

# HB 25B-1001: MODIFY ADD-BACK QUALIFIED BUSINESS INCOME DEDUCTION

**Prime Sponsors:** 

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**Fiscal Analyst:** 

Elizabeth Ramey, 303-866-3522 elizabeth.ramey@coleg.gov

**Version:** Initial Fiscal Note **Date:** August 21, 2025

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

## **Summary Information**

**Overview.** The bill permanently extends the requirement for certain taxpayers to add back their federal qualified business income deduction when calculating their Colorado taxable income starting with tax year 2026.

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

State Revenue

TABOR Refunds

**Appropriations.** No appropriation is required.

## 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	\$45.9 million	\$95.5 million	\$101.6 million
State Expenditures	\$0	\$0	\$0
Transferred Funds	\$0	\$0	\$0
Change in TABOR Refunds	\$0	\$86.1 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	\$41.4 million	\$84.7 million	\$90.1 million
State Education Fund (SEF)	\$3.5 million	\$7.2 million	\$7.7 million
SEF Kids Matter Account	\$0	\$1.4 million	\$1.5 million
State Affordable Housing Fund	\$1.0 million	\$2.2 million	\$2.3 million
Total Revenue	\$45.9 million	\$95.5 million	\$101.6 million

## **Summary of Legislation**

Under current law, certain taxpayers are required to add back their federal qualified business income (QBI) deduction when calculating their Colorado taxable income for tax years 2021 through 2025. The add-back applies for taxpayers filing singly with adjusted gross income over \$500,000, and taxpayers filing jointly with adjusted gross income over \$1,000,000. The bill extends the add-back requirement indefinitely, starting with tax year 2026.

## **Background**

The federal QBI deduction allows non-corporate businesses to deduct up to 20 percent of their qualified business income, subject to several limitations, including income thresholds above which the deduction begins to phase out. The deduction was set to expire after 2025, but was extended indefinitely by H.R. 1, signed into law on July 4, 2025. In addition to extending the deduction, H.R. 1 also establishes higher phase-out thresholds, inflation adjustment for thresholds, and a minimum deduction of \$400.

#### **State Revenue**

The bill is expected to increase state revenue in the current FY 2025-26 by \$45.9 million (a half-year impact), by \$95.5 million in FY 2026-27, by \$101.6 million in FY 2027-28, and by increasing amounts in future years as income grows. The bill increases individual income tax revenue. Most individual income tax revenue is credited to the General Fund. However, because the bill increases taxable income, it also affects revenue to the following funds based on the percentages below:

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

Revenue impacts to each fund are shown in Table 1A. Revenue to the General Fund and the Kids Matter Account is subject to TABOR. Revenue to the SEF under Amendment 23 and to the State Affordable Housing Fund under Proposition 123 is exempt from TABOR.

### **TABOR Refunds**

The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by \$86.1 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 and Local Government Contacts**