

**Second Regular Session
Seventieth General Assembly
STATE OF COLORADO**

PREAMENDED

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

LLS NO. 16-0166.01 Esther van Mourik x4215

HOUSE BILL 16-1275

HOUSE SPONSORSHIP

Foote and Pettersen,

SENATE SPONSORSHIP

Jones and Donovan,

House Committees

Finance
Appropriations

Senate Committees

A BILL FOR AN ACT

101 **CONCERNING THE TAXATION OF A CORPORATION'S STATE INCOME**
102 **THAT IS SHELTERED IN A FOREIGN JURISDICTION FOR PURPOSES**
103 **OF TAX AVOIDANCE.**

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://www.leg.state.co.us/bills summaries>.)

The bill pertains to an affiliated group of corporations filing a combined report. In a combined report filing, the tax is based on a percentage of the entire taxable income of all of the includable corporations, but the tax is assessed only against the corporation or corporations doing business in Colorado. Including more affiliated

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.
*Capital letters indicate new material to be added to existing statute.
Dashes through the words indicate deletions from existing statute.*

corporations in the combined report may result in an increase in income subject to tax.

There are jurisdictions located outside of the United States with no tax or very low rates of taxation, strict bank secrecy provisions, a lack of transparency in the operation of its tax system, and a lack of effective exchange of information with other countries. There are several common legal strategies for sheltering corporate income in such jurisdictions, often called "tax havens".

Notwithstanding a current requirement in state law that those corporations with 80% or more of their property and payroll assigned to locations outside of the United States be excluded from a combined report, the bill makes a corporation that is incorporated in a foreign jurisdiction for the purpose of tax avoidance an includable C corporation for purposes of the combined report.

The bill defines a corporation incorporated in a foreign jurisdiction for the purpose of tax avoidance to mean any C corporation that is incorporated in a jurisdiction that has no or nominal effective tax on the relevant income and that meets one or more of 5 factors listed in the bill, unless it is proven to the satisfaction of the executive director of the department of revenue that such corporation is incorporated in that jurisdiction for a legitimate business purpose.

The bill requires the state controller to credit a specified amount per fiscal year to the state education fund to be used to help fund public school education.

The bill requires the secretary of state to submit a ballot question, to be treated as a proposition, at the statewide election to be held in November 2016 asking the voters:

- ! To increase taxes annually by the taxation of a corporation's state income that is sheltered in a foreign jurisdiction for the purpose of tax avoidance;
- ! To use the resulting tax revenue to help fund elementary and secondary public school education; and
- ! To allow an estimate of the resulting tax revenue to be collected and spent notwithstanding any limitations in section 20 of article X of the state constitution (TABOR).

1 *Be it enacted by the General Assembly of the State of Colorado:*

2 **SECTION 1. Legislative declaration.** (1) The general assembly
3 hereby finds and declares that:

4 (a) Every year, some corporations use complicated strategies to
5 shift money earned in Colorado to subsidiaries in tax havens, countries

1 with minimal or no taxes, in order to reduce their state income tax
2 liability. Tax haven users benefit from the markets, public infrastructure,
3 educated workforce, security, and rule of law in Colorado, and all of
4 those benefits are supported in one way or another by tax dollars, but
5 these corporations then use tax havens to escape supporting these public
6 structures and benefits. Ultimately, ordinary taxpayers end up picking up
7 the tab, either in the form of higher taxes or cuts to public spending
8 priorities.

9 (b) Sheltering state income in a tax haven reduces the state's
10 income tax revenue. Colorado has the authority to set its own income tax
11 laws and the general assembly has the responsibility to make sure our tax
12 laws are fairly applied to all taxpayers.

13 (c) School district administrators, parents of students, teachers,
14 business leaders, higher education officials, local elected officials, and
15 Coloradans from all parts of the state have made clear to the legislature
16 their desire to see such education better funded.

17 (d) One reflection of the pressures on Colorado's elementary and
18 secondary education funding is the existence of the "negative factor". The
19 negative factor is the difference between the total program funding,
20 including the state's share, as calculated in statute and the amount the
21 state can pay for the state's share and still afford other budget obligations.
22 As of fiscal year 2015-16, the negative factor currently stands at
23 approximately \$855 million.

24 (e) Colorado should continue to explore ways to reduce the
25 negative factor and otherwise improve its funding of its elementary and
26 secondary public education systems. The use of foreign tax havens
27 enables certain corporations to avoid paying Colorado taxes. This

1 behavior contributes to the underfunding of the state's elementary and
2 secondary public education systems. It is the general assembly's intent to
3 collect tax revenue already owed to Colorado from corporations avoiding
4 that tax liability and invest that newly collected revenue in the state's
5 elementary and secondary public education systems.

6 **SECTION 2.** In Colorado Revised Statutes, 39-22-303, **amend**
7 (12) as follows:

8 **39-22-303. Combined report - foreign source income -**
9 **dividends - affiliated groups - definitions.** (12) ~~(a)~~ As used in
10 ~~subsections (10) and (11)~~ of this section, UNLESS THE CONTEXT
11 OTHERWISE REQUIRES:

12 (a) ~~The term~~ "Affiliated group" means one or more chains of
13 includable C corporations connected through stock ownership with a
14 common parent C corporation ~~which~~ THAT is an includable C corporation
15 if:

16 (I) (A) EXCEPT AS PROVIDED IN SUB-SUBPARAGRAPH (B) OF THIS
17 SUBPARAGRAPH (I), stock possessing more than fifty percent of the voting
18 power of all classes of stock and more than fifty percent of each class of
19 the nonvoting stock of each of the includable C corporations, except the
20 common parent C corporation, is owned directly by one or more of the
21 other includable C corporations; ~~and~~ OR

22 (B) A CORPORATION IS INCORPORATED IN A FOREIGN JURISDICTION
23 FOR THE PURPOSE OF TAX AVOIDANCE, AND IF STOCK POSSESSING MORE
24 THAN FIFTY PERCENT OF THE VOTING POWER OF ALL CLASSES OF STOCK
25 AND MORE THAN FIFTY PERCENT OF EACH CLASS OF THE NONVOTING
26 STOCK OF EACH OF THE INCLUDABLE C CORPORATIONS, EXCEPT THE
27 COMMON PARENT C CORPORATION, IS OWNED DIRECTLY OR INDIRECTLY BY

1 ONE OR MORE OF THE OTHER INCLUDABLE C CORPORATIONS; AND

2 (II) (A) EXCEPT AS PROVIDED IN SUB-SUBPARAGRAPH (B) OF THIS
3 SUBPARAGRAPH (II), the common parent C corporation owns directly
4 stock possessing more than fifty percent of the voting power of all classes
5 of stock and more than fifty percent of each class of the nonvoting stock
6 of at least one of the other includable C corporations; OR

7 (B) A CORPORATION IS INCORPORATED IN A FOREIGN JURISDICTION
8 FOR THE PURPOSE OF TAX AVOIDANCE, AND IF THE COMMON PARENT C
9 CORPORATION OWNS DIRECTLY OR INDIRECTLY STOCK POSSESSING MORE
10 THAN FIFTY PERCENT OF THE VOTING POWER OF ALL CLASSES OF STOCK
11 AND MORE THAN FIFTY PERCENT OF EACH CLASS OF THE NONVOTING
12 STOCK OF AT LEAST ONE OF THE OTHER INCLUDABLE C CORPORATIONS.

13 (b) (I) ~~As used in this subsection (12), the term "Stock" does not~~
14 ~~include nonvoting stock which is limited and preferred as to dividends,~~
15 ~~employer securities, within the meaning of section 409(1) of the internal~~
16 ~~revenue code, while such securities are held under a tax credit employee~~
17 ~~stock ownership plan, or qualifying employer securities, within the~~
18 ~~meaning of section 4975(e)(8) of the internal revenue code, while such~~
19 ~~securities are held under an employee stock ownership plan which meets~~
20 ~~the requirements of section 4975(e)(7) of the internal revenue code~~

21 "CORPORATION INCORPORATED IN A FOREIGN JURISDICTION FOR THE
22 PURPOSE OF TAX AVOIDANCE" MEANS, EXCEPT AS PROVIDED IN
23 SUBPARAGRAPH (II) OF THIS PARAGRAPH (b), ANY C CORPORATION THAT
24 IS INCORPORATED IN A JURISDICTION THAT, DURING THE TAX YEAR IN
25 QUESTION, HAS NO OR NOMINAL EFFECTIVE TAX ON THE RELEVANT INCOME
26 AND THAT:

27 (A) HAS LAWS OR PRACTICES THAT PREVENT EFFECTIVE

1 EXCHANGE OF INFORMATION FOR TAX PURPOSES WITH OTHER
2 GOVERNMENTS ON TAXPAYERS BENEFITING FROM THE TAX REGIME;

3 (B) HAS A TAX REGIME THAT LACKS TRANSPARENCY SO THAT THE
4 DETAILS OF LEGISLATIVE, LEGAL, OR ADMINISTRATIVE PROVISIONS ARE
5 NOT OPEN AND APPARENT OR ARE NOT CONSISTENTLY APPLIED AMONG
6 SIMILARLY SITUATED TAXPAYERS, OR SO THAT INFORMATION NEEDED BY
7 TAX AUTHORITIES TO DETERMINE A TAXPAYER'S CORRECT TAX LIABILITY,
8 SUCH AS ACCOUNTING RECORDS AND UNDERLYING DOCUMENTATION, IS
9 NOT ADEQUATELY AVAILABLE;

10 (C) FACILITATES THE ESTABLISHMENT OF FOREIGN-OWNED
11 ENTITIES WITHOUT THE NEED FOR A LOCAL SUBSTANTIVE PRESENCE OR
12 PROHIBITS THESE ENTITIES FROM HAVING ANY COMMERCIAL IMPACT ON
13 THE LOCAL ECONOMY;

14 (D) EXPLICITLY OR IMPLICITLY EXCLUDES THE JURISDICTION'S
15 RESIDENT TAXPAYERS FROM TAKING ADVANTAGE OF THE TAX REGIME'S
16 BENEFITS OR PROHIBITS ENTERPRISES THAT BENEFIT FROM THE REGIME
17 FROM OPERATING IN THE JURISDICTION'S DOMESTIC MARKET; OR

18 (E) HAS CREATED A TAX REGIME THAT IS FAVORABLE FOR TAX
19 AVOIDANCE, BASED ON AN OVERALL ASSESSMENT OF RELEVANT FACTORS,
20 INCLUDING WHETHER THE JURISDICTION HAS A SIGNIFICANT UNTAXED
21 OFFSHORE FINANCE OR OTHER SERVICES SECTOR RELATIVE TO ITS OVERALL
22 ECONOMY.

23 (II) A CORPORATION IS NOT INCORPORATED IN A FOREIGN
24 JURISDICTION FOR THE PURPOSE OF TAX AVOIDANCE IF IT IS PROVEN TO
25 THE SATISFACTION OF THE EXECUTIVE DIRECTOR OF THE DEPARTMENT OF
26 REVENUE THAT SUCH CORPORATION IS INCORPORATED IN THE FOREIGN
27 JURISDICTION FOR REASONS THAT MEET THE ECONOMIC SUBSTANCE

1 DOCTRINE AS DESCRIBED IN SECTION 7701 (o) OF THE FEDERAL "INTERNAL
2 REVENUE CODE OF 1986", AS AMENDED.

3 (III) THE DEPARTMENT OF REVENUE SHALL PROMULGATE BY RULE,
4 IN ACCORDANCE WITH THE "STATE ADMINISTRATIVE PROCEDURE ACT",
5 ARTICLE 4 OF TITLE 24, C.R.S., A LIST OF COUNTRIES THAT MEET THE
6 CRITERIA SET FORTH IN SUBPARAGRAPH (I) OF THIS PARAGRAPH (b), AND
7 THE DEPARTMENT SHALL BIENNIALLY REVIEW SUCH RULE FOR PURPOSES
8 OF UPDATING THE LIST OF COUNTRIES THAT MAY MEET THE CRITERIA SET
9 FORTH IN SUBPARAGRAPH (I) OF THIS PARAGRAPH (b). THE DEPARTMENT
10 SHALL POST THE LIST ON THE DEPARTMENT'S WEBSITE WITHIN THIRTY
11 DAYS OF THE EFFECTIVE DATE OF THE RULE.

12 (c) (I) "INCLUDABLE C CORPORATION" MEANS ANY C
13 CORPORATION THAT HAS MORE THAN TWENTY PERCENT OF THE C
14 CORPORATION'S PROPERTY AND PAYROLL AS DETERMINED BY FACTORING
15 PURSUANT TO SECTION 24-60-1301, C.R.S., ASSIGNED TO LOCATIONS
16 INSIDE THE UNITED STATES. FOR PURPOSES OF THIS SUBPARAGRAPH (I),
17 "UNITED STATES" IS RESTRICTED TO THE FIFTY STATES AND THE DISTRICT
18 OF COLUMBIA.

19 (II) NOTWITHSTANDING SUBSECTION (8) OF THIS SECTION OR
20 SUBPARAGRAPH (I) OF THIS PARAGRAPH (c), FOR INCOME TAX YEARS
21 COMMENCING ON OR AFTER JANUARY 1, 2017, "INCLUDABLE C
22 CORPORATIONS" ALSO MEANS A CORPORATION THAT IS INCORPORATED IN
23 A FOREIGN JURISDICTION FOR THE PURPOSE OF TAX AVOIDANCE. THE
24 INCOME OF ANY SUCH CORPORATION MAY BE INCLUDED IN A COMBINED
25 REPORT IF THE CORPORATION IS INCLUDED IN THE COMBINED REPORT.

26 ~~(c) (d) As used in this subsection (12), the term "Includable C~~
27 ~~corporations" means any C corporation which has more than twenty~~

1 ~~percent of the C corporation's property and payroll as determined by~~
2 ~~factoring pursuant to section 24-60-1301, C.R.S., assigned to locations~~
3 ~~inside the United States~~ "STOCK" DOES NOT INCLUDE NONVOTING STOCK
4 THAT IS LIMITED AND PREFERRED AS TO DIVIDENDS, EMPLOYER
5 SECURITIES, WITHIN THE MEANING OF SECTION 409(1), EMPLOYER
6 SECURITIES DEFINED, OF THE INTERNAL REVENUE CODE, WHILE SUCH
7 SECURITIES ARE HELD UNDER A TAX CREDIT EMPLOYEE STOCK OWNERSHIP
8 PLAN, OR QUALIFYING EMPLOYER SECURITIES, WITHIN THE MEANING OF
9 SECTION 4975(e)(8) OF THE INTERNAL REVENUE CODE, WHILE SUCH
10 SECURITIES ARE HELD UNDER AN EMPLOYEE STOCK OWNERSHIP PLAN THAT
11 MEETS THE REQUIREMENTS OF SECTION 4975(e)(7) OF THE INTERNAL
12 REVENUE CODE.

13 **SECTION 3.** In Colorado Revised Statutes, 39-22-303, **add** (15)
14 as follows:

15 **39-22-303. Dividends in a combined report - foreign source**
16 **income - affiliated groups - definitions - voter approved revenue**
17 **change - repeal.** (15) (a) AS USED IN THIS SUBSECTION (15), "BALLOT
18 ISSUE" MEANS THE QUESTION REFERRED TO VOTERS IN PARAGRAPH (b) OF
19 THIS SUBSECTION (15).

20 (b) AT THE ELECTION HELD ON NOVEMBER 8, 2016, THE
21 SECRETARY OF STATE SHALL SUBMIT TO THE REGISTERED ELECTORS OF
22 THE STATE FOR THEIR APPROVAL OR REJECTION THE FOLLOWING BALLOT
23 ISSUE: "SHALL STATE TAXES BE INCREASED BY \$75 MILLION ANNUALLY IN
24 THE FIRST FULL FISCAL YEAR AND BY SUCH AMOUNTS AS ARE RAISED
25 ANNUALLY THEREAFTER BY THE TAXATION OF A CORPORATION'S STATE
26 INCOME THAT IS SHELTERED IN A FOREIGN JURISDICTION FOR THE PURPOSE
27 OF TAX AVOIDANCE, WITH THE RESULTING ESTIMATED TAX REVENUE

1 BEING USED TO HELP FUNDELEMENTARY AND SECONDARY PUBLIC SCHOOL
2 EDUCATION, AND WITH AN ESTIMATE OF THE RESULTING TAX REVENUE
3 BEING ALLOWED TO BE COLLECTED AND SPENT NOTWITHSTANDING ANY
4 LIMITATIONS PROVIDED BY LAW?"

5 (c) IF A MAJORITY OF THE ELECTORS VOTING ON THE BALLOT ISSUE
6 VOTE "YES/FOR", THEN THE STATE MAY RETAIN AND SPEND ALL OF THE
7 TAX REVENUE ESTIMATED TO BE RECEIVED BY THE TAXATION OF A
8 CORPORATION'S STATE INCOME THAT IS SHELTERED IN A FOREIGN
9 JURISDICTION FOR THE PURPOSE OF TAX AVOIDANCE AS A
10 VOTER-APPROVED REVENUE CHANGE TO THE LIMITATION ON STATE FISCAL
11 YEAR SPENDING.

12 (d) FOR PURPOSES OF SECTION 1-5-407 (5) (b), C.R.S., THE BALLOT
13 ISSUE IS A PROPOSITION. SECTION 1-40-106 (3) (d), C.R.S., DOES NOT
14 APPLY TO THE BALLOT ISSUE.

15 (e) (I) IF A MAJORITY OF THE ELECTORS VOTING ON THE BALLOT
16 ISSUE VOTE "NO/AGAINST", THEN THIS SUBSECTION (15) IS REPEALED,
17 EFFECTIVE FEBRUARY 1, 2017.

18 (II) IF A MAJORITY OF THE ELECTORS VOTING ON THE BALLOT ISSUE
19 VOTE "YES/FOR", THEN THIS PARAGRAPH (e) IS REPEALED, EFFECTIVE
20 FEBRUARY 1, 2017.

21 **SECTION 4.** In Colorado Revised Statutes, 39-22-303.5, **amend**
22 (1) (a) as follows:

23 **39-22-303.5. Single-factor apportionment of business income**
24 **- allocation of nonbusiness income - rules - definitions.** (1) As used in
25 this section, unless the context otherwise requires:

26 (a) "Business income" means the net income of the taxpayer
27 arising from the transactions and activity in the regular course of a

1 taxpayer's trade or business and includes income from tangible and
2 intangible property if the acquisition, management, and disposition of the
3 property constitute integral parts of the taxpayer's regular trade or
4 business operations. For purposes of administration of this section, the
5 income of the taxpayer is business income unless clearly classifiable as
6 nonbusiness income. FOR INCOME TAX YEARS COMMENCING ON OR AFTER
7 JANUARY 1, 2017, THE INCOME OF A CORPORATION INCORPORATED IN A
8 FOREIGN JURISDICTION FOR THE PURPOSE OF TAX AVOIDANCE AS DEFINED
9 IN SECTION 39-22-303 (12), TO THE EXTENT TAXABLE, IS CONSIDERED
10 BUSINESS INCOME SUBJECT TO APPORTIONMENT UNDER THIS SECTION.

11 **SECTION 5.** In Colorado Revised Statutes, 22-55-103, **amend**
12 (5) introductory portion; and **add** (4.5) as follows:

13 **22-55-103. State education fund - creation - transfers to fund**
14 **- use of moneys in fund - permitted investments - exempt from**
15 **spending limitations.** (4.5) FOR THE 2017-18 FISCAL YEAR AND EACH
16 FISCAL YEAR THEREAFTER, THE STATE CONTROLLER SHALL CREDIT AN
17 AMOUNT OF TAX REVENUE ESTIMATED TO BE RECEIVED BY THE TAXATION
18 OF A CORPORATION'S STATE INCOME THAT IS SHELTERED IN A FOREIGN
19 JURISDICTION FOR THE PURPOSE OF TAX AVOIDANCE AS A RESULT OF
20 HOUSE BILL 16-1275, ENACTED IN 2016, EVERY FISCAL YEAR FROM THE
21 GENERAL FUND TO THE STATE EDUCATION FUND. THE MONEY CREDITED TO
22 THE FUND AS A RESULT OF THIS SUBSECTION (4.5) IS IN ADDITION TO ANY
23 MONEYS CREDITED TO THE FUND PURSUANT TO SECTION 17 (4) OF ARTICLE
24 IX OF THE STATE CONSTITUTION, AND SHALL BE APPROPRIATED EVERY
25 FISCAL YEAR TO INCREASE THE LEVEL OF FUNDING APPROPRIATED FROM
26 THE STATE EDUCATION FUND, THE STATE PUBLIC SCHOOL FUND, AND THE
27 GENERAL FUND FOR THE PREVIOUS FISCAL YEAR FOR TOTAL PROGRAM

1 EDUCATION FUNDING UNDER THE "PUBLIC SCHOOL FINANCE ACT OF
2 1994", ARTICLE 54 OF THIS TITLE, AND FOR CATEGORICAL PROGRAMS.

3 (5) Pursuant to section 17 (3) of article IX of the state
4 constitution, all moneys credited to the STATE EDUCATION fund,
5 INCLUDING THE MONEYS CREDITED TO THE FUND PURSUANT TO
6 SUBSECTION (4.5) OF THIS SECTION, appropriated by the general assembly
7 out of the fund, or distributed from the fund and expended by any school
8 district shall be exempt from:

9 **SECTION 6. Effective date.** (1) Except as specified in
10 subsection (2) of this section, this act takes effect upon passage.

11 (2) (a) Sections 2, 4, and 5 of this act, amending sections
12 39-22-303 (12), 39-22-303.5 (1) (a), and the introductory portion to
13 22-55-103 (5) and adding section 22-55-103 (4.5), Colorado Revised
14 Statutes, take effect only if, at the November 2016 statewide election, a
15 majority of the voters approve the ballot issue submitted pursuant to
16 section 39-22-303 (15), Colorado Revised Statutes, enacted in section 3
17 of this act.

18 (b) If the voters at the November 2016 statewide election approve
19 a measure described in paragraph (a) of this subsection (2), then sections
20 2, 4, and 5 of this act take effect on the date of the official declaration of
21 the vote thereon by the governor.

22 **SECTION 7. Safety clause.** The general assembly hereby finds,
23 determines, and declares that this act is necessary for the immediate
24 preservation of the public peace, health, and safety.