Fiscal Note

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HB 25B-1020: VOTER APPROVAL ADDITIONS TO TAXABLE INCOME

Prime Sponsors:
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Fiscal note status: This fiscal note reflects the introduced bill. The bill was postponed indefinitely by the House State, Civic, Military, & Veterans Affairs Committee on August 21, 2025; therefore, the impacts identified in this analysis do not take effect.

Summary Information

Overview. The bill would have repealed the state income tax addition for overtime compensation, and created a statutory voter approval requirement for certain new state income tax additions.

Types of impacts. The bill was projected to affect the following areas through FY 2028-29:

- State Expenditures
- State Revenue
- TABOR Refunds

Appropriations. No appropriation was required.

Table 1
State Fiscal Impacts

Type of Impact	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
State Revenue	-$48 million	-$106 million	-$118 million	-$59 million
State Expenditures	$0	-$1.8 million	-$2.0 million	-$2.0 million
Transferred Funds	$0	$0	$0	$0
Change in TABOR Refunds	$0	-$96 million	Not estimated	Not estimated
Change in State FTE	0.0 FTE	-18.9 FTE	-25.0 FTE	-25.0 FTE

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Table 1A
State Revenue

Fund Source	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund	-$43 million	-$94 million	-$104 million	-$53 million
State Education Fund (SEF)	-$4 million	-$8 million	-$9 million	-$4 million
SEF Kids Matter Account	$0	-$2 million	-$2 million	-$1 million
State Affordable Housing Fund	-$1 million	-$2 million	-$3 million	-$1 million
Total Revenue	**-$48 million**	**-$106 million**	**-$118 million**	**-$59 million**

Table 1B
State Expenditures

Fund Source	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund	$0	-$1.8 million	-$2.0 million	-$2.0 million
Cash Funds	$0	$0	$0	$0
Federal Funds	$0	$0	$0	$0
Centrally Appropriated	$0	$0	$0	$0
Total Expenditures	**$0**	**-$1.8 million**	**-$2.0 million**	**-$2.0 million**
Total FTE	**0.0 FTE**	**-18.9 FTE**	**-25.0 FTE**	**-25.0 FTE**

Summary of Legislation

The bill repeals the state income tax addition for overtime compensation, and creates a statutory voter approval requirement for certain new state income tax additions.

Overtime Compensation

Under current law enacted in House Bill 25-1296, beginning in tax year 2026, Colorado taxpayers are required to add any amount of overtime compensation excluded or deducted from their federal taxable income when calculating their Colorado taxable income. The bill repeals this addition.

Voter Approval Requirements

The bill includes statutory declarations that state income tax additions for overtime compensation and qualified business income are tax policy changes directly causing a net tax revenue gain to the state, and that enacting or extending these additions requires voter approval under TABOR.

Background

Overtime Compensation

The 2025 One Big Beautiful Bill Act (OBBBA) allows certain taxpayers to deduct up to $12,500 in overtime compensation ($25,000 for joint filers) from their federal taxable income. The deduction phases out for taxpayers with federal modified adjusted gross income over $150,000 ($300,000 for joint filers). The deduction is in place for tax years 2025 through 2028.

House Bill 25-1296 requires Colorado taxpayers to add back any federally deducted overtime compensation when calculating their Colorado taxable income beginning in tax year 2026.

Qualified Business Income

House Bill 21-1311 requires taxpayers with federal adjusted gross income over $500,000 ($1,000,000 for joint filers) to add back their federal qualified business income deduction when calculating their Colorado taxable income. Under current law, the addition requirement is scheduled to end after tax year 2025.

Assumptions

The voter approval requirements in the bill are assumed to have no fiscal impact relative to current law, as they do not change current law income tax additions.

For repealing the state overtime compensation addition, the revenue estimate in the fiscal note is based on the Joint Committee on Taxation's July 1, 2025, revenue estimates for the OBBBA, adjusted for Colorado's tax rate and share of federal taxable income. The bill's revenue impact ends after tax year 2028, when the federal deduction for overtime compensation expires.

State Revenue

By repealing the overtime compensation add-back requirement for tax years 2026 through 2028, the bill decreases revenue for FY 2025-26 (half-year impact for tax year 2026), FY 2026-27, FY 2027-28, and FY 2028-29 (half-year impact for tax year 2028), as shown in Table 1A.

Most income tax revenue is subject to TABOR and credited to the General Fund. However, because the bill decreases Colorado taxable income, it also decreases the amount of income tax revenue deposited in:

- the State Education Fund (one-third of one percent of Colorado taxable income);
- the State Affordable Housing Fund (one-tenth of one percent of Colorado taxable income); and

- the Kids Matter Account in the State Education Fund (65 percent of one-tenth of one percent of Colorado taxable income, beginning in FY 2026-27).

Income tax revenue credited to the State Education Fund under Amendment 23, and to the State Affordable Housing Fund under Proposition 123, is exempt from TABOR. Income tax revenue credited to the General Fund and to the Kids Matter Account is subject to TABOR.

State Expenditures

The bill decreases state expenditures in the Department of Revenue by $1.8 million and 18.9 FTE in FY 2026-27, and $2.0 million and 25.0 FTE in FY 2027-28 and FY 2028-29, because the bill eliminates a requirement for implementation and administration of a state income tax addition for overtime compensation. The reductions in costs, paid from the General Fund, are summarized in Table 2 and discussed below.

Because federal law did not include a deduction for overtime compensation at the time when HB 25-1296 became law, the fiscal note for that bill did not identify required appropriations for the state income tax addition, and DOR has not received an appropriation for implementation or administration. Therefore, this bill does not require a decrease in appropriations relative to current law. This reduction reflects the cost avoidance from no longer implementing the tax addition.

Table 2
State Expenditures
Department of Revenue

Cost Component	Current Year FY 2025-26	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
Personal Services	$0	-$1.1 million	-$1.5 million	-$1.5 million
Operating Expenses	$0	-$0.02 million	-$0.03 million	-$0.03 million
Capital Outlay Costs	$0	-$0.2 million	$0	$0
Computer Programming and Testing	$0	-$0.06 million	$0	$0
Data Analysis and Reporting	$0	-$0.01 million	-$0.01 million	-$0.01 million
Employee Insurance and Supplemental Retirement	$0	-$0.4 million	-$0.5 million	-$0.5 million
Total Costs	**$0**	**-$1.8 million**	**-$2.0 million**	**-$2.0 million**
Total FTE	**0.0 FTE**	**-18.9 FTE**	**-25.0 FTE**	**-25.0 FTE**

Department of Revenue

The bill reduces costs for the department to implement and administer the state income tax addition for overtime compensation. The department has not yet submitted a formal budget decision item for these costs. Based on the expected number of affected taxpayers, the fiscal note estimates costs that may be required for implementation and administration under current law, and that would be eliminated under this bill.

Staff

The fiscal note estimates that the department will require approximately 25.0 FTE tax examiners annually to communicate with taxpayers and correct errors regarding the income tax addition. The estimate assumes that about 500,000 taxpayers will be affected by the addition. The FY 2026-27 estimate assumes an October 1, 2026, start date. Standard operating expenses and capital outlay costs are included.

DOR GenTax Costs

This bill decreases expenditures by approximately $55,000 that would otherwise be required to program, test, and update database fields in the GenTax software system. Expenditures in the Office of Research and Analysis would also be required for changes in the related GenTax reports. These costs are estimated at about $1,500, ongoing through FY 2028-29.

Employee Insurance and Supplemental Retirement

Pursuant to a Joint Budget Committee policy, centrally appropriated costs for bills involving more than 20 FTE are appropriated in the bill, rather than through the annual budget process. These costs, which include employee insurance and supplemental employee retirement payments, are shown in Table 2 above.

TABOR Refunds

The bill decreases the amount of state revenue required to be refunded to taxpayers by $96 million in FY 2026-27. The state is not projected to have a refund obligation for 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, 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 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

Personnel | Revenue