



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

SB 25-136: EXPAND DEDUCTION FOR RETIREMENT BENEFITS

Prime Sponsors:

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

Summary Information

Overview. Starting in tax year 2026, the bill expands the pension and annuities benefits deductions for taxpayers aged 55 and over.

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

- State Revenue
- Minimal State Workload
- 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
State Revenue	-\$256.7 million	-\$523.4 million
State Expenditures	\$0	\$0
Transferred Funds	\$0	\$0
Change in TABOR Refunds	-\$231.4 million	-\$471.9 million
Change in State FTE	0.0 FTE	0.0 FTE

Table 1A
State Revenue

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund	-\$231.4 million	-\$471.9 million
State Education Fund	-\$19.4 million	-\$39.7 million
Affordable Housing Financing Fund	-\$3.5 million	-\$7.1 million
Affordable Housing Support Fund	-\$2.3 million	-\$4.8 million
Total Revenue	-\$256.7 million	-\$523.4 million

Summary of Legislation

Under current law, taxpayers ages 55 to 64 may deduct up to \$20,000 of pension and annuity income when calculating their Colorado taxable income, and taxpayers ages 65 and older may deduct up to \$24,000 each year. Taxpayers ages 65 and older, and taxpayers ages 55 to 64 with income below a certain level, can deduct the full amount of their federally taxable social security income instead, if that amount is higher.

Starting in tax year 2026, the bill removes the cap on pension and annuity income tax deductions so that all federally taxable pension and annuity income for taxpayers 55 and over can be deducted when calculating Colorado taxable income.

Background

Pension and Annuity Income

Pension income includes PERA retirement benefits, Social Security payments, pension income, and distributions from Individual Retirement Accounts (IRAs), and tax-deferred savings plans. People receiving a survivor benefit, regardless of age, also qualify for the deduction. In tax year 2022, 547,002 taxpayers claimed \$13.2 billion in pension and annuity deductions, resulting in a revenue reduction of \$579.9 million. The average deduction was \$24,096, which translates to an average taxpayer savings of \$1,060.

Allocation of Income Tax Revenue

Most income tax revenue is subject to TABOR and credited to the General Fund. However, one-third of 1 percent of Colorado taxable income is allocated to the State Education Fund under Amendment 23, and one-tenth of 1 percent of Colorado taxable income is allocated to affordable housing programs in the Office of Economic Development and International Trade (60 percent) and the Department of Local Affairs (40 percent) under Proposition 123. These amounts are exempt from TABOR. Bills that change taxable income affect the State Education Fund and affordable housing portions of income taxes, while bills that change income tax credits only affect the General Fund portion.

Assumptions

Revenue estimates are based on taxpayer data from the Colorado Department of Revenue statistics of income. The revenue impact of the deduction under current law and under this bill in tax year 2026 and beyond were estimated as follows:

- The actual number of taxpayers claiming the deduction was grown by the Colorado state demographer's population forecast for those aged 55 and above.
- The average deduction claimed under current law and estimated average deduction under the bill were grown by the compound average annual growth rate in the average deduction for the four years prior to 2020.
- Average deduction amounts were multiplied by the projected number of taxpayers claiming the deduction.
- Estimated revenue impact was adjusted to account for the expansion of the pension and annuities deduction in tax year 2025 under current law.

Applying these assumptions, in tax year 2026, it is estimated that about 587,000 taxpayers will save an estimated \$875 on average in income tax, for a total revenue reduction of \$513 million on an additional \$11.7 billion in deductions.

State Revenue

The bill is expected to reduce state income tax revenue by \$256.7 million in FY 2025-26, \$523.4 million in FY 2026-27, and increasing amounts in future years, in line with growth in the population aged 55 and over and average deduction amounts. The amount for FY 2025-26 represents a half-year impact on an accrual accounting basis. The impacts on different funds are presented in Table 1A. The General Fund portion of the revenue reduction is subject to TABOR, while the allocations to the State Education Fund, the Affordable Housing Financing Fund, and the Affordable Housing Support Fund are TABOR-exempt.

State Expenditures

The bill is expected to minimally increase workload in the Department of Revenue to program the GenTax system to remove the current cap on pension and annuity income tax deductions. This workload can be accomplished within existing resources.

TABOR Refunds

The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in Table 1. This estimate assumes the December 2024 LCS revenue forecast, which anticipates TABOR refund obligations of \$356.3 million for FY 2024-25, \$844.1 million for FY 2025-26, and \$1.2 billion for FY 2026-27. A forecast of state revenue subject to TABOR is not available beyond FY 2026-27. 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. If state revenue is less than forecast, the bill could decrease General Fund revenue available for the state budget.

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

Personnel	State Auditor
Revenue	