HB 25-1335

Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 25-1335: TAX CREDIT AVAILABILITY

Prime Sponsors:
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Fiscal note status: The fiscal note reflects the introduced bill, which was recommended by the Joint Budget Committee.

Summary Information

Overview. The bill makes changes to the calculation of the adjustment factor used to determine the amount and availability of certain state income tax credits.

Types of impacts. The bill potentially affects the following areas on an ongoing basis:

- State Revenue
- 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	$0	$0
State Expenditures	$0	$0
Transferred Funds	$0	$0
Change in TABOR Refunds	$0	$0
Change in State FTE	0.0 FTE	0.0 FTE

Summary of Legislation

The bill makes changes to the calculation of the adjustment factor used to determine the amount and availability of the Family Affordability Tax Credit (FATC) established in House Bill 24-1311 and the expanded State Earned Income Tax Credit (EITC) established in House Bill 24-1134.

Specifically, the bill specifies that the base value used to determine the adjustment factor for both tax credits is the estimate of the state's revenue subject to TABOR in FY 2024-25 in the March 2024 Office of State Planning and Budgeting (OSPB) forecast, rather than actual FY 2024-25 revenue.

Background

For tax years 2026 through 2033, the availability and amounts of the FATC and the expanded EITC are conditional on the calculation of an adjustment factor. The adjustment factor is calculated as the compound annual growth rate in state revenue subject to TABOR in any fiscal year, excluding the amounts of the FATC and expanded EITC, in relation to FY 2024-25. The adjustment factor is calculated using the December update of the quarterly forecast selected by the Joint Budget Committee for preparation of the state budget in the preceding March. The credit availability and amount for the tax year immediately following the December forecast is determined by the adjustment factor for the fiscal year that begins during that tax year.

If the adjustment factor is at least 3.75 percent, the income tax credits are fully available for the relevant tax year. If the adjustment factor is less than 3.0 percent, credits are not available. Credits are available in varying amounts for adjustment factors between 3.0 percent and 3.75 percent.

For example, tax credits will be fully available for tax year 2026 if the December 2025 OSPB forecast predicts that revenue subject to TABOR excluding the amounts of the tax credits will grow by a compound average rate of 3.75 percent between FY 2024-25 and FY 2026-27.

State Revenue

Under the March 2025 Legislative Council Staff forecast, the bill is expected to have no impact on state revenue. The bill makes it less likely than under current law that the FATC and expanded EITC will be fully available, which potentially increases state revenue beginning in FY 2025-26, depending on future revenue forecasts.

The FATC and the expanded state EITC are expected to be fully available under current law and this House Bill 25-1335 based on the March 2024 OSPB forecast and the March 2025 OSPB and LCS forecasts. For this reason, the bill is expected to have no impact on revenue.

Should revenue subject to TABOR in FY 2024-25 be significantly lower than currently forecast, the bill may increase revenue subject to TABOR and increase TABOR refunds by reducing the amount or availability of the FATC and EITC for tax year 2026 or a future tax year below amounts available under the current law adjustment factor calculation. These impacts depend on future economic and state revenue conditions.

TABOR Refunds

If the bill increases revenue as discussed in the State Revenue section above, then the bill is expected to increase the amount of state revenue required to be refunded to taxpayers under TABOR. 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.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Joint Budget Committee Staff

Office of State Planning and Budgeting

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