



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 26-1222: MODIFY TAX EXPENDITURES

Prime Sponsors:

Rep. Garcia; McCormick

Sen. Kipp

Fiscal Analyst:

Elizabeth Ramey, 303-866-3522

elizabeth.ramey@coleg.gov

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Fiscal note status: This fiscal note reflects the introduced bill.

Summary Information

Overview. The bill creates new additions and subtractions to state taxable income for businesses and creates an expanded family affordability tax credit.

Types of impacts. The bill is projected to affect the following areas on a continuous basis:

- State Expenditures
- State Revenue

Appropriations. No appropriation is required.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
State Revenue	\$0	\$0	\$0	\$0
State Expenditures	\$0	\$299,683	\$258,697	\$724,813
Transferred Funds	\$0	\$0	\$0	\$0
Change in TABOR Refunds	\$0	\$0	\$0	\$0
Change in State FTE	0.0 FTE	2.1 FTE	1.4 FTE	6.4 FTE

The bill has offsetting positive and negative impacts on state revenue. See Table 1A and the State Revenue section.

**Table 1A
 State Revenue**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
General Fund – Taxable Income Changes	\$189.9 million	\$329.2 million	\$255.4 million	\$177.3 million
General Fund – Family Affordability Credit	-\$189.9 million	-\$329.2 million	-\$255.4 million	-\$177.3 million
Total Revenue	\$0	\$0	\$0	\$0

**Table 1B
 State Expenditures**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
General Fund	\$0	\$257,991	\$230,826	\$586,638
Cash Funds	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0
Centrally Appropriated	\$0	\$41,692	\$27,871	\$138,175
Total Expenditures	\$0	\$299,683	\$258,697	\$724,813
Total FTE	0.0 FTE	2.1 FTE	1.4 FTE	6.4 FTE

Summary of Legislation

Beginning in tax year 2027, the bill creates new additions and subtractions to state taxable income for businesses. It also creates a new income tax credit for Colorado taxpayers with children.

Additions and Subtractions to State Taxable Income

Beginning in tax year 2027, the bill requires taxpayers to add back the amount of certain federal business deductions that were allowed or expanded under 2025 H.R. 1, the One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, when computing state taxable income. Taxpayers required to add back these amounts are allowed to subtract the amounts of the federal deductions they would have been allowed to claim if not for the changes made under the OBBBA. On net, the bill requires taxpayers to add back to state taxable income the incremental amounts attributable to the recent changes to the following federal business deductions:

- business interest expense deductions allowed under Section 163(j) of the Internal Revenue Code (IRC);
- full expensing of certain business property, or the 100 percent bonus depreciation deduction allowed under Section 168(k) of the IRC;
- the special depreciation allowance for qualified production property allowed under Section 168(n) of the IRC; and
- full expensing of domestic research and experimentation expenditures allowed under Section 174(a) of the IRC

For additional details, see the Background section below.

Expanded Family Affordability Credit

Starting for tax year 2027, the bill creates an expanded family affordability credit (EFAC) for Coloradans who are or would be eligible for the Family Affordability Tax (FATC) available in current law. The credit is refundable, meaning any amount by which the credit exceeds a taxpayer's tax liability is refunded to the taxpayer.

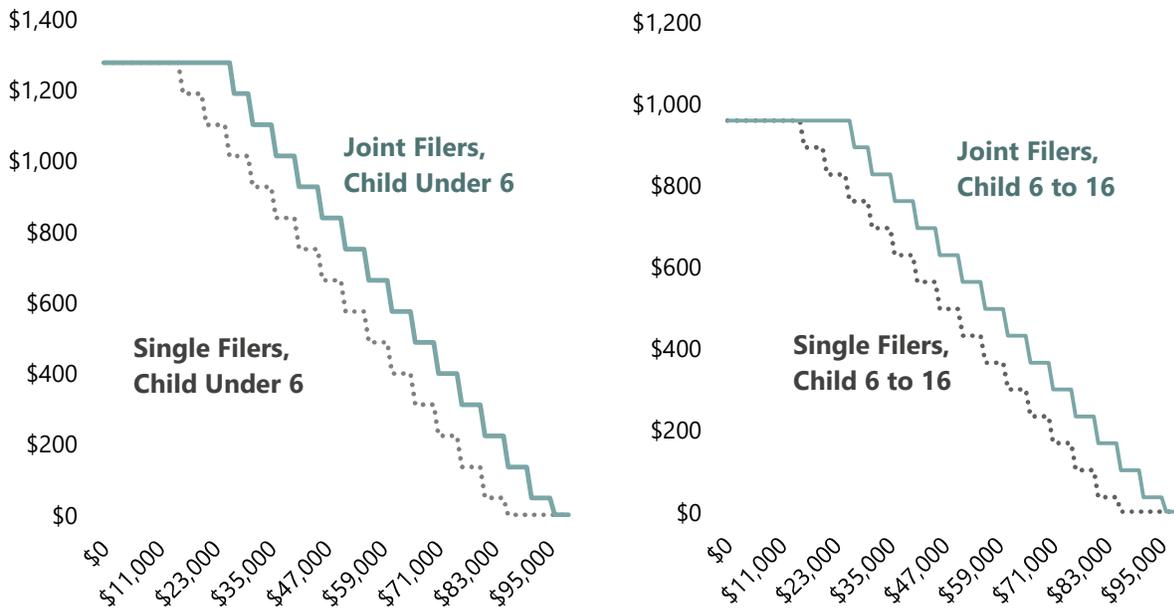
The amount of the EFAC depends on the estimated amount of the state revenue increase that results from the additions and subtractions to taxable income required in the bill. Starting with the December 2027 forecast, Legislative Council Staff is required to determine the maximum dollar amounts of the EFAC so that the projected aggregate total of tax credits claimed is equal to the net amount of revenue gain attributable to the additions and subtractions to taxable income required in the bill

Based on this fiscal note's estimates of the revenue increase from the additions and subtractions to taxable income required in the bill, the projected amount of the EFAC in tax year 2027 is:

- for each child under age 6, \$1,278 for single filers with AGI of \$16,000 or less, reduced by \$88 (6.875 percent) for every \$5,000 of AGI above \$16,000; and
- for each child ages 6 to 16, \$958 for single filers with AGI of \$16,000 or less (75 percent of the credit for children under age 6), reduced by \$66 (6.875 percent) for every \$5,000 of AGI above \$16,000; or
- for each child under age 6, \$1,278 for joint filers with AGI of \$27,000 or less, reduced by \$88 (6.875 percent) for every \$5,000 of AGI above \$26,000; and
- for each child ages 6 to 16, \$958 for joint filers with AGI or \$27,000 or less (75 percent of the credit for children under age 6), reduced by \$66 (6.875 percent) for every \$5,000 of AGI above \$26,000.

Figure 1 shows the estimated amount of credit allowed in tax year 2027 for taxpayers for each eligible child, depending on their AGI and the child's age. Starting with tax year 2028, credit amounts and AGI amounts are adjusted for inflation.

Figure 1
HB 26-1222 Tax Credit Amounts by Adjusted Gross Income, Filing Status, and Child's Age, Tax Year 2027



Background

Family Affordability Tax Credit

The FATC, enacted in [House Bill 24-1311](#), is a refundable income tax credit available to Coloradans with children under age 17 and a federal adjusted gross income (AGI) in 2024 up to \$85,000 for single filers and up to \$95,000 for joint filers. Credit amounts and AGI are adjusted annually for inflation. The amounts and availability of the credit are dependent on state revenue conditions. For tax year 2024, approximately 320,490 Coloradans claimed the FATC for a total of \$865.9 million in income tax credits.

Federal Business Income Tax Deductions

The OBBBA increased the amount of business expenses that may be immediately deducted from federal taxable income for the purposes of calculating federal income tax. Because Colorado income tax is calculated on the basis of federal taxable income, these changes have the effect of reducing state income tax revenue.

Business Interest Expense Deductions

Under current federal law, businesses may deduct interest expenses up to 30 percent of their adjusted taxable income (ATI). Businesses are allowed to add back deductions for amortization, depreciation, and depletion when calculating ATI. Federal law prior to the OBBBA required the calculation of ATI before depreciation, amortization, and depletion, allowing for a lower limitation on the amount of interest expense that could be deducted. Businesses were and are allowed to carry forward deductions over the limit.

The bill requires Colorado taxpayers to add back the additional interest they deduct under the OBBBA in the first year that they claim the deduction on their federal return, and allows them to subtract one-fifth of this amount for each of the following five income tax years for purposes of calculating state taxable income.

Full Expensing of Certain Business Property

Under current federal law, businesses may deduct 100 percent of the cost of certain business property the first year it is placed in service, a provision referred to as 100 percent bonus depreciation. Under federal law prior to the OBBBA, bonus depreciation would have phased down to 0 percent after tax year 2026. Businesses would have been required to use an alternative depreciation schedule for deducting the cost of these assets over a period of time, usually ranging from three to 39 years depending on the type of asset.

The bill requires Colorado taxpayers to add back their additional depreciation deduction under the OBBBA in the first year that they claim the deduction on their federal return, and allows them to subtract one-tenth of this amount for each of the following ten income tax years for purposes of calculating state taxable income.

Special Depreciation Allowance for Qualified Production Property

Under current federal law, businesses may deduct 100 percent of the cost of a production, manufacturing, or refining facility the first year it is placed in service. Under federal law prior to the OBBBA, such properties would have been depreciable over a period of 39 years.

The bill requires Colorado taxpayers to add back their additional depreciation deduction under the OBBBA in the first year that they claim the deduction on their federal return, and allows them to subtract one thirty-eighth of this amount for each of the following 38 income tax years for purposes of calculating state taxable income.

Full Expensing of Domestic Research and Experimentation Expenditures

Under current federal law, businesses may deduct 100 percent of the cost of research and experimentation expenses incurred in the U.S. in the first year. Under federal law prior to the OBBBA, these expenditures would have been required to be amortized over five years, meaning taxpayers could deduct one-fifth of these expenditures each year rather than 100 percent in the first year.

The bill requires taxpayers to add back their additional deduction for domestic research and experimentation expenditures under the OBBBA in the first year that they claim the deduction on their federal return, and allows them to subtract one-fifth of this amount for each of the following five income tax years for purposes of calculating state taxable income.

Assumptions

Data are not available at the state level to model the impact of the provisions in this bill on state revenue. The revenue estimates in the fiscal note are based on federal estimates published by the Joint Committee on Taxation (JCT) for the OBBBA and adjusted for Colorado's share of taxable income and the state income tax rate. Estimates also assume that the business provisions in this bill apply to both corporate and individual taxpayers based on their estimated share of business taxable income and the estimated effective federal individual and corporate tax rates. Additional information on these assumptions is available in the [July 2025 Legislative Council Staff Forecast Update](#).

The fiscal note assumes that the structure of the additions and subtractions created in the bill sufficiently approximates the federal deductions that Colorado taxpayers would have taken in the absence of the OBBBA so that the change under the bill can be estimated using the JCT estimates.

There is no data available on the number of business taxpayers in Colorado that take the federal deductions impacted by the bill. The expenditure estimates in the fiscal note are based on population estimates that combine state-level data on the number of individual, corporate, and partnership tax returns, and the number of individual tax returns with business income and federal statistics of income data on sole proprietorship, partnership, and corporation depreciation deductions by industry. The fiscal note assumes that larger businesses in capital-intensive industries with above-average depreciation deductions that are unlikely to be deductible under other provisions of the IRC are those most likely to be impacted by the additions and subtractions to taxable income created in the bill.

In accordance with Legislative Council Staff policy, the fiscal note does not incorporate any dynamic impacts on business investment or the business population due to the bill.

Due to data constraints, it is possible that the revenue impacts of the bill could be significantly greater than or less than estimated in this fiscal note. To the extent that taxpayer behavior and impacts differ from any of the above assumptions, revenue impacts of the bill’s additions and subtractions, and therefore the amounts of the EFAC, will be higher or lower than estimated in this fiscal note.

State Revenue

Because the bill requires that the level of the tax credit to depend on projected income tax revenue attributable to the additions and subtractions to taxable income under this bill, the bill is estimated to have a net \$0 impact on state revenue. Table 2 below presents the detailed state revenue impact.

Table 2
Detailed General Fund Revenue Impact

Provision	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
Business Interest	\$12.1 million	\$22.8 million	\$21.1 million	\$20.7 million
Bonus Depreciation	\$70.0 million	\$111.7 million	\$81.3 million	\$57.8 million
Qualified Production Property	\$67.5 million	\$133.9 million	\$117.4 million	\$82.1 million
Research & Experimentation	\$40.2 million	\$60.8 million	\$35.6 million	\$16.7 million
Family Affordability Credit	-\$189.9 million	-\$329.2 million	-\$255.4 million	-\$177.3 million
Total Revenue	\$0	\$0	\$0	\$0

The additions and subtractions to state taxable income are expected to increase state revenue subject to TABOR by a total of \$189.9 million in FY 2026-27 (half-year impact), \$329.2 million in FY 2027-28, \$255.4 million in FY 2028-29, \$177.3 million in FY 2029-30 and decreasing amounts in future years.

The EFAC will decrease General Fund revenue subject to TABOR by \$189.9 million in FY 2026-27 (half-year impact), \$329.2 million in FY 2027-28, \$255.4 million in FY 2028-29, and \$177.3 million in FY 2029-30 and decreasing amounts in future years.

State Expenditures

Department of Revenue

The bill increases General Fund expenditures for the Department of Revenue by about \$300,000 in FY 2027-28, \$260,000 in FY 2028-29, \$725,000 in FY 2029-30, and by similar amounts in future years. Expenditures are summarized in Table 3 and described below.

**Table 3
 State Expenditures
 Department of Revenue**

Cost Component	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
Personal Services	\$0	\$120,867	\$81,399	\$487,827
Operating Expenses	\$0	\$2,688	\$1,792	\$8,192
Capital Outlay Costs	\$0	\$21,000	\$0	\$35,000
GenTax Programming	\$0	\$25,635	\$52,386	\$0
User Acceptance Testing	\$0	\$7,954	\$11,562	\$0
Data Analysis and Reporting	\$0	\$17,556	\$26,182	\$26,106
Postage	\$0	\$0	\$0	\$29,513
Form Changes	\$0	\$62,291	\$57,505	\$0
Centrally Appropriated Costs	\$0	\$41,692	\$27,871	\$138,175
Total Costs	\$0	\$299,683	\$258,698	\$724,813
Total FTE	\$0	2.1 FTE	1.4 FTE	6.4 FTE

Tax Personnel

For the new additions and subtractions to taxable income, the bill requires 2.7 FTE in FY 2027-28, prorated for an October 1 start date, and 1.4 FTE in FY 2028-29 and ongoing for tax examiners to review tax credit claims and staff the call center to assist taxpayers with questions. Beginning in FY 2029-30, the department requires 3.0 FTE for auditors to review tax returns once they are filed, 1.0 FTE for a tax conferee to process disputes and administrative hearings, and 1.0 FTE for a tax examiner for taxpayer collections to ensure that taxpayers pay the correct amount of taxes after the resolution of disputes. The unique nature of the additions and subtractions does not allow for automated enforcement of these provisions. The backward-looking nature of the subtractions, which requires the review of between four and 38 years of tax records, complicates workload around taxation disputes.

Software Programming and Testing

This bill increases expenditures to program, test, and update database fields in DOR's GenTax software system. Programming costs represent 40 hours of contract programming in FY 2027-28 and 120 hours in FY 2028-29 at a rate of \$244.19 per hour. Costs for testing at the department are estimated to require 387 hours of innovation, strategy, and delivery programming support in FY 2027-28 and 563 hours in FY 2028-29 at a rate of \$41 per hour, and 194 hours of user acceptance testing in FY 2027-28 and 282 hours in FY 2028-29 at a rate of \$41 per hour.

Data Analysis and Reporting

Expenditures in the Office of Research and Analysis are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$17,556 in FY 2027-28 and \$26,182 in FY 2028-29 and similar amounts in future years, representing between 462 and 689 hours for data management and reporting at \$38 per hour.

Postage and Form Changes

The DOR will have additional costs for postage to administer the tax expenditure, and must make changes to tax forms to include the new deduction and process paper returns claiming the credit. Form changes require the purchase of services from the Department of Personnel and Administration (DPA).

Legislative Department

The bill requires the Legislative Council Staff to make determinations related to the revenue impacts of this bill. This work will be accomplished within existing appropriations.

TABOR Refunds

While the bill impacts state revenue streams subject to TABOR, the net revenue impact to the state is \$0. As a result, the bill has no impact on the state's TABOR refund obligation.

Technical Note

The bill sets AGI thresholds of the EFAC equal to the FATC thresholds prior to inflation adjustments, however, the inflation adjustments occur on a different timeline and result in different eligibility thresholds across the two credits. The fiscal note assumes the bill will be amended to align the AGI thresholds of the EFAC with the thresholds for the FATC. If the AGI thresholds for the EFAC do not mirror those for the FATC, the bill will require workload and programming costs for the DOR, and will result in different credit amounts per claim.

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

LCS Economists

Revenue

Personnel

State Auditor