

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

ENGROSSED

*This Version Includes All Amendments Adopted
on Second Reading in the House of Introduction*

LLS NO. 25-0573.01 Megan McCall x4215

HOUSE BILL 25-1021

HOUSE SPONSORSHIP

Lindstedt and Taggart,

SENATE SPONSORSHIP

Bridges,

House Committees

Business Affairs & Labor
Finance
Appropriations

Senate Committees

A BILL FOR AN ACT

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

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.

HOUSE
Amended 2nd Reading
April 25, 2025

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.

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 OR EXPANSION 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, 2032, 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, 2032, 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, 2032,
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, 2032, 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 EXPANSION 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, 2032, 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 AND

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

5

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

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

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

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

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

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

12 (V) Detailed guidelines regarding expansion costs; and

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

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

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

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

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

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

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

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

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

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

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

25 **39-22-542.5. Tax credit for new employee-owned businesses**
26 **- employee ownership cash fund - tax preference performance**
27 **statement - legislative declaration - definitions - repeal.**

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

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

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

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

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

21 (B) Has an employee stock ownership plan;

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

24 (D) Has an alternate equity structure; and

25 (III) Has its corporate headquarters located in this state. For
26 purposes of this subsection (2)(d), "corporate headquarters" means the
27 sole location within a regional or national area where THE MAJORITY OF

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

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

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