



Fiscal Note

Legislative Council Staff

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HB 26-1289: MODIFICATION OF CERTAIN TAX EXPENDITURES

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Summary Information

Overview. The bill makes changes to state income taxes, sales and use taxes, cigarette and tobacco excise taxes, and motor fuels taxes. Most of the changes in the bill begin in tax year 2027.

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

- State Revenue
- State Transfers and Diversions
- State Expenditures
- TABOR Refunds
- Local Government

Appropriations. For FY 2026-27, the bill requires appropriations totaling \$3.1 million to various agencies. The bill does not require a decrease to the appropriation from the Housing Development Grant Fund because the fund is continuously appropriated to the Department of Local Affairs.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
State Revenue	\$8,600,000	\$13,400,000	\$13,800,000
State Expenditures	\$3,104,633	\$6,680,559	\$6,578,792
Transferred and Diverted Funds	\$0	\$80,000	\$121,500
Change in TABOR Refunds	\$7,500,000	\$10,900,000	Not estimated
Change in State FTE	0.0 FTE	0.7 FTE	0.4 FTE

Fund sources for these impacts are shown in the tables below.

**Table 1A
 State Revenue**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund	\$2,400,000	\$700,000	\$900,000
Cash Funds	\$6,200,000	\$12,700,000	\$12,900,000
Total Revenue	\$8,600,000	\$13,400,000	\$13,800,000

**Table 1B
 State Expenditures**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund	\$63,432	\$240,625	\$41,415
Cash Funds	\$3,041,201	\$6,425,920	\$6,529,434
Federal Funds	\$0	\$0	\$0
Centrally Appropriated	\$0	\$14,014	\$7,943
Total Expenditures	\$3,104,633	\$6,680,559	\$6,578,792
Total FTE	0.0 FTE	0.7 FTE	0.4 FTE

**Table 1C
 State Transfers and Diversions**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund	\$0	\$0	\$121,500
Commercial Vehicle Enterprise Tax Fund	\$0	-\$80,000	-\$121,500
Colorado Economic Development Fund	\$0	\$80,000	\$0
Net Transfer	\$0	\$0	\$0

Summary of Legislation

The bill makes various changes to tax policy. These are grouped by the type of tax in the descriptions below.

Income Tax

The bill makes changes to taxable income by repealing certain tax deductions allowed in current state law, and requiring new state income tax additions to offset certain federal deductions. It also makes various changes to income tax credits. These changes are described below.

Changes to Taxable Income

Wage and Salaries Deduction

The bill repeals the state income tax deduction for wages and salary expenses which are not deductible in the calculation of federal tax taxable income due to [Section 280C](#) of the Internal Revenue Code.

State Income Addition for Federally Deducted Capital Gains Invested in Opportunity Funds

Starting for tax year 2027, the bill creates an addition to taxable income for the purposes of calculating Colorado income tax for certain investors in Opportunity Funds. Opportunity Funds are investment vehicles that invest in designated low-income areas known as Opportunity Zones. The federal Opportunity Zone program was scheduled to expire after 2026, and was permanently extended by 2025 H.R. 1, the One Big Beautiful Bill Act (OBBBA). Investors who reinvest capital gains into a Qualified Opportunity Fund within 180 days may defer federal taxes on those gains. If the investment is held for at least ten years it may qualify for tax-free appreciation. The bill requires that Colorado taxpayers add back any capital gain or appreciation that they excluded from federal gross income that is not from an investment in a Colorado Qualified Opportunity Fund. A Colorado Qualified Opportunity Fund is an Opportunity Fund that holds at least 90 percent of its assets in Colorado Opportunity Zones. The Colorado Opportunity Zone program is administered by OEDIT.

Corporate Income Tax Modifications

The bill allows members of an affiliated group of C Corporations to make a water's edge election to determine each of their appropriated shares of the net business income or loss of the combined group. Upon such election, taxpayer members shall take into account all or a portion of the income and apportionment factors.

Federal Foreign-Derived Income Tax Deduction

Starting in tax year 2027, the bill removes Liechtenstein from the list of foreign jurisdictions in which corporations are presumed to incorporate for the purpose of tax avoidance. Under current law, income from a corporation with foreign subsidiaries in Liechtenstein must be added to federal taxable income amounts when calculating Colorado corporate income taxes.

Changes to Income Tax Credits

The bill creates new tax credits, repeals tax credits, expands current tax credits, narrows other current tax credits, and makes other modifications.

New Tax Credits

Renewable Energy Investment Credit

This bill permits a taxpayer who places a renewable energy project in an enterprise zone and obtains certification to claim an enterprise zone investment tax credit (ITC) to elect a refund

option for the credit. The refund amount equals 80 cents per one dollar of ITC credit and is capped at \$750,000 per tax year per taxpayer. Renewable energy investments completed after January 1, 2027, are eligible to elect the refund. A taxpayer may receive a refund from only one new renewable investment at a time and must fully exhaust the refund amount from one project before electing a refund from another renewable energy investment that generated ITC credits.

Sustainable Aviation Fuel Purchase Credit

The bill creates a sustainable aviation fuel purchase income tax credit for tax years 2027 through 2032. The amount of the credit is no less than \$1.50 per gallon of sustainable aviation fuel purchased in the state, increased by \$0.01 for each percentage of carbon intensity reduction above 50 percent. The credit is administered by the CEO, which may adjust the amount of the credit. The maximum amount of total credits issues is capped at \$3 million per year.

Repealed or Narrowed Tax Credits

Enterprise Zone Commercial Vehicle Credit

The bill repeals the state commercial vehicle investment tax credit beginning in tax year 2027.

Under current law, certain fines and penalties for violations of oversized and overweight vehicle laws are deposited into the Commercial Vehicle Enterprise Tax Fund to be used to cover the cost of administering the tax credit, with the remaining balance used to offset the income tax credit. The bill transfers the remaining balance in the Commercial Vehicle Enterprise Tax Fund to the Colorado Economic Development Fund on July 1, 2027, and deposits FY 2027-28 and future fine and penalty revenue into the General Fund.

Sustainable Aviation Fuel Production Credit

The bill repeals the sustainable aviation fuel production credit after tax year 2026. The credit is available for tax years 2024 through 2032 under current law. The maximum amount of total credits issued is capped at \$3 million in 2027 through 2032. No taxpayers have claimed this credit to date.

Employer-Sponsored Health Insurance Tax Credit

Beginning in 2027, the bill disallows businesses with 50 or more employees from claiming the enterprise zone employer-sponsored health insurance tax credit.

Enterprise Zone Research and Experimental Activities Credit

Beginning in tax year 2027, investments of at least \$150,000 in qualified research and experimental activities within an enterprise zone are required to qualify for the research and experimental activities state income tax credit.

Expanded Tax Credits

Innovative Motor Vehicle Credit

The innovative motor vehicle credit is available for purchases of electric and plug-in hybrid electric vehicles. The bill makes bidirectional changes to this credit for tax years 2027 and 2028, as follows:

- For tax year 2027, the base credit amount is increased from \$1,000 to \$2,000.
- For tax year 2028, the base credit amount is increased from \$500 to \$1,000.
- For tax years 2027 and 2028, the bill allows an additional tax credit of \$2,500 for purchases of qualifying vehicles with a manufacturer's suggested retail price (MSRP) of less than \$40,000. Purchases of vehicles with an MSRP less than \$35,000 already receive this additional credit under current law.
- For tax years 2027 and 2028, the bill disallows the credit for purchases of vehicles with an MSRP greater than \$50,000. Under current law, purchases of vehicles with an MSRP greater than \$80,000 are already ineligible for the credit.

Wildfire Hazard Mitigation Credit

For tax years 2027 through 2030, the bill increases the maximum credit amount from \$1,000 to \$2,000, raises the income limit for a landowner to be eligible for the credit from an inflation-adjusted limit of \$120,000 (an estimated \$136,400 in 2027) to an inflation-adjusted limit of \$300,000, and allows the credit to be carried forward for five years. The bill also expands the allowable costs for which a landowner may claim the credit to include the thinning of woody vegetation that is or may be impacted by pine beetle or spruce beetle infestation.

Under current law, the amount by which the credit exceeds a taxpayer's income tax liability may be carried forward to future tax years. The bill removes the carry-forward and makes the excess amount refundable instead.

Small Food Business Credit

The bill modifies eligibility criteria for the small food business credit by allowing distributors and producers to claim the credit, in addition to the retailers and family farms eligible under current law. It sets a floor of \$375 per credit for all claimants, and a ceiling of \$350,000 in credits for qualified small farms and \$1 million for all other qualified taxpayers. The bill also reduces the Department of Agriculture's (CDA) issuance limit for state income tax certificates from \$10 million to \$5 million for the 2027 tax year.

Electric Powered Lawn Equipment Credit

The bill extends the income tax credit for the purchase of new electric powered lawn equipment, which is available for tax years 2024 to 2026 under current law, for an additional three years, through tax year 2029. The credit is refundable and is equal to 33 percent of the purchase price of new electric powered law equipment. The credit is provided as a discount to purchasers and

then claimed by sellers that register with the Department of Revenue (DOR) as qualified retailers. The bill also allows a retailer to receive quarterly advance payments of the credit.

Industrial Clean Energy Tax Credit

The bill expands eligibility for the industrial clean energy tax credit created in House Bill 23-1272 to include entities not subject to income tax, allows a taxpayer to claim the credit for expenditures to install equipment used for the utilization of biomethane, and extends the period during which the CEO is allowed to review applications for the credit. The bill also allows the CEO to carry forward any unused portion of the aggregate credit cap for this credit, and for the current law credit for geothermal energy project expenditures, and to allocate the previously unused portions of the two credits' caps across both credits in later years.

Triggered Decarbonization Credits

The bill makes the innovative motor vehicle tax credit, the innovative truck tax credit, the heat pump technology and thermal energy network tax credit, and the electric bicycle tax credit available unconditionally in all future tax years.

Under current law, beginning in tax year 2026, if state revenue subject to TABOR is not expected to increase by at least 4 percent in the fiscal year in which the relevant tax year begins, then the amounts of the tax credits will be reduced by 50 percent, with any credit less than \$250 reduced to \$0. The tax credits are reduced by half for the 2026 tax year. They are expected to be fully available under current law in tax years 2027 and 2028 under the March 2026 LCS forecast.

Enterprise Zone Vacant Building Credit

Beginning in tax year 2027, the bill expands eligibility for the credit to include vacant buildings unoccupied for any 135 calendar days within the 180 calendar days preceding the taxpayer's placement of the rehabilitated building in service, and increases the maximum amount of the credit to up to \$200,000 per building for qualified expenditures.

Under current law, the building is required to be vacant for at least two years and the maximum amount of the credit is \$25,000 per building.

Sales and Use Tax

The bill creates a new state use tax exemption, extends an expiring exemption, and repeals an exemption.

New and Extended Exemptions

Railroad Construction and Building Materials Exemption

Under current law, construction and building materials used for railroad track construction and maintenance by a common carrier by rail operating in interstate or foreign commerce is exempt from the state sales tax, but subject to the state use tax. Beginning July 1, 2027, the bill exempts these purchases from the state use tax.

Exemption for Wood from Salvaged Trees Killed or Infested in Colorado by Certain Beetles

The bill extends the sales and use tax exemption for wood from salvaged trees killed or infested by mountain pine beetles and spruce beetles through December 31, 2030, which would have otherwise expired after FY 2025-26.

Repealed Exemption

Property for Use in Space Flight Exemption

Effective January 1, 2027, the bill repeals the sales and use tax exemption for property used in space flight.

Cigarette and Tobacco Excise Taxes

Vendor Fees

Current law allows taxpayers to retain a portion of their tax payment if they make on-time payments. The bill disallows these retentions, commonly called "vendor allowances," "vendor discounts," or "vendor fees," for tax periods beginning January 2027 and ongoing. The disallowed vendor fees are currently:

- 3.0 percent for the tax on the inventory of cigarette wholesalers;
- 0.4 percent for purchases of cigarette tax stamps;
- 1.6 percent for the tax on tobacco products; and
- 1.1 percent for the tax on nicotine products.

Motor Fuel and Special Fuel Taxes

Under current law, motor and special fuel tax filers may deduct up to 2 percent of their taxes owed to cover losses in transit and in unloading fuel, and may deduct an additional 0.5 percent of their taxes owed for the costs of collecting the fuel and for uncollectible bad debts. The bill eliminates the 0.5 percent allowance and reduces the 2.0 percent allowance to 1.0 percent beginning January 1, 2027.

Background

Income Tax

New Tax Credits

Renewable Energy Investment Credit

The [Colorado Enterprise Zone Investment Tax Credit](#) provides a 3 percent state income tax credit for businesses investing in qualifying business personal property, such as equipment and machinery, used exclusively in a designated enterprise zone for at least one year.

Pre-certification is required, and excess credits may be carried forward up to 14 years. In FY 2024-25, about 5,540 businesses invested \$1.5 billion in qualified business personal property, generating \$45.8 million in state tax credits. [House Bill 25-1296](#) limits the total amount of credits that a taxpayer may claim for all projects to \$2 million starting in the 2026 tax year, unless a waiver is granted by the Colorado Economic Development Commission (EDC).

[House Bill 15-1219](#) made certain investment tax credits partially refundable at an 80 percent rate. The refundable portion of the credit was capped at \$750,000 per tax year and taxpayer. Renewable energy investments completed between January 1, 2015, but before December 31, 2020, were eligible to receive a refund.

Repealed Tax Credits

Enterprise Zone Commercial Vehicle Credit

Taxpayers may qualify for a [state income tax credit](#) when purchasing new commercial trucks, truck tractors, tractors, semitrailers, and related parts that are registered in Colorado and utilized within an enterprise zone. The credit amount equals 1.5 percent of the purchase price of these new vehicles and parts. This income tax credit is nonrefundable but can be carried forward for up to 12 income tax years. In FY 2023-24, \$36,000 in income tax credits were issued to 10 taxpayers.

Expanded Tax Credits

Small Food Business Credit

[House Bill 23-1008](#) created a state income tax credit for any consortium members of the Community Food Access Program and any small food business or small family farm that purchases small food business recovery and resilience grant program equipment. For the members of the consortium, the credit is equal to 75 percent of the amount spent on completing their duties and responsibilities, after subtracting any amount they receive through the Community Food Access Program. For small food retailers and small family farms, the credit is equal to 75 percent of the costs for the purchase, tax paid on, and shipment of equipment from among listed items. Qualifying purchases include cold storage, display shelving, produce scales, and point of sales systems.

Sales and Use Tax

New Exemptions

[Exemption for Wood from Salvaged Trees Killed or Infested in Colorado by Certain Beetles](#) Enacted for FY 2008-09 through FY 2019-20 and then reinstated from FY 2021-22 through FY 2025-26, wood salvaged from Colorado trees that have been killed or infested by mountain pine beetles and spruce beetles is exempt from the state sales and use tax. Products produced from salvaged trees, including, but not limited to, lumber, furniture, wood chips, or wood pellets,

qualify for the exemption. This sales and use tax exemption is not itemized on the sales and use tax forms; therefore, the number and amount of claims under this exemption are unknown.

Repealed Exemption

Property for Use in Space Flight Exemption

The sales and use tax exemption for certain property used in space flight was enacted by [House Bill 14-1178](#) and applies to space vehicles and its components, tangible personal property placed or used aboard space vehicles, and fuel of a quality that is only produced and used for space flight. Total sales and use tax exemptions have varied year by year between less than \$5,000 to \$22,000.

Assumptions

Income Tax

Changes to Taxable Income

Wage and Salaries Deduction

Taxpayers claiming the state deduction for wages and salaries under IRC Section 280C report the amount subtracted from their federal taxable income on the Other Subtractions line of the Colorado income tax form. This line also captures several other unrelated income tax deductions, and the data are presented only as an aggregate total without itemization.

Data are unavailable to determine the proportion of this deduction relative to the total amount of other subtractions. In tax year 2022, the most recent year with available data, taxpayers deducted \$52.6 million under the Other Subtractions income tax line. This amount implies that these deductions reduced total state income taxes by a maximum of \$2.3 million, calculated by multiplying \$52.6 million by the state income tax rate of 4.40 percent. To estimate revenue impacts, the 2022 data were adjusted using the Legislative Council Staff's wage and salary income forecast to project figures for 2027, the first year the income tax deduction is repealed.

Changes to Income Tax Credits

Employer-Sponsored Health Insurance Tax Credit

In 2023, approximately 21 businesses with over 50 employees were certified for \$3.1 million in employee-sponsored health insurance state income tax credits. From 2019 to 2023, businesses with more than 50 employees averaged \$2.4 million in annual credits, with a compound annual growth rate of 23.7 percent. The fiscal note projects this average forward through 2027, when the credit is repealed for these businesses.

Small Food Business Credit

The fiscal note projects \$2.8 million in credits will be issued in tax year 2027, the first year of the new income tax qualification criteria. Credit amounts are expected to increase annually as taxpayers become more familiar with the state income tax credit, following trends seen with other new credits. By 2029, credits are projected to reach \$4.7 million.

Renewable Energy Investment Credit

The fiscal note assumes at least one renewable energy investment will generate \$2.0 million in ITC credits eligible for refunds starting in 2027, with \$1.6 million (80 percent) paid to the taxpayer over three years. Additionally, multiple investments from various taxpayers are expected to generate \$11.0 million in ITC credits in 2027, refunded through at least FY 2036-37.

These estimates are highly uncertain. If more companies opt for refunds than expected, revenue estimates will increase; if fewer do, estimates will decrease. Taxpayers without near-term tax liability are incentivized to choose refunds to use the full credit. Under current law, if a company can fully claim ITC credits within the 22-year carry-forward, the state's liability decreases by 20 percent if the company opts for a refund. This impact will occur years later and is reduced when discounted for the time value of money.

Research and Experimental Activities Tax Credit

In 2023, 21 taxpayers obtained tax certification for qualified research and experimental expenses less than \$150,000, totaling about \$35,000 in state income tax credits. From 2019 to 2023, the compound average annual rate of growth in the tax amounts certified for those taxpayers with qualified research and experimental expenses less than \$150,000 was 9.1 percent. The fiscal note assumes the five-year average growth rate for these taxpayers with qualified expenses exceeding \$150,000 through 2029.

Enterprise Zone Vacant Building Credit

In 2023, 7 of the 17 taxpayers receiving the vacant building rehabilitation income tax credit exceeded the \$50,000 maximum allowed by current law. Rehabilitation expenses between \$50,000 and \$200,000 would have generated an additional \$400,000 in state income tax credits. A similar analysis for tax years 2020 through 2022 shows that increasing the credit to \$200,000 would have raised tax credits by approximately \$433,000 annually. The fiscal note assumes this average throughout the forecast period.

State Revenue

The bill is expected to increase state revenue by \$8.6 million in FY 2026-27, \$13.4 million in FY 2027-28, and \$13.8 million in FY 2028-29, with similar impacts in future years.

Most of the bill's changes to revenue affect the General Fund; however, a portion of sales and use tax impacts occur in the Housing Development Grant Fund; most cigarette, tobacco, and

nicotine excise tax impacts occur in cash funds; and impacts on motor fuel and special fuel tax revenue occur in the Highway Users Tax Fund (HUTF). Most impacted revenue is subject to TABOR; however, the bill affects cigarette, tobacco, and nicotine tax revenue collected under Amendment 35 and Proposition EE, which is exempt from TABOR. State revenue impacts are presented in Table 2. Totals may not sum due to rounding.

Table 2
Change in State Revenue from All Streams
 Millions of Dollars

Revenue Stream	FY 2026-27	FY 2027-28	FY 2028-29
Income Tax	\$3.2	\$1.4	\$1.6
Sales and Use Tax	-\$0.8	-\$0.8	-\$0.8
Cigarette, Tobacco, and Nicotine Tax	\$1.3	\$2.9	\$3.0
Motor Fuel and Special Fuel Tax	\$4.9	\$9.9	\$9.9
Total	\$8.6	\$13.4	\$13.8

Table 2A
Income Tax Revenue Impacts
 Millions of Dollars

Provision	FY 2026-27	FY 2027-28	FY 2028-29
Wage and Salary Deductions	\$1.5	\$3.0	\$3.2
Opportunity Funds	\$11.7	\$18.3	\$16.2
Incorporation in Liechtenstein	Minimal	Minimal	Minimal
Water's Edge Group Elections	Indeterminate	Indeterminate	Indeterminate
Industrial Clean Energy Credit	\$0.0	\$0.0	\$0.0
EZ Renewable Energy Investment	-\$0.8	-\$1.9	-\$2.3
Sust. Aviation Fuel Purchase Credit	-\$1.5	-\$3.0	-\$3.0
EZ Commercial Vehicle Credit	\$0.02	\$0.04	\$0.04
Sust. Aviation Fuel Production Credit	\$0.0	\$0.0	\$0.0
Innovative Motor Vehicle Credit	-\$2.4	-\$4.3	-\$1.9
Wildfire Hazard Mitigation Credit	-\$0.4	-\$0.8	-\$0.8
Small Food Business Credit	-\$1.7	-\$4.0	-\$5.2
Electric Lawn Equipment Credit	-\$6.7	-\$13.7	-\$14.1
Decarbonization Credit Triggers	\$0.0	\$0.0	Not estimated
EZ Employee Health Insurance Credit	\$3.6	\$8.0	\$9.9
EZ Research and Experiments Credit	\$0.02	\$0.1	\$0.1
EZ Vacant Building Credit	-\$0.2	-\$0.4	-\$0.4
Total Income Tax	\$3.2	\$1.4	\$1.6

Table 2B
Sales and Use Tax Revenue Impacts
 Millions of Dollars

Provision	FY 2026-27	FY 2027-28	FY 2028-29
Railroad and Construction Materials	\$0.0	Minimal	Minimal
Beetle Kill Wood Exemption	-\$0.8	-\$0.8	-\$0.8
Property Used in Space Flight	\$0.01	\$0.02	\$0.02
Total Sales and Use Tax	-\$0.8	-\$0.8	-\$0.8

Table 2C
Cigarette, Tobacco, and Nicotine Tax Revenue Impacts
 Millions of Dollars

Provision	FY 2026-27	FY 2027-28	FY 2028-29
Cigarette Wholesalers Tax Vendor Fee	Minimal	Minimal	Minimal
Cigarette Stamps Vendor Discount	\$0.4	\$0.8	\$0.8
Tobacco Products Tax Vendor Fee	\$0.3	\$0.8	\$0.8
Nicotine Tax Vendor Fee	\$0.6	\$1.4	\$1.4
Total Excise Tax	\$1.3	\$2.9	\$3.0

Table 2D
Motor Fuel and Special Fuel Tax Revenue Impacts
 Millions of Dollars

Provision	FY 2026-27	FY 2027-28	FY 2028-29
Fuel Loss Allowance	\$3.2	\$6.6	\$6.6
Vendor Fee	\$1.6	\$3.3	\$3.3
Total Fuels Tax	\$4.9	\$9.9	\$9.9

Changes to Taxable Income

Wage and Salary Deductions

Repealing the state income tax deduction for wages and salary expenses is expected to increase General Fund revenue by up to \$1.5 million (half-year impact) in the FY 2026-27, \$3.0 million in FY 2027-28, and up to \$3.2 million per year thereafter beginning in FY 2028-29. The estimate is a maximum increase in state revenue from the bill based on the assumptions described above.

Opportunity Funds

The state addback for federal exclusions of capital gains invested in Opportunity Funds is expected to increase state revenue by \$11.7 million in FY 2026-27 (half-year impact), \$18.3 million in FY 2027-28, and \$16.2 million in FY 2028-29. There are no data on the use of Opportunity Fund exclusions at the federal level for Colorado taxpayers. The fiscal note assumes

the Joint Committee on Taxation estimates for the federal impacts of the OBBBA, adjusted for Colorado's share of taxable income, the state income tax rate, and the estimated share of investments that are expected to remain in multi-state Opportunity Funds, or funds investing in Opportunity Zones in another state. If additional data become available, these estimates may change.

Water's Edge Group Elections

The bill is expected to have an indeterminate impact on corporate income tax revenue. The number of affiliated groups of Colorado corporations that will make a water's edge election is unknown. By including these affiliates' income and apportionment factors, the affiliated group may have either net profit, which would result in an increase in state corporate income tax revenue, or net losses, which would result in a decrease in this revenue. The overall impact cannot be quantified with the current data and depends greatly on taxpayer decision making and circumstances.

New Income Tax Credits

Sustainable Aviation Fuel Purchase Credit

The sustainable aviation fuel purchase credit is expected to reduce state revenue by \$1.5 million in FY 2026-27 (half-year impact), and by \$3.0 million in FY 2026-27 through FY 2028-29. The fiscal note assumes that the maximum amount of credits will be claimed each tax year it is available, based on estimated sustainable aviation fuel consumption in Colorado.

Renewable Energy Investment Credit

Based on the assumptions described above, by offering renewable energy projects to elect a refund option for the investment tax credit, state revenue is expected to decline by \$750,000 in FY 2026-27, \$1.9 million in FY 2027-28, \$2.3 million in FY 2028-29 and by increasing amounts in the future.

Repealed and Narrowed Tax Credits

Sustainable Aviation Fuel Production Credit

The repeal of the sustainable aviation fuel production credit is estimated to have a minimal revenue impact, as it is assumed current usage of the credit is limited by the lack of sustainable aviation fuel production facilities in Colorado.

Enterprise Zone Commercial Vehicle Credit

Repealing the credit is expected to increase General Fund revenue by about \$23,000 (half-year impact) in the FY 2026-27, \$45,000 in FY 2027-28, and by similar amounts in subsequent years.

Employer-Sponsored Health Insurance Tax Credit

Repealing the employer-sponsored health insurance state tax credit for employers with 50 or more employees is expected to increase state revenue by \$3.6 million (half-year impact) in FY 2026-27, \$8.0 million in FY 2027-28, and \$9.9 million in FY 2028-29, with further growth in subsequent years. These estimates rely on the assumptions outlined above.

Research and Experimental Activities Tax Credit

Narrowing eligibility for this credit is expected to increase General Fund revenue by about \$25,000 (half-year impact) in the FY 2026-27, \$51,000 in FY 2027-28, and by similar amounts in subsequent years.

Expanded Tax Credits

Innovative Motor Vehicle Credit

Modifications to the innovative motor vehicle (IMV) tax credit are expected to reduce General Fund revenue by \$2.4 million in FY 2026-27 (half-year impact), \$4.3 million in FY 2027-28, and a final \$1.9 million in FY 2028-29 (half-year impact).

The fiscal note projects that under current law, the number of IMV credits claimed will fall by 15 percent in 2026 as federal tax incentives expire, and will then increase by 5 percent annually beginning in 2027. The fiscal note uses data on U.S. sales of electric vehicles by model from the Kelley Blue Book electric Vehicle Sales Report and 2026 MSRP's for the most popular electric vehicles, assuming that prices will increase in line with the 2025 LCS December forecast for inflation. The fiscal note also incorporates an elasticity assumption of -0.4, meaning that for every 1 percent decrease in price, the quantity demanded increases by 0.4 percent.

The fiscal note estimates that doubling the base tax credit in tax years 2027 and 2028 will result in revenue losses of \$4.4 million in FY 2026-27, \$6.6 million in FY 2027-28, and \$4.4 million in FY 2027-28. These losses are offset by reducing the maximum vehicle price to be eligible for the credit from \$80,000 to \$50,000 will reduce the number of tax credit claims by approximately 7,800 per tax year, thereby increasing state revenue. Finally, increasing the maximum vehicle price that is eligible for an additional \$2,500 credit from \$35,000 to \$40,000 is expected to result in approximately 1,400 more vehicles claiming the additional \$2,500 credit.

Wildfire Hazard Mitigation Credit

The expansion of the wildfire hazard mitigation credit is expected to reduce state revenue by \$380,000 in FY 2026-27 (half-year impact), by \$760,000 in FY 2027-28, and by similar amounts in future years. The fiscal note assumes that 630 taxpayers will claim the credit, with an average credit amount of \$2,000.

Electric Powered Lawn Equipment Credit

The extension of the electric powered lawn equipment credit is expected to reduce state revenue by \$6.7 million in FY 2026-27, \$13.7 million in FY 2027-28, and \$14.1 million in FY 2028-29. The estimate is based on data for electric powered lawn equipment sales in California, adjusted for Colorado inflation and population.

Industrial Clean Energy Credit

The expansion of the industrial clean energy credit is assumed to have minimal revenue impact, as it is assumed that the maximum amount of credits is already being claimed.

Triggered Decarbonization Credits

The repeal of the conditionality of the innovative motor vehicle tax credit, the heat pump technology and thermal energy network tax credit, and the electric bicycle tax credit after tax year 2026 is not expected to impact state revenue, as the tax credits are expected to be fully available in tax years 2027 and 2028 under the December 2025 LCS forecast.

Small Food Business Credit

Expanding the food accessibility state tax credit is expected to decrease state revenue by \$1.7 million (half-year impact) in FY 2026-27, \$4.0 million in FY 2027-28, and \$5.2 million in FY 2028-29, with further growth in subsequent years. These estimates rely on the assumptions outlined above.

Enterprise Zone Vacant Building Credit

Expanded eligibility and values for the credit is expected to decrease General Fund revenue by \$200,000 (half-year impact) in the FY 2026-27, \$400,000 in FY 2027-28, and by similar amounts in subsequent years.

Sales and Use Tax

The bill is expected to decrease state sales and use tax revenue by \$0.8 million per year beginning in FY 2026-27. Sales and use tax revenue is subject to TABOR.

- Of the amount described above, the bill will decrease General Fund revenue by \$769,550 in FY 2026-27, and \$762,174 in FY 2027-28 with similar amounts in future years.
- Current law requires 1.655 percent of sales and use tax revenue to be distributed to the Housing Development Grant Fund (HDGF). Accordingly, of the amounts described above, the bill will decrease HDGF revenue by \$12,950 in FY 2026-27, and \$12,826 in FY 2027-28 with similar amounts in future years.

New Exemptions

Railroad Construction and Building Materials Exemption

Because certain railroad construction materials are exempt from the state sales tax under current law, it is assumed that a minimal amount of use tax forms are subsequently being filed for those purchases. The bill is assumed to align the sales and use tax base for certain railroad construction materials and result in a minimal decrease to use tax revenue.

Exemption for Wood from Salvaged Trees Killed or Infested in Colorado by Certain Beetles

The extension of the sales and use tax exemption for wood from trees in Colorado impacted by certain beetles is expected to decrease sales and use tax revenue by about \$790,000 per year beginning in FY 2026-27 through FY 2031-32. The Office of the State Auditor estimated claims for this exemption to total \$483,000 in 2018, when an estimated 178,500 acres of Colorado land were impacted. While acres of impacted land from the mountain pine beetle and spruce beetle have declined to 16,600 in 2024, acres of land impacted by all beetles totaled over 290,000 according to data from the Colorado State Forest Service. It is assumed that wood sales cannot be differentiated by beetle type and therefore all beetle-infested wood would be claimed under the exemption.

Repealed Exemption

Property for Use in Space Flight Exemption

The repeal of the sales and use tax exemption for property used in space flight is expected to increase sales and use tax revenue by \$7,500 in FY 2026-27 (half-year impact), and \$15,000 in FY 2027-28 and future years. The estimated impact is based on actual historical claims for the exemption, which ranged from \$22,000 in 2017 to \$4,777 in 2023.

Cigarette and Tobacco Excise Taxes

Vendor Fees

Eliminating the vendor fee for cigarette, tobacco, and nicotine excise taxes is expected to increase state revenue by \$1.3 million in FY 2026-27 (half-year impact), \$2.9 million in FY 2027-28, \$3.0 million in FY 2028-29 and increasing amounts in later years.

There are three taxes assessed on cigarettes and tobacco: an original statutory tax, a constitutional tax under Amendment 35, and a statutory tax rate increase under Proposition EE. Nicotine products are only subject to Proposition EE taxes. Eliminating the vendor fee is expected to increase revenue under each of these taxes. Each tax is distributed via a different formula. Increases in revenue from the cigarette and tobacco statutory taxes will increase revenue in the General Fund, increased revenue from the Proposition EE taxes will be distributed to the Preschool Programs Cash Fund, and increases to Amendment 35 revenue will impact

eight different funds, shown in Table 3. Revenue from Amendment 35 and Proposition EE taxes are exempt from TABOR.

Table 3
Changes to Excise Tax Distributions from Eliminating Vendor Fees

Fund	Relevant Tax	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund	Statutory	\$222,729	\$440,692	\$454,564
Preschool Programs Cash Fund	Proposition EE	\$996,276	\$2,293,674	\$2,381,491
Health Care Expansion Fund	Amendment 35	\$50,900	\$92,516	\$90,666
Primary Care Fund	Amendment 35	\$21,024	\$38,213	\$37,449
Tobacco Education Programs Fund	Amendment 35	\$17,704	\$32,180	\$31,536
Prevention, Early Detection, and Treatment Fund	Amendment 35	\$17,704	\$32,180	\$31,536
Old Age Pension Fund	Amendment 35	\$1,660	\$3,017	\$2,956
Local government compensation for lost revenue from tobacco taxes	Amendment 35	\$996	\$1,810	\$1,774
Immunizations performed by small local public health agencies	Amendment 35	\$332	\$603	\$591
Children's Basic Health Plan (CHP+)	Amendment 35	\$332	\$603	\$591
Total Revenue		\$1,329,657	\$2,935,488	\$3,033,154

Revenue deposited in the General Fund is subject to TABOR. All other funds are exempt from TABOR.

Additionally, in the event that the tax rate on cigarettes increases, wholesalers must tally how much of their current inventory was taxed at the lower, previous rate, and remit the difference between the new and the old tax. The bill eliminates the 3 percent vendor fee for this remittance. Repealing this vendor fee is expected to have a minimal revenue impact.

Motor Fuel and Special Fuel Taxes

The bill increases motor and special fuel tax revenue to the HUTF by \$4.9 million in FY 2026-27, \$9.9 million in FY 2027-28, and \$9.9 million in FY 2028-29 with similar amounts in future years. HUTF revenue is subject to TABOR.

Of this HUTF revenue, 60 percent is distributed to the State Highway Fund, 22 percent is distributed to the counties, and 18 percent is distributed to municipalities. The State Highway Fund portion of the revenue gain is estimated to be \$2.9 million in FY 2026-27, \$5.9 million in FY 2027-28, and similar amounts in future years.

The fiscal note is based on data compiled for the March 2026 LCS transportation revenue forecast and assumes the maximum allowances are claimed under current law and under this bill.

State Transfers and Diversions

On July 1, 2027, the bill requires that the balance of the Commercial Vehicle Enterprise Tax Fund be transferred to the Colorado Economic Development Fund. The transfer is estimated at \$80,000, and will depend on the fund balance as of that date. The Colorado Economic Development Fund is annually appropriated to OEDIT.

Beginning in FY 2027-28, the bill diverts the state portion of oversized and overweight vehicle fines, which are currently credited to the Commercial Vehicle Enterprise Tax Fund, to the General Fund. This amount is estimated at \$121,500 per year and is subject to TABOR.

State Expenditures

On net, the bill increases state expenditures by about \$3.1 million in FY 2026-27, \$6.7 million in FY 2027-28, and \$6.6 million in FY 2028-29 and ongoing. This increase is attributable to cigarette and tobacco tax revenue distributions to a variety of cash funded programs, HUTF distributions to county and municipal governments, and new administrative expenditures in the Department of Revenue and the Office of Economic Development and International Trade. Expenditures are summarized in Table 4 and described in the sections below. Most of the bill’s increases and decreases in expenditures occur in the General Fund. The change to HUTF and cigarette and tobacco tax distributions are cash fund impacts.

**Table 4
 State Expenditures
 All Departments**

Department	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
Revenue – Administration	\$38,432	\$254,639	\$49,358
Revenue – Tobacco Distributions to Locals	\$996	\$1,810	\$1,774
Office of Economic Development	\$25,000	\$0	\$0
Local Affairs	-\$12,950	-\$12,826	-\$12,826
Early Childhood	\$996,276	\$2,293,674	\$2,381,491
Health Care Policy and Financing	\$73,916	\$134,349	\$131,662
Public Health and Environment	\$35,741	\$64,962	\$63,663
Treasury – HUTF Distribution to Local Govts	\$1,947,222	\$3,943,950	\$3,963,670
Total Costs	\$3,104,633	\$6,680,559	\$6,578,792

Department of Revenue

The bill increases expenditures for tax administration. Costs are summarized in Table 4A and detailed below.

**Table 4A
 State Expenditures
 Department of Revenue**

Cost Component	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
Personal Services	\$0	\$41,543	\$23,034
GenTax Programming and Testing	\$24,816	\$92,988	\$0
GenTax User Acceptance Testing	\$4,838	\$24,436	\$0
Office of Research and Analysis	\$8,778	\$17,480	\$17,404
Postage	\$0	\$1,954	\$977
Form Changes and Document Management	\$0	\$62,224	\$0
Reimbursements to Locals – TTCF	\$996	\$1,810	\$1,774
Centrally Appropriated Costs	\$0	\$14,014	\$7,943
Total Costs	\$39,432	\$256,449	\$51,132
Total FTE	0.0 FTE	0.7 FTE	0.4 FTE

Staff

The bill requires additional staff in the DOR to process tax returns, review documentation, communicate with taxpayers, conduct audits, and ensure compliance. Staff needs are primarily driven by the requirement that certain qualified opportunity fund investment earnings be added to taxable income.

The fiscal note assumes the addition of 0.8 FTE tax examiners beginning in October 2027 in order to accommodate the increase in workload for the tax year 2027 tax filing season, when most of the changes in the bill take effect. Personal services costs for these staff are prorated to reflect the assumed start date and standard capital outlay and operating costs are included.

Beginning in FY 2028-29, ongoing staff needs are expected to decrease to 0.4 FTE tax examiners to accommodate ongoing workload. The decrease in staff needs reflects the expectation that initial taxpayer service volumes will decrease after the policy changes in the bill become more familiar to taxpayers and tax preparers.

Software Programming and Testing

This bill requires expenditures to program, test, and update database fields in the department’s GenTax software system. Programming costs are estimated at \$24,816 in FY 2026-27, representing 62 hours of contract programming and 236 hours of innovation, strategy, and

delivery programming support from the department, and \$92,988 in FY 2027-28, representing 181 hours of contract programming and 1,190 hours of internal programming support.

The bill is additionally estimated to require \$4,838 in FY 2026-27 and \$24,436 in FY 2027-28 for user acceptance testing.

Office of Research and Analysis

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. Reporting is estimated to require 231 hours totaling \$8,778 in FY 2026-27, 460 hours totaling \$17,480 in FY 2027-28 and 458 hours totaling \$17,404 in FY 2028-29 and ongoing.

Postage

The bill is expected to increase postage costs for communication with taxpayers by \$1,954 in FY 2027-28 and by \$977 in FY 2028-29 and ongoing. The increase in mail communications is expected to arise from the requirement that certain qualified opportunity fund investment earnings be added to taxable income.

Form Changes and Document Management

The bill requires one-time expenditures to update tax forms and accommodate the increased number of taxpayers who will file forms in order to claim the tax credits in the bill. This amount is estimated at \$62,224 in FY 2027-28 only. Form changes and document management costs occur in the integrated document solutions section of the Department of Personnel and Administration, Division of Central Services, and are paid using reappropriated DOR funds.

Tobacco Distributions to Locals

By eliminating the vendor fee on cigarettes, the bill increases the amount distributed to locals as compensation for lost tobacco revenue by \$996 in FY 2026-27, \$1,810 in FY 2027-28, \$1,774 in FY 2028-29, and decreasing amounts in future years. These amounts are paid from the Tobacco Tax Cash Fund.

Office of Economic Development and International Trade

The bill requires a one-time expenditure of \$25,000, paid from the General Fund, for OEDIT to update its Salesforce software to incorporate the changes to the enterprise zone tax credits in the bill. An ongoing increase in OEDIT workload to administer the changes to the other enterprise zone credits can be accomplished within existing appropriations. Since the Colorado Economic Development Fund is annually appropriated, any increase in expenditures as a result of the FY 2027-28 transfer to the fund will be requested through the annual budget process. Similarly, any decrease in appropriations or spending from the Commercial Vehicle Enterprise

Tax Fund from transferring money away from this fund will be accounted for through the annual budget process and has not been included in Table 4 above.

Department of Local Affairs

By decreasing revenue to the Housing Development Grant Fund, the bill is expected to decrease expenditures in DOLA on affordable housing projects by about \$13,000 annually beginning in FY 2026-27. Revenue in this fund is appropriated to the Department of Local Affairs.

Department of Early Childhood

By eliminating the vendor fee for cigarettes, tobacco products, and nicotine products, the bill increases the amount available to be spent or saved from the Preschool Programs Cash Fund by \$996,276 in FY 2026-27, \$2,293,674 in FY 2027-28, \$2,381,491 in FY 2028-29, and increasing amounts in future years. Revenue in this fund is appropriated to Colorado Department of Early Childhood for the Colorado Preschool Program.

Health Care Policy and Financing

By eliminating the vendor fee on cigarettes, the bill increases the amount available to spend or save from the Health Care Expansion Fund, Primary Care Fund, Old Age Pension Fund, and Children's Basic Health Plan Trust by \$73,915 in FY 2026-27, \$134,349 in FY 2027-28, \$131,662 in FY 2028-29, and decreasing amounts in future years.

Public Health and Environment

By eliminating the vendor fee on cigarettes, the bill increases the amount available to spent or saved from the Tobacco Education Programs Fund; the Prevention, Early Detection, and Treatment Fund; and for immunizations performed by local agencies by \$35,741 in FY 2026-27, \$64,962 in FY 2027-28, \$63,663 in FY 2028-29, and decreasing amounts in future years.

Department of Transportation

The bill increases the amount of HUTF revenue deposited in the State Highway Fund in the Department of Transportation (CDOT) by an estimated \$2.9 million in FY 2026-27 (half-year impact) and \$5.9 million in FY 2027-28 and future years. These amounts assume the December 2025 LCS forecast. The State Highway Fund is continuously appropriated to CDOT for transportation projects prioritized by the Transportation Commission. The bill increases the amount available for expenditure. However, the timing and amount of spending increases depends on Transportation Commission decisions and is not estimated here.

Highway Users Tax Fund Distributions to Local Governments

The bill increases the amount of HUTF revenue distributed to county and municipal governments for transportation projects. Distributions are made by the Treasury and identified

with an informational appropriation in budget documents. For counties, the bill increases distributions by the following estimated amounts, based on the March 2026 LCS forecast:

- \$1,071,000 for FY 2026-27 (half-year impact);
- \$2,169,000 for FY 2027-28; and
- \$2,180,000 for FY 2028-29 and ongoing.

For municipalities, the bill increases distributions by estimated amounts of:

- \$876,000 for FY 2026-27 (half-year impact);
- \$1,775,000 for FY 2027-28; and
- \$1,784,000 for FY 2028-29 and ongoing.

Colorado Energy Office

The bill minimally increases workload for the CEO to make updates to the decarbonization tax credits in the bill. The workload increase can be accomplished within existing appropriations.

Department of Agriculture

The bill minimally increases workload for the department to make updates to its administration of the community food access credit. The workload increase can be accomplished within existing 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 include employee insurance and supplemental employee retirement payments, are shown in Table 4A above.

TABOR Refunds

The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by \$7.5 million in FY 2026-27 and \$10.9 million in FY 2027-28. This estimate assumes the March 2026 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2027-28. 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 in FY 2026-27, FY 2027-28, and any future years when the state is over its revenue limit. However, increased cash fund revenue will reduce the amount of General Fund available to spend or save in these years. The bill is expected to increase cash fund revenue subject to TABOR by \$4.9 million in FY 2026-27 and by \$9.8 million in FY 2027-28, increasing the TABOR refund obligation without a corresponding change in the amount of General Fund revenue.

Local Government

Motor Fuel and Special Fuel Taxes

The bill will increase revenue to local governments from the HUTF by \$1.9 million in FY 2026-27, of which \$1.1 million is allocated to counties and \$0.9 million is allocated to municipalities; and \$3.9 million in FY 2027-28 of which \$2.2 million is allocated to counties and \$1.8 million is allocated to municipalities, with similar amounts in future years.

Sales and Use Tax

The bill will minimally decrease revenue for state-collected local governments, as the bill requires that certain railroad construction and building materials are exempt from the use tax for state-collected local governments. For other exemptions, state-collected local governments can elect to adopt state exemptions. The bill will minimally increase sales and use tax revenue for local governments that conform to the exemption repeal in the bill and will decrease sales and use tax revenue for local governments that conform to the new and expanded exemptions.

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 exemptions in the bill would apply to those districts. Therefore, the bill will decrease 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, decreased revenue is estimated as follows:

- RTD – The bill will reduce revenue to RTD by an estimated \$159,000 in FY 2026-27, and \$157,000 in FY 2027-28 with similar amounts in future years.
- SCFD – The bill will reduce revenue to SCFD by an estimated \$16,000 per year beginning in FY 2026-27.

Cigarette and Tobacco Excise Taxes

By eliminating the vendor fee on cigarettes, the bill increases distributions to local governments by \$996 in FY 2026-27, \$1,810 in FY 2027-28, \$1,774 in FY 2028-29 and decreasing amounts in future years, as shown in Table 4.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2026-27, the bill requires the following increases in appropriations:

- \$38,432 from the General Fund to the Department of Revenue related to tax administration;
- \$25,000 from the General Fund to the Office of Economic Development and International Trade;
- \$1,947,222 from the Highway Users Tax Fund to the Department of the Treasury for payments to local governments;
- \$996,276 from the Preschool Programs Cash Fund to the Department of Early Childhood;
- \$73,916 to the Department of Health Care Policy and Financing, including:
 - \$50,900 from the Health Care Expansion Fund;
 - \$21,024 from the Primary Care Fund;
 - \$1,660 from the Old Age Pension Fund; and
 - \$332 from the Children's Basic Health Plan Trust;
- \$35,741 to the Department of Public Health and Environment, including:
 - \$17,704 from the Tobacco Education Program Fund;
 - \$17,704 from the Prevention, Early Detection and Treatment Fund; and
 - \$332 from the Tobacco Tax Cash Fund; and
- \$996 from the Tobacco Tax Cash Fund to the Department of Revenue for local government distributions.

The Housing Development Grant Fund is continuously appropriated to the Department of Local Affairs, and therefore does not require a decrease in appropriations.

State and Local Government Contacts

Agriculture	Office of Economic Development
Colorado Energy Office	Personnel
Counties	Public Health and Environment
Human Services	Regional Transportation District
Information Technology	Revenue
Law	Special District Association
Legislative Council Staff Economists	State Auditor
Local Affairs	Transportation
Municipalities	