



Fiscal Note

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HB 25-1311: DEDUCTIONS FOR NET SPORTS BETTING PROCEEDS

Prime Sponsors:

Rep. McCluskie; Soper
Sen. Roberts

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Fiscal note status: This revised fiscal note reflects the introduced bill, as amended by the House Finance Committee.

Summary Information

Overview. For purposes of the sports betting tax, the bill reduces the deduction for free bets placed by players to 1 percent on September 1, 2025, and ends the deduction on July 1, 2026.

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

- State Revenue
- State Expenditures

Appropriations. The bill requires appropriations of \$7,734 for the current FY 2024-25, and \$9,401 for FY 2025-26 to the Department of Revenue.

Table 1
State Fiscal Impacts

Type of Impact	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
State Revenue	\$0	\$5.7 million	\$12.9 million	\$11.5 million
State Expenditures	\$7,734	\$9,401	\$0	\$0
Transferred Funds	\$0	\$0	\$5.7 million	\$12.9 million
Change in TABOR Refunds	\$0	\$0	\$0	\$0
Change in State FTE	0.0 FTE	0.0 FTE	0.0 FTE	0.0 FTE

Table 1A
State Revenue

Fund Source	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
General Fund	\$0	\$0	\$0	\$0
Cash Funds (Sports Betting Fund)	\$0	\$5.7 million	\$12.9 million	\$11.5 million
Total Revenue	\$0	\$5.7 million	\$12.9 million	\$11.5 million

Table 1B
State Transfers

Fund Source	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
Sports Betting Fund	\$0	\$0	-\$5.7 million	-\$12.9 million
Water Plan Implementation CF	\$0	\$0	\$5.7 million	\$12.9 million
Net Transfer	\$0	\$0	\$0	\$0

Table 1C
State Expenditures¹

Fund Source	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
General Fund	\$0	\$0	\$0	\$0
Cash Funds (Sports Betting Fund)	\$7,734	\$9,401	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0
Centrally Appropriated	\$0	\$0	\$0	\$0
Total Expenditures	\$7,734	\$9,401	\$0	\$0
Total FTE	0.0 FTE	0.0 FTE	0.0 FTE	0.0 FTE

¹ Expenditures from the Water Plan Implementation Cash Fund are expected to increase beginning in FY 2027-28 to use additional sports betting revenue on water projects. It is assumed the amount and timing of future spending on water projects will be addressed through the annual budget process.

Summary of Legislation

Under current law, sports betting operators are allowed to deduct free bets placed by players when calculating their net sports betting proceeds, the amount on which the sports betting tax is assessed. The amount of free bets that may be deducted is capped under current law at:

- 2.25 percent of all bets during FY 2024-25;
- 2.00 percent of all bets during FY 2025-26; and
- 1.75 percent of all bets beginning in FY 2026-27.

On September 1, 2025, the bill reduces the deduction for free bets placed by players to 1 percent of all bets. Beginning in FY 2026-27, the bill ends the deduction for free bets placed by players.

Background

Under current law, a 10 percent tax is imposed on the net sports betting proceeds of sports betting operators. When calculating net sports betting proceeds, a sports betting operator may deduct all payments to players, all federal excise taxes paid, and a certain percentage of free bets placed by players from gross gaming revenue. [House Bill 22-1402](#) established the percentage of free bets that may be deducted when calculating net sports betting proceeds. Prior to HB 22-1402, sports betting operators could deduct all free bets placed.

Sports betting tax revenue is exempt from TABOR and is distributed as follows after paying for administrative costs:

- 6 percent of the first \$29 million in sports betting revenue to the Wagering Recipients' Hold Harmless Fund; and
- the remaining revenue to the Water Plan Implementation Cash Fund.

Sports betting revenue allocated to the Water Plan Implementation Cash Fund is annually appropriated to the Colorado Water Conservation Board (CWCB) within the Department of Natural Resources (DNR) through the annual CWCB Projects Bill. The CWCB uses the appropriation for water project grants, and any unspent appropriations remain in the Water Plan Implementation Cash Fund for future use. Through FY 2023-24, the CWCB had issued over 470 grants.

State Revenue

The bill increases revenue to the Sports Betting Fund by an estimated \$5.7 million in FY 2025-26, \$12.9 million in FY 2026-27, and \$11.5 million in FY 2027-28 with comparable amounts in future years, as shown in Table 2.

Estimates are based on actual sports betting data from the Department of Revenue and the March 2025 LCS Forecast. Based on an analysis of free bets placed in Colorado following the passage of HB 22-1402 and other states' sports betting wagers data, the fiscal note assumes that the bill will result in less free bets offered by sports betting operators leading to a corresponding decrease in wagers. In the second year of implementation of the end of the free bet deduction (FY 2027-28), the increase in tax revenue is partially offset by a decrease in wagers from individuals who would have only started or continued sports betting as a direct result of free bets. If the bill does not result in a reduction of free bets offered, sports betting revenue would increase by a greater amount than estimated in the fiscal note.

Table 2
Sports Betting Tax Revenue Forecast Comparison

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
Current Law	\$36,692,748	\$39,084,865	\$41,378,125
HB 25-1311	\$42,346,977	\$52,013,946	\$52,904,793
Impact of HB 25-1311	\$5,654,229	\$12,929,081	\$11,526,668

State Transfers

On September 30 of each year, revenue to the Sports Betting Fund received in the prior year is transferred to the Water Plan Implementation Cash Fund, after accounting for administrative costs and the transfers to the Wagering Recipients' Hold Harmless Fund. Based on the projected increase in revenue, it is estimated that \$5.7 million in FY 2026-27, \$12.9 million in FY 2027-28, \$11.5 million in FY 2028-29, and similar amounts in future years, will be transferred to the Water Plan Implementation Cash Fund.

State Expenditures

The bill increases state expenditures in the Department of Revenue by \$7,734 in the current FY 2024-25 and \$9,401 in FY 2025-26, paid from the Sports Betting Fund. It also increases available funding for water projects and related administrative costs starting in FY 2026-27. These impacts are described below.

Department of Revenue

This bill requires expenditures of \$7,734 in FY 2024-25 and \$9,901 in FY 2025-26 to program, test, and update database fields in the GenTax software system.

The programming to reduce the free bet deduction must begin in the current FY 2024-25 to be completed in time before the September 1, 2025, implementation date. Programming costs are estimated at \$6,953, representing 30 hours of contract programming at a rate of \$231.75 per hour. Costs for testing at the department include \$525 for 15 hours of innovation, strategy, and delivery programming support at a rate of \$35 per hour, and \$258 for 8 hours of user acceptance testing at a rate of \$32 per hour.

The programming to end the free bet deduction for FY 2026-27 and beyond will occur in FY 2025-26. Programming costs are estimated at \$6,953, representing 30 hours of contract programming at a rate of \$231.75 per hour. Costs for testing at the department include \$2,680 for 48 hours of innovation, strategy, and delivery programming support at a rate of \$35 per hour, and \$768 for 24 hours of user acceptance testing at a rate of \$32 per hour.

Department of Natural Resources

The bill increases sports betting revenue allocated to the Water Plan Implementation Cash Fund. However, the fiscal note assumes that increased revenue to the fund will be annually appropriated to the CWCB in DNR through the annual budget process and annual water projects bill, rather than in this bill, based on available projects and spending decisions by the General Assembly and CWCB. However, for informational purposes, a preliminary estimate of the costs to distribute grants using the anticipated revenue is provided below.

Grant Administration

Assuming around \$11 million in additional grants is issued each year using the increased revenue under the bill, the CWCB is estimated to require an additional 6.5 FTE to administer additional grants, beginning in FY 2026-27 and ramping up to the full amount in FY 2027-28. In addition to salary and operating costs, the CWCB will also have travel expenses and software licensing for the additional grant managers as shown in Table 3 below. This estimate assumes an additional 55 grants per year, with an average contract length of five years. These expenditures would be paid from the cash fund and reappropriated funds and requested through the annual budget process.

Table 3
Potential Expenditures in the Department of Natural Resources

Cost Component	Current Year FY 2024-25	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
CWCB Staff	\$0	\$0	\$229,671	\$612,043
DNR Executive Director's Office Staff	\$0	\$0	\$0	\$141,908
CWCB Travel Expenses	\$0	\$0	\$17,016	\$25,524
CWCB Software Licensing	\$0	\$0	\$1,200	\$1,800
Total Costs	\$0	\$0	\$247,887	\$781,275
Total FTE	\$0	\$0	1.7 FTE	6.5 FTE

Effective Date

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

State Appropriations

For FY 2024-25 the bill requires an appropriation of \$7,734 from the Sports Betting Fund to the Department of Revenue. For FY 2025-26 the bill requires an appropriation of \$9,401 from the Sports Betting Fund to the Department of Revenue.

State and Local Government Contacts

Natural Resources

Revenue