HB 25-1157

Fiscal Note

Legislative Council Staff

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HB 25-1157: REAUTHORIZE ADVANCED INDUSTRIES TAX CREDIT

Prime Sponsors:
Rep. Titone; Lindstedt
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Fiscal note status: This fiscal note reflects the introduced bill.

Summary Information

Overview. The bill extends the Advanced Industry Investment Income Tax Credit for five income tax years and expands the credit to include investments in scalable manufacturing businesses.

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

- State Revenue
- State Expenditures
- TABOR Refunds

Appropriations. No appropriation is required.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
State Revenue	$0	-$875,000	-$2,062,500
State Expenditures	$0	$0	$0
Transferred Funds	$0	$0	$0
Change in TABOR Refunds	$0	-$875,000	Not estimated
Change in State FTE	0.0 FTE	0.0 FTE	0.0 FTE

Summary of Legislation

This bill extends the Advanced Industry Investment Income Tax Credit Program for five income tax years (2027 through 2031). The bill authorizes the Office of Economic Development and International Trade (OEDIT) to certify $2.5 million in credits in each of the five years for which the credit is extended, a decrease from the $4 million per calendar year available under current law through 2026. The bill also allows OEDIT to allocate credits to taxpayers investing in scalable manufacturing businesses, defined to mean manufacturing firms with out-of-state sales deemed scalable by OEDIT, in addition to advanced industry businesses. Finally, the bill changes the business ownership criteria so that taxpayers with less than a 50 percent stake in the firm may qualify for the credit, up from 30 percent under current law.

Background

House Bill 14-1012 created the Advanced Industry Investment Income Tax Credit Program. The program provides state income tax credits to investors that invest in advanced industry businesses. The investor must be an individual, S Corporation, partnership LLC, or other business entity. C corporations are not eligible for the tax credit.

The tax credit is equal to 25 percent of the investment, or 30 percent if the investment is to a business located in a rural or economically distressed area. The maximum credit amount per tax year is $50,000 for each investment in a qualified business. Taxpayers may claim multiple credits if they invest in more than one qualified business.

In order to qualify for the credit under current law, an investor must invest a minimum of $10,000 in a business that qualifies as a Colorado advanced industry. The following industries meet the definition of an advanced industry:

- advanced manufacturing;
- bioscience;
- electronics;
- aerospace;
- energy and natural resources;
- infrastructure engineering; and
- information technology industries.

A business must either have its headquarters located in Colorado or have at least 50 percent of its employees based in Colorado. The company must have received less than $10 million dollars from third party investors, and annual revenues cannot be more than $5 million. In addition, the company must have been actively operating and generating revenue for less than five years. The OEDIT is responsible for verifying the eligibility of the business and authorizing the tax credit.

House Bill 22-1149 extended the Advanced Industry Investment Income Tax Credit Program for five income tax years (2023 through 2026) and increased the amount of state income tax credits from $750,000 to $4 million each year.

Assumptions

This bill authorizes a total of $12.5 million of income tax credits that can be certified by the OEDIT for calendar years 2027 through 2031.

The fiscal note assumes 70 percent of the tax credit will be claimed by taxpayers in the first income tax year, 25 percent will be used in the second year. Data from the Department of Revenue shows that, on average, 70 percent of the tax credit was claimed by the taxpayer in the first income tax year the credit was authorized. It is also assumed about 5 percent of the amount certified by OEDIT will not be claimed, consistent with previous history.

State Revenue

General Fund revenue will be reduced by $875,000 (half-year impact) in FY 2026-27, $2.1 million in FY 2027-28 with slightly larger impacts in subsequent years that will taper off over time. This bill will reduce income tax revenue, which is subject to TABOR.

The revenue impacts of the tax credit will vary, consistent with the assumption section above. A taxpayer can claim the allowed amount in the same tax year they made the investment to the qualified business and received certification from the OEDIT, or use a portion of the tax credit and carry forward the balance in up to five subsequent income tax years. The amount and timing of carry-forward tax credits are dependent on a number of factors, such as the economy and individual and business tax liabilities in any given year. To the degree that the full amount of tax credit is not utilized as early as assumed here, reductions in General Fund revenue will be pushed into future fiscal years. Conversely, if credits are claimed sooner, General Fund reductions will occur earlier than estimated. To the extent that the full $12.5 million in credits is certified and claimed, the revenue reduction will be larger than assumed.

State Expenditures

OEDIT and the DOR currently administer the existing state income tax credit. This bill extends the program, which will result in ongoing workload impacts and costs for these agencies. OEDIT currently has 1.0 FTE to administer the program. In FY 2028-29, after the current repeal of the tax credit, costs for staff and marketing of the tax credit will continue at approximately $180,000 per year.

The OSA performs an evaluation of all tax expenditures. It can examine these tax credits within its existing evaluations.

HB 25-1157

TABOR Refunds

In years when state revenue exceeds the TABOR limit, the bill will decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save. In years when state revenue does not exceed the TABOR limit, the bill has no impact on the TABOR refund obligation and will reduce the amount of General Fund revenue available to spend or save.

Effective Date

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

State and Local Government Contacts

Information Technology

OEDIT

Personnel

Revenue

State Auditor