

**First Regular Session  
Seventy-fifth General Assembly  
STATE OF COLORADO**

**PREAMENDED**

*This Unofficial Version Includes Committee  
Amendments Not Yet Adopted on Second Reading*

LLS NO. 25-0573.01 Megan McCall x4215

**HOUSE BILL 25-1021**

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**HOUSE SPONSORSHIP**

**Lindstedt and Taggart,**

**SENATE SPONSORSHIP**

**Bridges,**

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**House Committees**

Business Affairs & Labor  
Finance  
Appropriations

**Senate Committees**

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**A BILL FOR AN ACT**

101 **CONCERNING TAX INCENTIVES FOR BUSINESSES THAT TRANSITION TO**  
102 **EMPLOYEE-OWNED BUSINESSES IN WHOLE OR IN PART.**

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**Bill Summary**

*(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://leg.colorado.gov>.)*

The bill creates 2 income tax subtractions for income tax years commencing on or after January 1, 2027, but before January 1, 2038. The first subtraction is for an amount equal to state capital gains that are realized by a taxpayer during the taxable year for the conversion by an increment of at least 20% ownership to a qualified employee-owned business of a qualified business. The taxpayers that are eligible for this

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.  
Capital letters or bold & italic numbers indicate new material to be added to existing law.  
Dashes through the words or numbers indicate deletions from existing law.

subtraction are the same taxpayers that would be eligible for the tax credit for conversion costs for employee business ownership.

The second subtraction is allowed to worker-owned cooperatives in an amount equal to the worker-owned cooperative's federal taxable income for the tax year not to exceed \$1 million.

The bill also makes changes to the tax credit for conversion costs for employee business ownership (credit). Under current law, the credit is available through income tax year 2026. The bill extends the credit through income tax year 2037. The bill also specifies that the aggregate amount of credits that can be claimed for each income tax year commencing on or after January 1, 2026, but before January 1, 2032, is \$3 million and that the aggregate amount of credits that can be claimed for each income tax year commencing on or after January 1, 2032, but before January 1, 2038, is \$4 million. The percentage of conversion or expansion costs that are eligible to be claimed for the credit is currently 50%; however, the bill increases this percentage to 75% beginning in tax year 2026 while maintaining the existing dollar caps for the different methods of conversion.

Additionally, the bill revises several definitions to expand eligibility for the credit and allows for qualified support entities, which are nonprofit organizations that provide services to businesses that qualify under the credit to convert or expand to employee-ownership, to be eligible to receive the credit for up to 75% of the costs incurred for providing such support, including for staff salaries and benefits, marketing and outreach, and consulting and technical assistance not to exceed \$167,000.

The bill makes conforming amendments to several of the credit's expanded definitions that are also applicable to the tax credit for new employee-owned businesses.

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1 *Be it enacted by the General Assembly of the State of Colorado:*

2           **SECTION 1.** In Colorado Revised Statutes, 39-22-104, **add**  
3 (4)(dd) as follows:

4           **39-22-104. Income tax imposed on individuals, estates, and**  
5 **trusts - single rate - report - tax preference performance statement**  
6 **- legislative declaration - definitions - repeal.** (4) There shall be  
7 subtracted from federal taxable income:

8           (dd) (I) FOR INCOME TAX YEARS COMMENCING ON OR AFTER

1 JANUARY 1, 2027, BUT BEFORE JANUARY 1, 2038, AN AMOUNT EQUAL TO  
2 QUALIFYING CAPITAL GAINS THAT ARE SUBJECT TO TAX UNDER THIS  
3 ARTICLE 22 AND THAT ARE REALIZED BY AN OWNER DURING THE TAXABLE  
4 YEAR FOR THE QUALIFIED SALE OF A QUALIFIED BUSINESS.

5 (II) AS USED IN THIS SUBSECTION (4)(dd), UNLESS THE CONTEXT  
6 OTHERWISE REQUIRES:

7 (A) "OFFICE" MEANS THE COLORADO OFFICE OF ECONOMIC  
8 DEVELOPMENT CREATED IN SECTION 24-48.5-101.

9 (B) "OWNER" HAS THE SAME MEANING AS SET FORTH IN SECTION  
10 39-22-542 (2)(h).

11 (C) "QUALIFIED BUSINESS" HAS THE SAME MEANING AS SET FORTH  
12 IN SECTION 39-22-542 (2)(i).

13 (D) "QUALIFIED EMPLOYEE-OWNED BUSINESS" HAS THE SAME  
14 MEANING AS SET FORTH IN SECTION 39-22-542 (2)(j).

15 (E) "QUALIFIED SALE" MEANS THE CONVERSION TO A QUALIFIED  
16 EMPLOYEE-OWNED BUSINESS; EXCEPT THAT THE CONVERSION MUST BE BY  
17 AN INCREMENT OF AT LEAST TWENTY PERCENT OF THE TOTAL OWNERSHIP  
18 OF THE ENTIRE QUALIFIED EMPLOYEE-OWNED BUSINESS.

19  
20 (F) "QUALIFYING CAPITAL GAINS" MEANS THE AMOUNT OF NET  
21 CAPITAL GAINS, AS DEFINED IN SECTION 1222 (11) OF THE INTERNAL  
22 REVENUE CODE, SUBJECT TO THE LIMITATION SET FORTH IN SUBSECTION  
23 (4)(dd)(V) OF THIS SECTION.

24 (III) IN ACCORDANCE WITH SECTION 39-21-304 (1), WHICH  
25 REQUIRES EACH BILL THAT CREATES A NEW TAX EXPENDITURE TO INCLUDE  
26 A TAX PREFERENCE PERFORMANCE STATEMENT AS PART OF A STATUTORY  
27 LEGISLATIVE DECLARATION, THE GENERAL ASSEMBLY FINDS AND

1       DECLARES THAT THE PURPOSE OF THE INCOME TAX SUBTRACTION  
2       PROVIDED IN THIS SUBSECTION (4)(dd) IS TO:

3               (A) INDUCE CERTAIN DESIGNATED BEHAVIOR BY TAXPAYERS,  
4       SPECIFICALLY FOR BUSINESSES TO ESTABLISH EMPLOYEE STOCK  
5       OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR TO CONVERT TO  
6       A WORKER-OWNED COOPERATIVE; AND

7               (B) PROVIDE TAX RELIEF FOR CERTAIN BUSINESSES OR  
8       INDIVIDUALS, SPECIFICALLY TO BUSINESSES THAT ESTABLISH EMPLOYEE  
9       STOCK OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR THAT  
10      CONVERT TO A WORKER-OWNED COOPERATIVE.

11              (IV) THE GENERAL ASSEMBLY AND THE STATE AUDITOR SHALL  
12      MEASURE THE EFFECTIVENESS OF THE SUBTRACTION IN ACHIEVING THE  
13      PURPOSE SPECIFIED IN SUBSECTION (4)(dd)(III) OF THIS SECTION BASED ON  
14      THE NUMBER AND AGGREGATE AMOUNT OF SUBTRACTIONS CLAIMED IN A  
15      TAX YEAR.

16              (V) (A) ON OR BEFORE JUNE 30, 2026, THE OFFICE SHALL  
17      ESTABLISH AND POST ON ITS WEBSITE THE TOTAL AMOUNT OF CAPITAL  
18      GAINS THAT MAY BE SUBTRACTED FROM AN OWNER'S FEDERAL TAXABLE  
19      INCOME PURSUANT TO THIS SUBSECTION (4)(dd), WHICH AMOUNT IS IN  
20      EFFECT FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY 1,  
21      2027, BUT BEFORE JANUARY 1, 2038, OR UNTIL THE OFFICE ADJUSTS THE  
22      AMOUNT AS SET FORTH IN SUBSECTION (4)(dd)(V)(B) OF THIS SECTION.

23              (B) AFTER JUNE 30, 2026, ON OR BEFORE JUNE 30, 2027, AND ON  
24      OR BEFORE JUNE 30 OF EACH YEAR THEREAFTER UNTIL JUNE 30, 2036, THE  
25      OFFICE MAY ADJUST THE TOTAL AMOUNT OF CAPITAL GAINS THAT MAY BE  
26      SUBTRACTED FROM AN OWNER'S FEDERAL TAXABLE INCOME THAT THE  
27      OFFICE HAS PREVIOUSLY ESTABLISHED IN ACCORDANCE WITH THIS

1 SUBSECTION (4)(dd)(V). THE ADJUSTED AMOUNT MUST BE POSTED ON THE  
2 OFFICE'S WEBSITE AND IS IN EFFECT FOR INCOME TAX YEARS COMMENCING  
3 ON OR AFTER JANUARY 1 OF THE YEAR IMMEDIATELY FOLLOWING THE  
4 YEAR IN WHICH THE ADJUSTMENT IS MADE BUT BEFORE JANUARY 1, 2038,  
5 OR UNTIL THE OFFICE SUBSEQUENTLY ADJUSTS THE AMOUNT AS SET FORTH  
6 IN THIS SUBSECTION (4)(dd)(V)(B).

7 (C) AN OWNER MAY NOT SUBTRACT MORE THAN THE AMOUNT OF  
8 CAPITAL GAINS ESTABLISHED BY THE OFFICE IN ACCORDANCE WITH  
9 SUBSECTION (4)(dd)(V)(A) OR (4)(dd)(V)(B) OF THIS SECTION IN THE  
10 INCOME TAX YEAR.

11 (D) BEGINNING IN JANUARY 2027, AND IN JANUARY EVERY YEAR  
12 THEREAFTER FOLLOWING A YEAR IN WHICH THE OFFICE ADJUSTS THE  
13 AMOUNT OF CAPITAL GAINS THAT MAY BE SUBTRACTED FROM AN OWNER'S  
14 FEDERAL TAXABLE INCOME PURSUANT TO SUBSECTION (4)(dd)(V)(B) OF  
15 THIS SECTION, THE OFFICE SHALL INCLUDE, AS PART OF ITS PRESENTATION  
16 DURING ITS "SMART ACT" HEARING REQUIRED BY SECTION 2-7-203,  
17 INFORMATION CONCERNING THE AMOUNT OF CAPITAL GAINS THAT MAY BE  
18 SUBTRACTED FROM AN OWNER'S FEDERAL TAXABLE INCOME THAT THE  
19 OFFICE HAS ESTABLISHED PURSUANT TO SUBSECTION (4)(dd)(V)(A) OR  
20 (4)(dd)(V)(B) OF THIS SECTION AND THE METHOD THAT THE OFFICE USED  
21 TO ESTABLISH THE AMOUNT.

22 (VI) THIS SUBSECTION (4)(dd) IS REPEALED, EFFECTIVE JULY 1,  
23 2042.

24 **SECTION 2.** In Colorado Revised Statutes, 39-22-304, **add** (3)(s)  
25 and (3)(t) as follows:

26 **39-22-304. Net income of corporation - legislative declaration**  
27 **- definitions - repeal.** (3) There shall be subtracted from federal taxable

1 income:

2 (s) (I) FOR INCOME TAX YEARS COMMENCING ON OR AFTER  
3 JANUARY 1, 2027, BUT BEFORE JANUARY 1, 2038, AN AMOUNT EQUAL TO  
4 QUALIFYING CAPITAL GAINS THAT ARE SUBJECT TO TAX UNDER THIS  
5 ARTICLE 22 AND THAT ARE REALIZED BY AN OWNER DURING THE TAXABLE  
6 YEAR FOR THE QUALIFIED SALE OF A QUALIFIED BUSINESS.

7 (II) AS USED IN THIS SUBSECTION (3)(s), UNLESS THE CONTEXT  
8 OTHERWISE REQUIRES:

9 (A) "OFFICE" MEANS THE COLORADO OFFICE OF ECONOMIC  
10 DEVELOPMENT CREATED IN SECTION 24-48.5-101.

11 (B) "OWNER" HAS THE SAME MEANING AS SET FORTH IN SECTION  
12 39-22-542 (2)(h).

13 (C) "QUALIFIED BUSINESS" HAS THE SAME MEANING AS SET FORTH  
14 IN SECTION 39-22-542 (2)(i).

15 (D) "QUALIFIED EMPLOYEE-OWNED BUSINESS" HAS THE SAME  
16 MEANING AS SET FORTH IN SECTION 39-22-542 (2)(j).

17 (E) "QUALIFIED SALE" MEANS THE CONVERSION TO A QUALIFIED  
18 EMPLOYEE-OWNED BUSINESS; EXCEPT THAT THE CONVERSION MUST BE BY  
19 AN INCREMENT OF AT LEAST TWENTY PERCENT OF THE TOTAL OWNERSHIP  
20 OF THE ENTIRE QUALIFIED EMPLOYEE-OWNED BUSINESS.

21  
22 (F) "QUALIFYING CAPITAL GAINS" MEANS THE AMOUNT OF NET  
23 CAPITAL GAINS, AS DEFINED IN SECTION 1222 (11) OF THE INTERNAL  
24 REVENUE CODE, SUBJECT TO THE LIMITATION SET FORTH IN SUBSECTION  
25 (3)(s)(V) OF THIS SECTION.

26 (III) IN ACCORDANCE WITH SECTION 39-21-304 (1), WHICH  
27 REQUIRES EACH BILL THAT CREATES A NEW TAX EXPENDITURE TO INCLUDE

1 A TAX PREFERENCE PERFORMANCE STATEMENT AS PART OF A STATUTORY  
2 LEGISLATIVE DECLARATION, THE GENERAL ASSEMBLY FINDS AND  
3 DECLARES THAT THE PURPOSE OF THE INCOME TAX SUBTRACTION  
4 PROVIDED IN THIS SUBSECTION (3)(s) IS TO:

5 (A) INDUCE CERTAIN DESIGNATED BEHAVIOR BY TAXPAYERS,  
6 SPECIFICALLY FOR BUSINESSES TO ESTABLISH EMPLOYEE STOCK  
7 OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR TO CONVERT TO  
8 A WORKER-OWNED COOPERATIVE; AND

9 (B) PROVIDE TAX RELIEF FOR CERTAIN BUSINESSES OR  
10 INDIVIDUALS, SPECIFICALLY TO BUSINESSES THAT ESTABLISH EMPLOYEE  
11 STOCK OWNERSHIP PLANS OR EMPLOYEE OWNERSHIP TRUSTS OR THAT  
12 CONVERT TO A WORKER-OWNED COOPERATIVE.

13 (IV) THE GENERAL ASSEMBLY AND THE STATE AUDITOR SHALL  
14 MEASURE THE EFFECTIVENESS OF THE SUBTRACTION IN ACHIEVING THE  
15 PURPOSE SPECIFIED IN SUBSECTION (3)(s)(III) OF THIS SECTION BASED ON  
16 THE NUMBER AND AGGREGATE AMOUNT OF SUBTRACTIONS CLAIMED IN A  
17 TAX YEAR.

18 (V) (A) ON OR BEFORE JUNE 30, 2026, THE OFFICE SHALL  
19 ESTABLISH AND POST ON ITS WEBSITE THE TOTAL AMOUNT OF CAPITAL  
20 GAINS THAT MAY BE SUBTRACTED FROM AN OWNER'S FEDERAL TAXABLE  
21 INCOME PURSUANT TO THIS SUBSECTION (3)(s), WHICH AMOUNT IS IN  
22 EFFECT FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY 1,  
23 2027, BUT BEFORE JANUARY 1, 2038, OR UNTIL THE OFFICE ADJUSTS THE  
24 AMOUNT AS SET FORTH IN SUBSECTION (3)(s)(V)(B) OF THIS SECTION.

25 (B) AFTER JUNE 30, 2026, ON OR BEFORE JUNE 30, 2027, AND ON  
26 OR BEFORE JUNE 30 OF EACH YEAR THEREAFTER UNTIL JUNE 30, 2036, THE  
27 OFFICE MAY ADJUST THE TOTAL AMOUNT OF CAPITAL GAINS THAT MAY BE

1 SUBTRACTED FROM AN OWNER'S FEDERAL TAXABLE INCOME THAT THE  
2 OFFICE HAS PREVIOUSLY ESTABLISHED IN ACCORDANCE WITH THIS  
3 SUBSECTION (3)(s)(V). THE ADJUSTED AMOUNT MUST BE POSTED ON THE  
4 OFFICE'S WEBSITE AND IS IN EFFECT FOR INCOME TAX YEARS COMMENCING  
5 ON OR AFTER JANUARY 1 OF THE YEAR IMMEDIATELY FOLLOWING THE  
6 YEAR IN WHICH THE ADJUSTMENT IS MADE BUT BEFORE JANUARY 1, 2038,  
7 OR UNTIL THE OFFICE SUBSEQUENTLY ADJUSTS THE AMOUNT AS SET FORTH  
8 IN THIS SUBSECTION (3)(s)(V)(B).

9 (C) AN OWNER MAY NOT SUBTRACT MORE THAN THE AMOUNT OF  
10 CAPITAL GAINS ESTABLISHED BY THE OFFICE IN ACCORDANCE WITH  
11 SUBSECTION (3)(s)(V)(A) OR (3)(s)(V)(B) OF THIS SECTION IN THE INCOME  
12 TAX YEAR.

13 (D) BEGINNING IN JANUARY 2027, AND IN JANUARY EVERY YEAR  
14 THEREAFTER FOLLOWING A YEAR IN WHICH THE OFFICE ADJUSTS THE  
15 AMOUNT OF CAPITAL GAINS THAT MAY BE SUBTRACTED FROM AN OWNER'S  
16 FEDERAL TAXABLE INCOME PURSUANT TO SUBSECTION (3)(s)(V)(B) OF  
17 THIS SECTION, THE OFFICE SHALL INCLUDE, AS PART OF ITS PRESENTATION  
18 DURING ITS "SMART ACT" HEARING REQUIRED BY SECTION 2-7-203,  
19 INFORMATION CONCERNING THE AMOUNT OF CAPITAL GAINS THAT MAY BE  
20 SUBTRACTED FROM AN OWNER'S FEDERAL TAXABLE INCOME THAT THE  
21 OFFICE HAS ESTABLISHED PURSUANT TO SUBSECTION (3)(s)(V)(A) OR  
22 (3)(s)(V)(B) OF THIS SECTION AND THE METHOD THAT THE OFFICE USED TO  
23 ESTABLISH THE AMOUNT.

24 (VI) THIS SUBSECTION (3)(s) IS REPEALED, EFFECTIVE JULY 1,  
25 2042.

26 (t) (I) FOR INCOME TAX YEARS COMMENCING ON OR AFTER  
27 JANUARY 1, 2027, BUT BEFORE JANUARY 1, 2038, AN AMOUNT EQUAL TO



1 A QUALIFIED TAXPAYER'S FEDERAL TAXABLE INCOME FOR THE TAX YEAR  
2 NOT TO EXCEED ONE MILLION DOLLARS.

3 (II) AS USED IN THIS SUBSECTION (3)(t), UNLESS THE CONTEXT  
4 OTHERWISE REQUIRES:

5 (A) "QUALIFIED TAXPAYER" MEANS A TAXPAYER THAT IS SUBJECT  
6 TO TAX UNDER THIS ARTICLE 22 AND THAT IS A WORKER-OWNED  
7 COOPERATIVE.

8 (B) "WORKER-OWNED COOPERATIVE" HAS THE SAME MEANING AS  
9 SET FORTH IN SECTION 1042 (c)(2) OF THE INTERNAL REVENUE CODE.

10 (III) IN ACCORDANCE WITH SECTION 39-21-304 (1), WHICH  
11 REQUIRES EACH BILL THAT CREATES A NEW TAX EXPENDITURE TO INCLUDE  
12 A TAX PREFERENCE PERFORMANCE STATEMENT AS PART OF A STATUTORY  
13 LEGISLATIVE DECLARATION, THE GENERAL ASSEMBLY FINDS AND  
14 DECLARES THAT THE PURPOSE OF THE INCOME TAX SUBTRACTION  
15 PROVIDED IN THIS SUBSECTION (3)(t) IS TO:

16 (A) INDUCE CERTAIN DESIGNATED BEHAVIOR BY TAXPAYERS,  
17 SPECIFICALLY FOR BUSINESSES TO CONVERT TO A WORKER-OWNED  
18 COOPERATIVE; AND

19 (B) PROVIDE TAX RELIEF FOR CERTAIN BUSINESSES, SPECIFICALLY  
20 TO PROVIDE ONGOING SUPPORT TO BUSINESSES THAT CONVERT TO A  
21 WORKER-OWNED COOPERATIVE.

22 (IV) THE GENERAL ASSEMBLY AND THE STATE AUDITOR SHALL  
23 MEASURE THE EFFECTIVENESS OF THE SUBTRACTION IN ACHIEVING THE  
24 PURPOSE SPECIFIED IN SUBSECTION (3)(t)(III) OF THIS SECTION BASED ON  
25 THE NUMBER AND AGGREGATE AMOUNT OF SUBTRACTIONS CLAIMED IN A  
26 TAX YEAR AND THE NUMBER OF SUBTRACTIONS CLAIMED YEAR OVER  
27 YEAR.

1 (V) THIS SUBSECTION (3)(t) IS REPEALED, EFFECTIVE JULY 1, 2042.

2 **SECTION 3.** In Colorado Revised Statutes, 39-22-542, **amend**  
3 (1)(a)(I), (1)(a)(III), (2)(a)(II), (2)(e), (2)(j)(II), (2)(j)(III), (3)(a)  
4 introductory portion, (3)(a.5)(I), (3)(c), (3)(d), (4), (5)(a)(V), (5)(a)(VI),  
5 (6)(a)(I), (8), (10), (11) introductory portion, and (14); **repeal** (2)(j)(I);  
6 and **add** (2)(c.5), (2)(j.5), (2)(k.5), (3)(a.3), (3)(a.5)(III), (3)(a.7),  
7 (3)(b)(III), and (5)(a)(VII) as follows:

8 **39-22-542. Employee-ownership tax credit - definitions -**  
9 **legislative declaration - repeal.** (1) **Legislative declaration.** (a) The  
10 general assembly hereby finds and declares that:

11 (I) The purpose of this section is to provide an incentive for **small**  
12 businesses to establish employee stock ownership plans or employee  
13 ownership trusts or to convert to a worker-owned cooperative, AND TO  
14 PROVIDE AN INCENTIVE TO ENTITIES THAT SUPPORT BUSINESSES IN SUCH  
15 ESTABLISHMENT OR CONVERSION;

16 (III) This section encourages **small** business owners to sell  
17 ~~through three different options~~, their businesses to the very employees  
18 that contributed to their success; and

19 (2) **Definitions.** As used in this section, unless the context  
20 otherwise requires:

21 (a) (II) The office shall develop guidelines that clarify the types  
22 of employee ownership grants that qualify as an alternate equity structure.  
23 THE OFFICE MAY DEVELOP GUIDELINES THAT ADJUST THE PERCENTAGES  
24 SET FORTH IN SUBSECTION (2)(a)(I) OF THIS SECTION; EXCEPT THAT THE  
25 PERCENTAGES SHALL NOT BE ADJUSTED TO AN AMOUNT LESS THAN  
26 TWENTY PERCENT. The office may periodically update any guidelines  
27 issued pursuant to this subsection (2)(a)(II).

1 (c.5) "CORPORATE HEADQUARTERS" MEANS THE SOLE LOCATION  
2 WITHIN A REGIONAL OR NATIONAL AREA WHERE THE MAJORITY OF THE  
3 TAXPAYER'S OR QUALIFIED SUPPORT ENTITY'S STAFF MEMBERS OR  
4 EMPLOYEES ARE DOMICILED AND EMPLOYED AND WHERE THE MAJORITY  
5 OF THE TAXPAYER'S OR QUALIFIED SUPPORT ENTITY'S FINANCIAL,  
6 PERSONNEL, LEGAL, PLANNING, OR OTHER BUSINESS FUNCTIONS ARE  
7 CONDUCTED ON A REGIONAL OR NATIONAL BASIS.

8 (e) "Employee ownership trust" means an indirect form of  
9 employee ownership in which a trust holds ~~a controlling stake~~ AT LEAST  
10 TWENTY PERCENT OF THE FULLY DILUTED SECURITIES in a qualified  
11 business and benefits all employees on an equal basis.

12 (j) "Qualified employee-owned business" means a taxpayer that  
13 is subject to tax under this article 22, including but not limited to a C  
14 corporation, S corporation, limited liability company, partnership, limited  
15 liability partnership, sole proprietorship, or other similar pass-through  
16 entity, that:

17 ~~(I) Is owned in whole or in part by an employee ownership trust;~~

18 (II) Has its corporate headquarters located in this state; ~~For~~  
19 ~~purposes of this subsection (2)(j), "corporate headquarters" means the~~  
20 ~~sole location within a regional or national area where the taxpayer's staff~~  
21 ~~members or employees are domiciled and employed, and where the~~  
22 ~~majority of the taxpayer's financial, personnel, legal, planning, or other~~  
23 ~~business functions are conducted on a regional or national basis.~~

24 (III) (A) IS OWNED IN WHOLE OR IN PART BY AN EMPLOYEE  
25 OWNERSHIP TRUST;

26 (B) Has an employee stock ownership plan;

27 (C) Is in whole or in part a worker-owned cooperative; or

1 (D) Has an alternate equity structure; and

2 (j.5) "QUALIFIED SUPPORT ENTITY" MEANS AN ORGANIZATION  
3 EXEMPT FROM TAXATION UNDER SECTION 501 (c)(3) OF THE INTERNAL  
4 REVENUE CODE OR A TAXPAYER SUBJECT TO TAX UNDER THIS ARTICLE 22,  
5 INCLUDING A C CORPORATION, S CORPORATION, LIMITED LIABILITY  
6 COMPANY, PARTNERSHIP, LIMITED LIABILITY PARTNERSHIP, SOLE  
7 PROPRIETORSHIP, OR OTHER SIMILAR PASS-THROUGH ENTITY THAT:

8 (I) HAS BEEN IN EXISTENCE FOR NOT LESS THAN TWELVE MONTHS  
9 PRIOR TO JANUARY 1 OF THE INCOME TAX YEAR FOR WHICH THE QUALIFIED  
10 SUPPORT ENTITY CLAIMS THE CREDIT;

11 (II) EITHER HAS PROVIDED SERVICES THAT HAVE SUPPORTED AT  
12 LEAST ONE SUCCESSFUL CONVERSION TO OR EXPANSION OF A QUALIFIED  
13 EMPLOYEE-OWNED BUSINESS IN THE INCOME TAX YEAR OR HAS PROVIDED  
14 SERVICES THAT HAVE SUPPORTED AT LEAST THREE EITHER QUALIFIED  
15 BUSINESSES THAT HAVE THE INTENT OF CONVERTING TO QUALIFIED  
16 EMPLOYEE-OWNED BUSINESSES OR QUALIFIED EMPLOYEE-OWNED  
17 BUSINESSES THAT HAVE THE INTENT OF EXPANDING;

18 (III) HAS ITS CORPORATE HEADQUARTERS LOCATED IN THIS STATE;

19 AND

20 (IV) IS APPROVED BY THE OFFICE FOR THE TAX INCENTIVES IN THIS  
21 SECTION.

22 (k.5) (I) "SUPPORT COSTS" MEANS, SUBJECT TO GUIDELINES  
23 DEVELOPED BY THE OFFICE PURSUANT TO SUBSECTION (5)(a) OF THIS  
24 SECTION, COSTS THAT ARE OR ARE RELATED TO:

25 (A) STAFF SALARIES AND BENEFITS FOR STAFF INVOLVED IN  
26 BUSINESS DEVELOPMENT, MARKETING, AND OUTREACH;

27 (B) MARKETING AND OUTREACH FOR PRODUCING EDUCATIONAL

1 MATERIALS OR HOSTING WORKSHOPS OR CONFERENCES ON CONVERTING  
2 A BUSINESS TO EMPLOYEE-OWNERSHIP AND SIMILAR COSTS; AND

3  
4 (C) A PROPORTIONAL AMOUNT OF BASIC ORGANIZATIONAL  
5 OVERHEAD COSTS INCLUDING GENERAL OR ADMINISTRATIVE COSTS,  
6 EXPENSES, RENT, AND FACILITIES COSTS.

7 (II) "SUPPORT COSTS" DOES NOT INCLUDE ANY COSTS THAT ARE  
8 CONVERSION COSTS.

9 (3) (a) EXCEPT AS OTHERWISE PROVIDED IN SUBSECTION (3)(a.3)  
10 OF THIS SECTION AND subject to certification by the office pursuant to this  
11 section, for income tax years commencing on or after January 1, 2022, but  
12 ~~prior to January 1, 2027~~ BEFORE JANUARY 1, 2038, a qualified business  
13 is allowed a credit with respect to the income taxes imposed pursuant to  
14 this article 22 as follows:

15 (a.3) FOR INCOME TAX YEARS COMMENCING ON OR AFTER  
16 JANUARY 1, 2026, BUT BEFORE JANUARY 1, 2038, THE ALLOWABLE  
17 PERCENTAGE OF CONVERSION COSTS INCURRED BY A QUALIFIED BUSINESS  
18 FOR THE APPLICABLE CONVERSION OF THE QUALIFIED BUSINESS SET FORTH  
19 IN SUBSECTIONS (3)(a)(I), (3)(a)(II), AND (3)(a)(III) OF THIS SECTION FOR  
20 PURPOSES OF CALCULATING THE CREDIT IS UP TO SEVENTY-FIVE PERCENT  
21 OF THE CONVERSION COSTS.

22 (a.5) (I) EXCEPT AS OTHERWISE PROVIDED IN SUBSECTION  
23 (3)(a.5)(III) OF THIS SECTION and subject to certification by the office  
24 pursuant to this section, for ~~the~~ income tax years commencing on or after  
25 January 1, 2024, but ~~prior to January 1, 2027~~ BEFORE JANUARY 1, 2038,  
26 a qualified employee-owned business is allowed a credit with respect to  
27 the income taxes imposed pursuant to this article 22 of up to fifty percent

1 of the expansion costs, not to exceed twenty-five thousand dollars,  
2 incurred to expand a qualified employee-owned business's employee  
3 ownership trust, employee stock ownership plan, worker-owned  
4 cooperative, or alternate equity structure.

5 (III) FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY  
6 1, 2026, BUT BEFORE JANUARY 1, 2038, THE ALLOWABLE PERCENTAGE OF  
7 EXPANSION COSTS INCURRED BY A QUALIFIED EMPLOYEE-OWNED BUSINESS  
8 TO EXPAND A QUALIFIED EMPLOYEE-OWNED BUSINESS AS SET FORTH IN  
9 SUBSECTION (3)(a.5)(I) OF THIS SECTION FOR PURPOSES OF CALCULATING  
10 THE CREDIT IS UP TO SEVENTY-FIVE PERCENT OF THE CONVERSION COSTS.

11 (a.7) SUBJECT TO CERTIFICATION BY THE OFFICE PURSUANT TO THIS  
12 SECTION, FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY  
13 1, 2027, BUT PRIOR TO JANUARY 1, 2038, A QUALIFIED SUPPORT ENTITY IS  
14 ALLOWED A CREDIT WITH RESPECT TO THE INCOME TAXES IMPOSED  
15 PURSUANT TO THIS ARTICLE 22 OF UP TO SEVENTY-FIVE PERCENT OF THE  
16 SUPPORT COSTS, BUT NOT TO EXCEED ONE HUNDRED SIXTY-SEVEN  
17 THOUSAND DOLLARS, INCURRED IN PROVIDING SERVICES THAT SUPPORT  
18 THE CONVERSION █████ OF QUALIFIED BUSINESSES TO QUALIFIED  
19 EMPLOYEE-OWNED █████ BUSINESSES OR THE EXPANSION OF QUALIFIED  
20 EMPLOYEE-OWNED BUSINESSES.

21 (b) (III) IN THE CASE OF A QUALIFIED SUPPORT ENTITY, THE CREDIT  
22 IS ALLOWED TO THE QUALIFIED SUPPORT ENTITY.

23 (c) The maximum amount of all tax credit certificates that the  
24 office may reserve under subsection (6)(a) of this section ~~in any tax year~~  
25 ~~is ten million dollars.~~ IS:

26 (I) TEN MILLION DOLLARS FOR ANY INCOME TAX YEAR  
27 COMMENCING ON OR AFTER JANUARY 1, 2022, BUT BEFORE JANUARY 1,

1 2026;

2 (II) THREE MILLION DOLLARS FOR ANY INCOME TAX YEAR  
3 COMMENCING ON OR AFTER JANUARY 1, 2026, BUT BEFORE JANUARY 1,  
4 2032; AND

5 (III) FOUR MILLION DOLLARS FOR ANY INCOME TAX YEAR  
6 COMMENCING ON OR AFTER JANUARY 1, 2032, BUT BEFORE JANUARY 1,  
7 2038.

8 (d) (I) A qualified business or qualified employee-owned business  
9 may apply for and claim only one tax credit for the conversion or  
10 expansion costs incurred per tax year.

11 (II) A QUALIFIED SUPPORT ENTITY MAY APPLY FOR AND CLAIM  
12 ONLY ONE TAX CREDIT PER TAX YEAR.

13 (4) (a) A business OR, WHERE APPLICABLE, A NONPROFIT  
14 ORGANIZATION shall submit an application to the office for the issuance  
15 of a credit certificate for the credit allowed in this section by the deadlines  
16 established in the office's guidelines. EXCEPT AS OTHERWISE PROVIDED IN  
17 SUBSECTION (4)(b) OF THIS SECTION, the application must include  
18 information, as set forth in the office's guidelines, regarding the type of  
19 conversion or expansion the business intends to undertake, a list of the  
20 expected conversion or expansion costs, and an estimated amount, as  
21 calculated by the business, of the expected conversion or expansion costs.

22 (b) AN APPLICATION FOR A BUSINESS OR A NONPROFIT  
23 ORGANIZATION SUBMITTING THE APPLICATION TO BE APPROVED AS A  
24 QUALIFIED SUPPORT ENTITY MUST INCLUDE INFORMATION, AS SET FORTH  
25 IN THE OFFICE'S GUIDELINES, REGARDING THE SUPPORT SERVICES THE  
26 BUSINESS OR THE NONPROFIT ORGANIZATION PROVIDES TO QUALIFIED  
27 BUSINESSES OR QUALIFIED EMPLOYEE-OWNED BUSINESSES, WHETHER THE

1 BUSINESS OR THE NONPROFIT ORGANIZATION SUPPORTED A SUCCESSFUL  
2 CONVERSION OF A QUALIFIED BUSINESS TO A QUALIFIED EMPLOYEE-OWNED  
3 BUSINESS OR EXPANSION OF A QUALIFIED EMPLOYEE-OWNED BUSINESS IN  
4 THE TAXABLE YEAR, IF THE BUSINESS OR THE NONPROFIT ORGANIZATION  
5 HAS NOT SUPPORTED A SUCCESSFUL CONVERSION OR EXPANSION, THE  
6 NUMBER OF QUALIFIED BUSINESSES OR QUALIFIED EMPLOYEE-OWNED  
7 BUSINESSES THE BUSINESS OR THE NONPROFIT ORGANIZATION IS  
8 SUPPORTING THAT INTEND TO CONVERT OR EXPAND, AS APPLICABLE, AND  
9 THE STATUS OF THE ANTICIPATED CONVERSIONS OR EXPANSIONS, AND  
10 INFORMATION REGARDING SUPPORT COSTS INCURRED IN THE INCOME TAX  
11 YEAR.

12 (5) (a) The office shall develop guidelines for the administration  
13 of this section, including, but not limited to:

14 (V) Detailed guidelines regarding expansion costs; ~~and~~

15 (VI) Guidelines and standards for certifying a business as a  
16 qualified employee-owned business; AND

17 (VII) GUIDELINES AND STANDARDS FOR CERTIFYING A BUSINESS  
18 OR A NONPROFIT ORGANIZATION AS A QUALIFIED SUPPORT ENTITY.

19 (6) (a) (I) After the office provides the written report required in  
20 subsection (5)(b) of this section, a reservation of tax credits is permitted  
21 for the tax credit allowed in this section. If the office determines that the  
22 application filed under subsection (4) of this section is complete, the  
23 office shall determine whether the business OR, IF APPLICABLE, THE  
24 NONPROFIT ORGANIZATION is a qualified business, ~~or~~ a qualified  
25 employee-owned business, OR A QUALIFIED SUPPORT ENTITY, review the  
26 list of the expected conversion or expansion costs, and review the  
27 estimated conversion, ~~or~~ expansion, OR SUPPORT costs as calculated by



1 the business. If the office approves the business OR, IF APPLICABLE, THE  
2 NONPROFIT ORGANIZATION as a qualified business, or a qualified  
3 employee-owned business, OR A QUALIFIED SUPPORT ENTITY, the list of  
4 expected conversion or expansion costs, and the estimated conversion, or  
5 expansion, OR SUPPORT costs, the office may reserve for the benefit of the  
6 qualified business, the qualified employee-owned business, or the owner  
7 of the business, OR THE QUALIFIED SUPPORT ENTITY an allocation of a tax  
8 credit subject to the limitation specified in subsection (3)(b) of this  
9 section. The office shall notify the qualified business, or the qualified  
10 employee-owned business, OR THE QUALIFIED SUPPORT ENTITY in writing  
11 of the amount of the reservation. The reservation of a tax credit does not  
12 entitle the qualified business, the qualified employee-owned business, or  
13 the owner of the business, OR THE QUALIFIED SUPPORT ENTITY to an  
14 issuance of a tax credit certificate until the qualified business, or the  
15 qualified employee-owned business, OR THE QUALIFIED SUPPORT ENTITY  
16 complies with all of the other requirements specified in this section for  
17 the issuance of the tax credit certificate.

18 (8) If the credit allowed under this section exceeds the income  
19 taxes due on the income of the qualified business, qualified  
20 employee-owned business, or owner of the business, OR QUALIFIED  
21 SUPPORT ENTITY, the amount of the credit not used to offset income taxes  
22 must be refunded to the qualified business, qualified employee-owned  
23 business, or owner of the business, OR QUALIFIED SUPPORT ENTITY.

24 (10) (a) To claim the income tax credit allowed in this section, the  
25 qualified business, qualified employee-owned business, or owner of the  
26 business, OR QUALIFIED SUPPORT ENTITY shall attach a copy of the credit  
27 certificate to its state income tax return. No tax credit is allowed under

1 this section unless the qualified business, qualified employee-owned  
2 business, ~~or~~ owner of the business, OR QUALIFIED SUPPORT ENTITY  
3 provides the copy of the credit certificate with its filed state income tax  
4 return. The amount of the credit that the qualified business, ~~or~~ the  
5 qualified employee-owned business, OR THE QUALIFIED SUPPORT ENTITY  
6 may claim under this section is the amount stated on the tax credit  
7 certificate.

8 (b) A QUALIFIED SUPPORT ENTITY THAT IS AN ORGANIZATION  
9 EXEMPT FROM TAXATION UNDER SECTION 501 (c)(3) OF THE INTERNAL  
10 REVENUE CODE AND THAT CLAIMS THE CREDIT ALLOWED BY THIS SECTION  
11 SHALL FILE A RETURN PURSUANT TO SECTION 39-22-601 (7)(b) AND  
12 ATTACH A COPY OF THE CREDIT CERTIFICATE IN ACCORDANCE WITH  
13 SUBSECTION (10)(a) OF THIS SECTION.

14 (11) The office shall, in a sufficiently timely manner to allow the  
15 department to process returns claiming the income tax credit allowed in  
16 this section, provide the department with an electronic report of each  
17 qualified business, qualified employee-owned business, ~~and~~ owner of a  
18 business, AND QUALIFIED SUPPORT ENTITY that the office approved for the  
19 income tax credit allowed in this section for the preceding calendar year  
20 that includes the following information:

21 (14) This section is repealed, effective ~~December 31, 2033~~  
22 DECEMBER 31, 2042.

23 **SECTION 4.** In Colorado Revised Statutes, 39-22-542.5, **amend**  
24 (2)(a) introductory portion, (2)(d)(II), (2)(d)(III), and (2)(f); and **repeal**  
25 (2)(d)(I) as follows:

26 **39-22-542.5. Tax credit for new employee-owned businesses**  
27 **- employee ownership cash fund - tax preference performance**

1 **statement - legislative declaration - definitions - repeal.**

2 (2) **Definitions.** As used in this section, unless the context otherwise  
3 requires:

4 (a) "Alternate equity structure" means a mechanism under which  
5 an employer grants to employees a form of employee ownership,  
6 including but not limited to an employee stock purchase plan, LLC  
7 membership, phantom stock, profit interest, restricted stock, stock  
8 appreciation right, stock option, or synthetic equity. The office may  
9 develop guidelines that clarify the types of employee ownership grants  
10 that qualify as an alternate equity structure. THE OFFICE MAY DEVELOP  
11 GUIDELINES THAT ADJUST THE PERCENTAGES SET FORTH IN THIS  
12 SUBSECTION (2)(a); EXCEPT THAT THE PERCENTAGES SHALL NOT BE  
13 ADJUSTED TO AN AMOUNT LESS THAN TWENTY PERCENT. An alternate  
14 equity structure must at a minimum:

15 (d) "Employee-owned business" means a taxpayer that is subject  
16 to tax under this article 22, including but not limited to a C corporation,  
17 S corporation, limited liability company, partnership, limited liability  
18 partnership, sole proprietorship, or other similar pass-through entity, that:

19 (I) ~~Is owned in whole or in part by an employee ownership trust;~~

20 (II) (A) IS OWNED IN WHOLE OR IN PART BY AN EMPLOYEE  
21 OWNERSHIP TRUST;

22 (B) Has an employee stock ownership plan;

23 (C) Is beneficially owned in whole or in part by a worker-owned  
24 cooperative; or

25 (D) Has an alternate equity structure; and

26 (III) Has its corporate headquarters located in this state. For  
27 purposes of this subsection (2)(d), "corporate headquarters" means the

1 sole location within a regional or national area where THE MAJORITY OF  
2 the taxpayer's staff members or employees are domiciled and employed,  
3 and where the majority of the taxpayer's financial, personnel, legal,  
4 planning, or other business functions are conducted on a regional or  
5 national basis.

6 (f) "Employee ownership trust" means an indirect form of  
7 employee ownership in which a trust holds ~~a controlling stake~~ AT LEAST  
8 TWENTY PERCENT OF THE FULLY DILUTED SECURITIES in a business and  
9 benefits all employees on an equal basis and otherwise meets the  
10 definition of an alternate equity structure.

11 **SECTION 5. Act subject to petition - effective date.** This act  
12 takes effect at 12:01 a.m. on the day following the expiration of the  
13 ninety-day period after final adjournment of the general assembly; except  
14 that, if a referendum petition is filed pursuant to section 1 (3) of article V  
15 of the state constitution against this act or an item, section, or part of this  
16 act within such period, then the act, item, section, or part will not take  
17 effect unless approved by the people at the general election to be held in  
18 November 2026 and, in such case, will take effect on the date of the  
19 official declaration of the vote thereon by the governor.