



Fiscal Note

Legislative Council Staff

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HB 25-1021: TAX INCENTIVES FOR EMPLOYEE-OWNED BUSINESS

Prime Sponsors:

Rep. Lindstedt; Taggart
Sen. Bridges

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Fiscal note status: This revised fiscal note reflects the introduced bill, as amended by the House Business Affairs & Labor Committee.

Summary Information

Overview. The bill creates two state income tax deductions, a new income tax credit, and also extends and modifies the current Employee Ownership Tax Credit.

Types of impacts. The bill is projected to affect the following areas through FY 2038-39:

- State Revenue
- State Expenditures
- TABOR Refunds

Appropriations. No appropriation is required.

Table 1
State Fiscal Impacts

Type of Impact ¹	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
State Revenue	\$0	at least -\$1.5 million	at least -\$3.0 million	at least -\$3.0 million
State Expenditures	\$0	\$104,684	\$302,280	\$302,280
Transferred Funds	\$0	\$0	\$0	\$0
Change in TABOR Refunds	\$0	at least -\$1.5 million	not estimated	not estimated
Change in State FTE	0.0 FTE	0.5 FTE	2.0 FTE	2.0 FTE

¹ Fund sources for these impacts are shown in the table below.

**Table 1A
State Revenue**

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund	\$0	at least -\$1.5 million	at least -\$3.0 million	at least \$3.0 million
Cash Funds	\$0	\$0	\$0	\$0
Total Revenue	\$0	at least -\$1.5 million	at least -\$3.0 million	at least -\$3.0 million

**Table 1B
State Expenditures**

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund	\$0	\$93,765	\$258,605	\$258,605
Cash Funds	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0
Centrally Appropriated	\$0	\$10,919	\$43,675	\$43,675
Total Expenditures	\$0	\$104,684	\$302,280	\$302,280
Total FTE	0.0 FTE	0.5 FTE	2.0 FTE	2.0 FTE

Summary of Legislation

The bill creates two state income tax deductions, a new income tax credit, and also extends and modifies the current Employee Ownership Tax Credit within the Office of Economic Development and International Trade (OEDIT).

Specifically, the bill:

- Provides an income tax deduction for business owners that establish a qualified employee-owned business. The amount of the deduction is equal to any qualified capital gains realized during the conversion of the business. The income tax deduction is available from tax years 2027 through 2037.
- Allows worker-owned cooperatives to deduct from their Colorado taxable income an amount equal to their federal taxable income up to \$1 million. The income tax deduction is available from tax years 2027 through 2037.
- Creates a refundable state income tax credit for nonprofit and for-profit entities that assist in converting a qualified business to an employee-owned business (qualified support entity credit). The amount of the credit is equal to 75 percent of the support costs but not to exceed \$167,000 per tax year. The credit is available for tax years 2027 through 2037.
- Extends the current Employee Ownership Tax Credit through tax year 2037.

- Allows OEDIT to reserve \$3 million in tax credits each tax year from 2027 through 2031, and \$4 million in tax credits for each tax year from 2032 through 2037.
- Increases the amount of the tax credit to 75 percent of the conversion costs for a business that converts to a worker-owned cooperative, an employee stock ownership plan, or an employee ownership trust.

Background

Employee Ownership Tax Credit

[House Bill 21-1311](#) created the Employee Ownership Tax Credit. The current state tax credit is equal to 50 percent of the conversion costs for a business that converts to a worker-owned cooperative, an employee stock ownership plan, or an employee ownership trust. The income tax credit is fully refundable.

[House Bill 23-1081](#) made changes to the credit. Specifically, the bill:

- increased the cap for converting a qualified business to a worker-owned cooperative or employee from \$25,000 to \$40,000;
- increased the cap for converting a qualified business to an employee stock ownership plan from \$100,000 to \$150,000;
- expanded the tax credit to a qualified business converting to or expanding an alternate equity structure, a form of employee ownership where an employer grants to employees an employee stock ownership plan, LLC membership, phantom stock, profit interest, profit sharing, restricted stock, stock appreciation right, stock option, or synthetic equity; and
- specified that a qualified business or qualified employee-owned business may apply for and claim only one credit for the conversion or expansion costs per tax year.

The income tax credit is available through tax year 2026 under current law. OEDIT is responsible for administering the program, including advertising and reporting requirements and reserving tax credits for qualified businesses. The maximum amount of tax credits that OEDIT may certify each tax year is \$10 million dollars.

Through FY 2023-24, the last year in which data are available, OEDIT has certified roughly \$2 million in Employee Ownership Tax Credits:

- in FY 2021-22, 12 applications and \$403,750 in credits;
- in FY 2022-23, 37 applications and just over \$1.0 million in credits;
- in FY 2023-24, 12 applications and approximately \$1.6 million in credits.

Assumptions

Employee Ownership Tax Credit

For the extension of the Employee Ownership Tax Credit, the fiscal note assumes OEDIT will reserve the maximum amount of credit certificates allowed each year under the bill. As discussed in the Background section, the amount of reserved certificates for qualified businesses has been steadily increasing each year, consistent with other relatively new state income tax credits programs. The fiscal note assumes with this standard growth for the state income tax credit, and in addition to providing a tax incentive for entities to market and outreach to businesses to convert to an employee-owned business structure that the maximum amount of reserved credits will be met each tax year.

Qualified Support Entity Tax Credit

As of this writing, three nonprofit and approximately 35 entities have been identified as qualifying for the new Qualified Support Entity income tax credit. It is unknown how many of these entities will qualify for the credit and the amount that will be claimed. The amount of credits certified by OEDIT are included in the annual aggregate total allowed in the bill.

Qualifying Capital Gain Deduction

As of the date of this fiscal note, the amount of capital gains from business owners that convert to an employee-owned business is unknown. To the extent a taxpayer claims this deduction, it will reduce their Colorado taxable income, thus decreasing state revenue.

Worker-Owned Cooperative Deduction

It is estimated that approximately 32 entities have formed a worker-owned cooperative business structure in Colorado. As of the date of this fiscal note, the amount of federal taxable income that would qualify for the deduction is unknown. To the extent a taxpayer claims this deduction, it will reduce their Colorado taxable income, thus decreasing state revenue.

State Revenue

The bill authorizes a total of \$39 million in state income tax credits that OEDIT may certify between calendar years 2027 through 2037. As shown in Table 2, it is estimated that the total revenue impact from the credits under this bill will be phased in over 12 fiscal years, beginning in FY 2026-27. Table 2 does not include the General Fund revenue reduction from the qualifying capital gain and worker-owned cooperative deductions.

Based on the assumptions above, General Fund revenue will decrease by at least \$1.5 million in FY 2026-27 (half-year impact), at least \$3.0 million in FY 2027-28, at least \$3.0 million in FY 2028-29, and steadily increase each year to approximately \$4.0 million through FY 2036-37 with a half-year impact in FY 2037-38. The bill decreases income tax revenue, which is subject to TABOR.

**Table 2
State Revenue**

Fiscal Year	Revenue Reduction
FY 2026-27 (half-year impact)	at least -\$1.5 million
FY 2027-28	at least -\$3.0 million
FY 2028-29	at least -\$3.0 million
FY 2029-30	at least -\$3.0 million
FY 2030-31	at least -\$3.0 million
FY 2031-32	at least -\$3.5 million
FY 2032-33	at least -\$4.0 million
FY 2033-34	at least -\$4.0 million
FY 2034-35	at least -\$4.0 million
FY 2035-36	at least -\$4.0 million
FY 2036-37	at least -\$4.0 million
FY 2037-38 (half-year impact)	at least -\$2.0 million
Total	-\$39.0 million

State Expenditures

The bill increases state expenditures by \$104,684 in FY 2026-27 and \$302,280 in FY 2027-28. These costs will be incurred by OEDIT and the Department of Revenue (DOR), paid from the General Fund. Costs are shown in Table 3 and described in the sections below. Costs in OEDIT are through FY 2038-39, when the credit is set to expire, while most of DOR's costs are one-time.

**Table 3
State Expenditures
All Departments**

Department	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
Office of Economic Development	\$0	\$104,684	\$255,363	\$255,363
Department of Revenue	\$0	\$0	\$46,917	\$46,917
Total Costs	\$0	\$104,684	\$302,280	\$302,280

Office of Economic Development

The bill increases expenditures in OEDIT by \$104,684 in FY 2026-27 and \$255,363 per year beginning in FY 2027-28 through at least FY 2038-39 to administer and monitor the income tax credits. OEDIT expenditures are paid from the General Fund. These costs are shown in Table 3A and discussed below.

Staff

Beginning in FY 2026-27, OEDIT requires 2.0 FTE program managers to implement the bill. This includes 1.0 FTE in the Employee Ownership Office to administer the tax credit, and 1.0 FTE to the Business Funding and Incentives Division to administer the reporting, compliance, and interactions with the DOR. Staff costs for the Employee Ownership Office are prorated for a January start date in FY 2026-27, while staff costs for the Business Funding and Incentives Division are assumed to begin in FY 2027-28. Standard operating and capital outlay costs are included.

Computer Programming

One-time computer programming is required in FY 2026-27 to administer the tax credit, estimated at a cost of \$35,840. This assumes 160 hours of programming at \$224 per hour.

**Table 3A
State Expenditures
Office of Economic Development**

Cost Component	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
Personal Services	\$0	\$50,615	\$202,458	\$202,458
Operating Expenses	\$0	\$640	\$2,560	\$2,560
Capital Outlay Costs	\$0	\$6,670	\$6,670	\$6,670
Computer Programming	\$0	\$35,840	\$0	\$0
Centrally Appropriated Costs	\$0	\$10,919	\$43,675	\$43,675
Total Costs	\$0	\$104,684	\$255,363	\$255,363
Total FTE	0.0 FTE	0.5 FTE	2.0 FTE	2.0 FTE

Department of Revenue

Beginning in FY 2027-28, expenditures will increase in DOR to update and test GenTax computer programming, provide data reporting, and make changes to state income tax forms. DOR expenditures are paid from the General Fund. These costs are shown in Table 3B and discussed below.

Computer Programming and Testing

For FY 2027-28 only, the bill requires expenditures of \$34,804 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at \$11,819, representing 51 hours of contract programming at a rate of \$231.75 per hour. Costs for testing at the department include \$15,785 for 451 hours of innovation, strategy, and delivery programming support at a rate of \$35 per hour, and \$7,200 for 225 hours of user acceptance testing at a rate of \$32 per hour.

Data Reporting

Beginning in FY 2027-28, expenditures in the Office of Research and Analysis in the DOR are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$8,778, representing 231 hours for data management and reporting at \$38 per hour and are ongoing through FY 2037-38.

Document Management and Tax Form Changes

For FY 2027-28 only, the bill requires changes to five tax forms at a cost of \$3,335. These costs also include testing of the scan system. For FY 2027-28, expenditures for form changes occur in the Department of Personnel and Administration using reappropriated DOR funds.

**Table 3B
State Expenditures
Department of Revenue**

Cost Component	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
GenTax Programming and Testing	\$0	\$0	\$34,804	\$34,804
Data Reporting	\$0	\$0	\$8,778	\$8,778
Document Mgmt and Tax Form Changes	\$0	\$0	\$3,335	\$3,335
Total Costs	\$0	\$0	\$43,582	\$43,582

Centrally Appropriated Costs

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are shown in the expenditure tables above.

TABOR Refunds

The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate assumes the December 2024 LCS revenue forecast. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save. A forecast of state revenue subject to TABOR is not available beyond FY 2026-27.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State and Local Government Contacts

Human Services

Personnel

Information Technology

Revenue

Office Of Economic Development

State Auditor