



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 25-1311: DEDUCTIONS FOR NET SPORTS BETTING PROCEEDS

Prime Sponsors:

Rep. McCluskie; Soper
Sen. Roberts

Fiscal Analyst:

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Bill Outcome: Signed into Law

Drafting number: LLS 25-0884

Version: Final Fiscal Note

Date: July 14, 2025

Fiscal note status: This revised fiscal note reflects the enacted bill.

Summary Information

Overview. For purposes of the sports betting tax, the bill reduces the deduction for free bets placed by players to 1 percent on January 1, 2026, and ends the deduction on July 1, 2026.

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

- State Revenue
- State Expenditures
- State Transfers

Appropriations. For FY 2025-26, the bill requires and includes an appropriation of \$17,135 to the Department of Revenue.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
State Revenue	\$3.2 million	\$12.9 million	\$11.5 million
State Expenditures	\$17,135	\$0	\$0
Transferred Funds	\$0	\$3.2 million	\$12.9 million
Change in TABOR Refunds	\$0	\$0	\$0
Change in State FTE	0.0 FTE	0.0 FTE	0.0 FTE

Table 1A
State Revenue

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
General Fund	\$0	\$0	\$0
Cash Funds (Sports Betting Fund)	\$3.2 million	\$12.9 million	\$11.5 million
Total Revenue	\$3.2 million	\$12.9 million	\$11.5 million

Table 1B
State Transfers

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
Sports Betting Fund	\$0	-\$3.2 million	-\$12.9 million
Water Plan Implementation Cash Fund	\$0	\$3.2 million	\$12.9 million
Net Transfer	\$0	\$0	\$0

Table 1C
State Expenditures¹

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
General Fund	\$0	\$0	\$0
Cash Funds (Sports Betting Fund)	\$17,135	\$0	\$0
Federal Funds	\$0	\$0	\$0
Centrally Appropriated	\$0	\$0	\$0
Total Expenditures	\$17,135	\$0	\$0
Total FTE	0.0 FTE	0.0 FTE	0.0 FTE

¹ Expenditures from the Water Plan Implementation Cash Fund are expected to increase beginning in FY 2027-28 using additional sports betting revenue (Table 1B). The fiscal note assumes these funds will be appropriated to the Colorado Water Conservation Board through the annual budget process and the annual water projects bill, and shows estimated administrative expenditures in Table 3.

Summary of Legislation

Under current law, sports betting operators are allowed to deduct free bets placed by players when calculating their net sports betting proceeds, the amount on which the sports betting tax is assessed. The amount of free bets that may be deducted is capped under current law at:

- 2.25 percent of all bets during FY 2024-25;
- 2.00 percent of all bets during FY 2025-26; and
- 1.75 percent of all bets beginning in FY 2026-27.

On January 1, 2026, the bill reduces the deduction for free bets placed by players to 1 percent of all bets. Beginning in FY 2026-27, the bill ends the deduction for free bets placed by players.

Background

Under current law, a 10 percent tax is imposed on the net sports betting proceeds of sports betting operators. When calculating net sports betting proceeds, a sports betting operator may deduct all payments to players, all federal excise taxes paid, and a certain percentage of free bets placed by players from gross gaming revenue. [House Bill 22-1402](#) established the percentage of free bets that may be deducted when calculating net sports betting proceeds. Prior to HB 22-1402, sports betting operators could deduct all free bets placed.

Sports betting tax revenue is exempt from TABOR and is distributed as follows after paying for administrative costs:

- 6 percent of the first \$29 million in sports betting revenue to the Wagering Recipients' Hold Harmless Fund; and
- the remaining revenue to the Water Plan Implementation Cash Fund.

Sports betting revenue allocated to the Water Plan Implementation Cash Fund is annually appropriated to the Colorado Water Conservation Board (CWCB) within the Department of Natural Resources (DNR) through the annual CWCB Projects Bill. The CWCB uses the appropriation for water project grants, and any unspent appropriations remain in the Water Plan Implementation Cash Fund for future use. Through FY 2023-24, the CWCB had issued over 470 grants.

State Revenue

The bill increases revenue to the Sports Betting Fund by an estimated \$3.2 million in FY 2025-26, \$12.9 million in FY 2026-27, and \$11.5 million in FY 2027-28 with comparable amounts in future years, as shown in Table 2.

Estimates are based on actual sports betting data from the Department of Revenue and the March 2025 LCS Forecast. Based on an analysis of free bets placed in Colorado following the passage of HB 22-1402 and other states' sports betting wagers data, the fiscal note assumes that the bill will result in less free bets offered by sports betting operators leading to a corresponding decrease in wagers. In the second year of implementation of the end of the free bet deduction (FY 2027-28), the increase in tax revenue is partially offset by a decrease in wagers from individuals who would have only started or continued sports betting as a direct result of free bets. If the bill does not result in a reduction of free bets offered, sports betting revenue would increase by a greater amount than estimated in the fiscal note.

Table 2
State Revenue
Sports Betting Tax Revenue Forecast Comparison

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
Current Law	\$36,692,748	\$39,084,865	\$41,378,125
HB 25-1311	\$39,893,862	\$52,013,946	\$52,904,793
Total Revenue	\$3,201,114	\$12,929,081	\$11,526,668

State Transfers

On September 30 of each year, revenue to the Sports Betting Fund received in the prior year is transferred to the Water Plan Implementation Cash Fund, after accounting for administrative costs and the transfers to the Wagering Recipients' Hold Harmless Fund. Based on the projected increase in revenue, it is estimated that \$3.2 million in FY 2026-27, \$12.9 million in FY 2027-28, \$11.5 million in FY 2028-29, and similar amounts in future years, will be transferred to the Water Plan Implementation Cash Fund.

State Expenditures

The bill increases state expenditures in the Department of Revenue by \$17,135 in FY 2025-26, paid from the Sports Betting Fund. It also increases available funding for water projects and related administrative costs starting in FY 2026-27. These impacts are described below.

Department of Revenue

This bill requires expenditures of \$17,135 in FY 2025-26 to program, test, and update database fields in the GenTax software system.

Both the programming to reduce the free bet deduction on January 1, 2026, and to end the free bet deduction for FY 2026-27 and beyond will occur in FY 2025-26. Total programming costs are estimated at \$13,906, representing 60 hours of contract programming at a rate of \$231.75 per hour. Costs for testing at the department include \$2,205 for 63 hours of innovation, strategy, and delivery programming support at a rate of \$35 per hour, and \$1,024 for 32 hours of user acceptance testing at a rate of \$32 per hour.

Department of Natural Resources

The bill increases sports betting revenue allocated to the Water Plan Implementation Cash Fund. However, the fiscal note assumes that increased revenue to the fund will be annually appropriated to the CWCB in DNR through the annual budget process and annual water projects bill, rather than in this bill, based on available projects and spending decisions by the General Assembly and CWCB. However, for informational purposes, a preliminary estimate of the costs to distribute grants using the anticipated revenue is provided below.

Grant Administration

Assuming around \$11 million in additional grants is issued each year using the increased revenue under the bill, the CWCB is estimated to require an additional 6.5 FTE to administer additional grants, beginning in FY 2026-27 and ramping up to the full amount in FY 2027-28. In addition to salary and operating costs, the CWCB will also have travel expenses and software licensing for the additional grant managers as shown in Table 3 below. This estimate assumes an additional 55 grants per year, with an average contract length of five years. These expenditures would be paid from the cash fund and reappropriated funds and requested through the annual budget process.

Table 3
Potential Administrative Expenditures
Department of Natural Resources

Cost Component	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
CWCB Staff	\$0	\$229,671	\$612,043
DNR Executive Director's Office Staff	\$0	\$0	\$141,908
CWCB Travel Expenses	\$0	\$17,016	\$25,524
CWCB Software Licensing	\$0	\$1,200	\$1,800
Total Costs	\$0	\$247,887	\$781,275
Total FTE	\$0	1.7 FTE	6.5 FTE

Effective Date

The bill was signed into law by the Governor on May 15, 2025, and takes effect August 6, 2025, assuming no referendum petition is filed.

State Appropriations

For FY 2025-26, the bill requires and includes an appropriation of \$17,135 from the Sports Betting Fund to the Department of Revenue.

State and Local Government Contacts

Natural Resources

Revenue