY 2026-27 with increasing amounts in subsequent years.
- SCFD – The bill will increase revenue to SCFD by an estimated \$380,000 in FY 2025-26, and \$425,000 in FY 2026-27, with increasing amounts in subsequent years.

## Interstate Telecommunication Services

The bill will increase sales and use tax revenue for the state-collected local governments that incorporate the exemption and conform to the state tax base. Special districts and state-collected city and county governments are allowed to modify the exemption in their sales tax base, but are not required to do so.

The Regional Transportation District (RTD) and Scientific and Cultural Facilities District (SCFD) are the two special districts that use the state's sales tax base in all instances, and the exemption modifications in the bill would apply to those districts. Therefore, the bill will increase revenue for RTD and SCFD. Based on the amount of sales and use tax revenue collected in these special districts compared to that for the state, increased revenue is estimated as follows:

- RTD – The bill will increase revenue to RTD by an estimated \$477,000 in FY 2025-26, and \$494,000 in FY 2026-27 with comparable amounts in subsequent years.
- SCFD – The bill will increase revenue to SCFD by an estimated \$48,000 in FY 2025-26, and \$50,000 in FY 2026-27, with comparable amounts in subsequent years.

## Special Fuel Excise Tax Reduction

The bill will increase revenue to local governments from the HUTF by \$1.24 million in FY 2025-26 with comparable amounts in future years, of which \$0.75 million is allocated to counties and \$0.49 million is allocated to municipalities.

## Technical Note

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### Maintenance of Effort Requirement

The U.S. Social Security Administration enforces a maintenance of effort (MOE) requirement for the Supplemental Security Income (SSI) Program, which requires that the state spend a certain amount of non-federal funds on benefits to qualifying Coloradans in any given year. Those payments typically come from Old Age Pension (OAP), Aid to the Needy Disabled (AND), Home

Care Allowance (HCA) benefits, and PTC rebates. If state appropriations for these programs do not otherwise satisfy the federal MOE requirement, the bill will require increased expenditures to offset any decline in the utilization of the PTC rebate to meet the MOE. The tax expenditures on the new tax credit created by this bill do not count toward the MOE requirement.

## Enterprise Zone Investment Tax Credit

The fiscal note assumes the \$2 million cap a taxpayer may claim for the ITC credit only applies to qualified projects approved by OEDIT beginning in tax year 2026. If the cap applies to previously approved projects, the increase in state General Fund revenue will be larger than described in the revenue section above.

## Effective Date

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The bill takes effect upon signature of the Governor, or upon becoming law without his signature; except Section 16 (downloadable software exemption) takes effect on July 1, 2025, and sections 4 and 5 (conforming amendments related to the PTC) take effect on December 31, 2026.

## State Appropriations

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For FY 2025-26, the bill requires that General Fund appropriations to the Department of Revenue be reduced by \$6,439,010, on net. These appropriations include:

- a reduction of \$6,464,031 for old age heat and fuel and property tax assistance;
- an increase of \$17,673 for GenTax programming and testing; and
- an increase of \$7,348 for document management, which is reappropriated to the Department of Personnel and Administration.

Under the OSPB forecast selected by the JBC for budget balancing, the bill does not require a change in appropriations to the Department of Treasury for homestead exemption reimbursements. Using the LCS forecast, it is estimated that a reduction in General Fund appropriations of \$19,753,840 is required for this line item.



## State and Local Government Contacts

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Governor	Regulatory Agencies
Information Technology	Revenue
Office of Economic Development	State Auditor
Personnel	Treasury