



Fiscal Note

Legislative Council Staff

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HB 25B-1002: CORPORATE INCOME TAX FOREIGN JURISDICTIONS

Prime Sponsors:

Rep. Zokaie; Marshall
Sen. Ball

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Summary Information

Overview. The bill creates a state corporate taxable income addition for federal foreign-derived eligible income deductions, expands a state subtraction from corporate income, adds countries to the list of specified foreign jurisdictions presumed to be used for tax avoidance, and allows state discretion to be used in determining foreign tax avoidance.

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

- State Expenditures
- State Revenue
- TABOR Refunds

Appropriations. For FY 2026-27, the bill requires an appropriation of \$12,815 to the Department of Revenue.

Table 1
State Fiscal Impacts

Type of Impact	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
State Revenue	\$35.6 million	\$72.2 million	\$73.0 million
State Expenditures	\$0	\$12,815	\$0
Transferred Funds	\$0	\$0	\$0
Change in TABOR Refunds	\$0	\$65.1 million	Not estimated
Change in State FTE	0.0 FTE	0.0 FTE	0.0 FTE

Table 1A
State Revenue

Fund Source	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund	\$32.1 million	\$64.0 million	\$64.7 million
State Education Fund (SEF)	\$2.7 million	\$5.5 million	\$5.5 million
Kids Matter Account in the SEF	\$0	\$1.1 million	\$1.1 million
State Affordable Housing Fund	\$0.8 million	\$1.6 million	\$1.7 million
Total Revenue	\$35.6 million	\$72.2 million	\$73.0 million

Summary of Legislation

The bill makes several changes to state income taxes for corporations with an international presence.

State Income Tax Addition for Foreign-Derived Deduction-Eligible Income

The bill creates an addition to the state taxable income of corporations equal to the federal deduction for foreign-derived deduction-eligible income (FDDEI) under section 250 of Title 26 of the U.S. Internal Revenue Code, beginning for tax year 2026.

Tax Shelters

Current state law lists foreign jurisdictions that are presumed to be used for tax avoidance. Beginning with tax year 2026, the bill allows the executive director of the Department of Revenue (DOR) to use discretion to determine whether a member of an affiliated group of corporations is incorporated in a foreign jurisdiction for economic reasons instead of for tax avoidance. Under current law, a corporation must prove to the executive director that the corporation is incorporated in a listed jurisdiction for economic reasons.

Further, beginning with tax year 2026, the bill adds Hong Kong, Ireland, Liechtenstein, Netherlands, and Singapore to the list of foreign jurisdictions in which corporations are presumed to incorporate for the purpose of tax avoidance.

Corporate Income Tax Subtractions

Under current law, a corporation with certain foreign subsidiaries is allowed to subtract from Colorado taxable income amounts claimed for a federal foreign tax credit that are treated as a foreign dividend and must be added to federal taxable income. Under current law, taxpayers cannot include federal dividend amounts from specified foreign jurisdictions presumed by the state to be locations for tax avoidance in the subtraction. The bill expands the state subtraction

from taxable income by repealing the exclusion and allowing dividend amounts added to federal taxable income to be subtracted regardless of the foreign jurisdiction. Lastly, the bill updates a state income tax subtraction to conform with a name change in federal law under the One Big Beautiful Bill Act (OBBBA).

Background

Corporate Groups with Colorado Nexus

Under current law, combined groups of corporations that have a nexus in Colorado through one or more affiliates are required to include in a combined return affiliated corporations that are incorporated in specified foreign jurisdictions. Current law establishes a list of these specified foreign jurisdictions presumed to be locations used for tax avoidance, and establishes the means for taxpayers to prove to the satisfaction of the executive director of the Department of Revenue that a corporation is incorporated in a listed jurisdiction for economic reasons rather than for tax avoidance. Combined returns allow for the apportionment of Colorado-sourced income for the combined group.

Foreign Income Deductions in Federal Law

The Tax Cuts and Jobs Act of 2017 (TCJA) created an income tax deduction for income deemed to be foreign-derived intangible income beginning with tax year 2018. Under the One Big Beautiful Bill Act of 2025 (OBBBA), the deduction was modified to reflect a broader category of FDDEI. Under the TCJA, the deduction for foreign-derived intangible income was equal to 37.5 percent of foreign-derived intangible income. The deduction percentage was set to reduce to 21.875 percent following the 2025 tax year. The OBBBA instead set the deduction percentage to 33.34 percent and tied it to FDDEI.

State Revenue

The bill is expected to increase income tax revenue by \$35.6 million in FY 2025-26 (a half-year impact), \$72.2 million in FY 2026-27, \$73.0 million in FY 2027-28, and similar amounts in future years. The estimate is based on the effect of the bill's FDDEI addition. Other provisions of the bill will have bidirectional and offsetting impacts on revenue, as discussed below.

Revenue impacts are summarized in Table 1A. Most income tax revenue is subject to TABOR and credited to the General Fund. However, because the bill increases Colorado taxable income, it also increases the amount of income tax revenue deposited in:

- the State Education Fund (one-third of one percent of Colorado taxable income);

- the State Affordable Housing Fund (one-tenth of one percent of Colorado taxable income); and
- the Kids Matter Account in the State Education Fund (65 percent of one-tenth of one percent of Colorado taxable income, beginning in FY 2026-27).

Income tax revenue credited to the State Education Fund under Amendment 23 and to the State Affordable Housing Fund under Proposition 123 is exempt from TABOR. Income tax revenue credited to the General Fund and to the Kids Matter Account is subject to TABOR.

Foreign-Derived Deduction Eligible Income Addition

The bill's FDDEI addition to state corporate taxable income is expected to increase corporate income taxes by the amounts noted above. The estimate is based on data compiled and published by the Internal Revenue Service for FDDEI for tax years 2018 and 2021. The average FDDEI was adjusted by estimated changes to deduction eligible income under OBBBA from the U.S. Joint Committee on Taxation and the 33.34 percent allowable deduction. The analysis assumes an average federal corporate income tax rate of 21.8 percent, and includes adjustments for Colorado's share of corporate taxable income and the state income tax rate. Actual impacts of the addition may vary from this estimate based on income apportionment to Colorado along with changes in taxpayer behavior under the bill and OBBBA.

Foreign Jurisdictions and Tax Shelters

The bill's provisions allowing the discretion of the executive director of the Department of Revenue to determine whether an affiliate member of a corporate group is incorporated in foreign jurisdictions for economic reasons rather than for tax avoidance, and expanding the list of foreign jurisdictions presumed to be locations for tax avoidance, is expected to have bidirectional impacts on corporate income taxes. More discretion by the executive director will likely reduce corporate income tax revenue if more corporate groups do not need to include certain affiliate members in foreign jurisdictions in their combined returns. Adding new foreign jurisdictions to those presumed to be used for tax avoidance is expected to increase corporate income tax revenue. The magnitude of these offsetting provisions will depend on actions of the executive director and the locations of foreign corporate affiliates and cannot be estimated.

Expanded Foreign Dividend Subtraction

Expanding the state subtraction from taxable income for foreign dividends by allowing all dividend amounts added to federal taxable income to be subtracted regardless of the foreign jurisdiction will minimally decrease corporate income tax revenue. No cases have been identified where corporations have included these dividends in their Colorado taxable income under current law; thus, the impact of allowing those dividends to be subtracted is assessed as minimally affecting revenue.

State Expenditures

The bill increases state expenditures in the DOR by \$12,815 in FY 2026-27. These costs, paid from the General Fund, are summarized in Table 2 and discussed below.

Table 2
State Expenditures
Department of Revenue

Cost Component	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28
GenTax Programming	\$0	\$1,465	\$0
User Acceptance Testing	\$0	\$1,271	\$0
ISD Programming Support	\$0	\$2,542	\$0
Document Management and Tax Form	\$0	\$7,537	\$0
Total Costs	\$0	\$12,815	\$0

Computer Programming and Testing

For FY 2026-27 only, the bill's provisions will require the department to program, test, and update database fields in the GenTax software system. Costs include programming at \$1,465, representing 6 hours of contract programming at a rate of \$244.19 per hour. Costs estimated for associated user acceptance testing assume 31 hours at \$41 per hour, totaling \$1,271. The cost of ISD programming support includes 62 hours at \$41 per hour for a total of \$2,542.

Document Management and Tax Forms

Document management costs to make changes to paper tax forms and process paper returns are estimated at \$7,537 in FY 2026-27. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated funds from DOR.

TABOR Refunds

The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by \$65.1 million in FY 2026-27. The bill does not change current expectations that the state will be below its revenue limit in the current FY 2025-26. This estimate assumes the [July update to the June 2025 LCS revenue forecast](#). A forecast of state revenue subject to TABOR is not available beyond FY 2026-27. 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 and any future years when the state is over its revenue limit.

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 a General Fund appropriation of \$12,815 to the Department of Revenue. Of this amount, \$7,537 is reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Governor	Personnel
Information Technology	Revenue