

Report on Business Incentive Tax Expenditures



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OFFICE OF THE STATE AUDITOR
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Business Incentive Tax Expenditures

The Office of the State Auditor (OSA) prepared this report in accordance with statute [Section 39-21-403(2)(c)(I)(C), C.R.S.], which allows the Legislative Oversight Committee Concerning Tax Policy (Committee) to request that the OSA prepare reports on selected tax expenditure topics. In October 2024, the Committee requested that the OSA prepare a report on Colorado’s business incentive tax expenditures including a holistic review of the State’s business tax incentives, similar benefits provided under federal tax law, the geographic distribution of incentives, business ownership demographics, and potential overlap in incentives.

Report Structure

This report provides information on Colorado’s tax expenditures that are intended to incentivize businesses’ behavior, incentivize consumer behavior to promote business activity in specific economic sectors, or are intended to financially assist businesses to support their operations. The report is divided into three main sections, listed in the tables below, and includes information on the scope of our review based on Colorado’s existing tax expenditures as of June 2025 and available revenue and business data; a discussion on best practices in designing business incentive tax expenditures; and summary information on Colorado’s business incentive tax expenditures divided into six main economic development areas.

Report Overview and Scope

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- Location of Incentives
- Business Demographic Information
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Best Practices in Designing Business Incentive Tax Expenditures

- Targeted Goals and Data Driven Design
- Simplicity and Administrative Efficiency
- Return on Investment (ROI) and Fiscal Responsibility
- Avoidance of Unintended Consequences
- Complementarity with Other Economic Development Programs

Summary of Business Tax Expenditure Incentives	Economic Development Categories
Employee Benefits and Community Development	• Child Care • Employee Benefits • Food Security • Homelessness • Insurance Coverage
Infrastructure Development	• Affordable Housing • Rail Transportation • Business Districts • Broadband Services
Job Creation and Workforce Development	• Job Creation and Workforce Development
Geographic-Based Development	• Enterprise Zones • Semiconductor Manufacturing Zones • Rural Jump-Start Zones
Industry Development	• Aerospace • Agriculture • Aviation • Entertainment • Fixed Capital • Insurance • Carriers • Manufacturing • Mining • Oil and Gas • Research and Experimental Activities • Small Business • Quantum Technology • Specific Product Sales
Sustainable Development	• Environmental Protection and Clean Up • Clean Energy Production and Distribution • Building Emissions Reductions • Transportation Emissions Reductions

Report Overview and Scope

Methodology for Identifying Colorado Business Incentive Tax Expenditures and Related Local, State, and Federal Incentives

This report focuses on tax expenditures intended to further public policy goals, drive certain behavior, or support specific business activities or industries. Generally, we included tax expenditures in this report if the purpose of the expenditure is to either incentivize behavior or financially assist the business community, which we consider to be “preferential” tax expenditures. This OSA report does not include information on tax expenditures that are considered “structural,” which the Department of Revenue (Department) defines as tax expenditures that “are intended to establish the basic elements of a tax provision, avoid duplication of a tax, promote administrative efficiency, clarify the definition of the types of transactions or individuals who are subject to a tax, or ensure that taxes are evenly applied.” Some of these structural expenditures include sales and use tax exemptions for wholesale sales; inputs for agricultural production, manufacturing, and food production; as well as credits for excise taxes levied on inventory that cannot be sold due to destruction, loss, or non-payment from the purchaser (i.e., bad-debts).

This report also does not include tax expenditures directed towards non-business entities such as nonprofit organizations, religious organizations, government agencies, and other tax-exempt organizations; or tax expenditures that directly benefit individuals and are claimed by individuals. Some of the non-business expenditures might indirectly benefit businesses, but that is not their primary purpose. For example, the Early Childhood Educator Income Tax Credit provides financial support to qualifying educators who work for state-licensed child care providers. While the child care provider businesses that employ these educators might receive some benefit as a result of their staff being more qualified and financially secure, the main beneficiary of the credit is the educator.

This report covers Colorado tax expenditures available as of June 2025 and incorporates changes from the 2025 Regular Legislative Session. It does not include tax expenditures that had expired or were repealed as of the beginning of Tax Year 2025, or changes from the 2025 Extraordinary Session.

The tax expenditures are grouped into economic development categories based on the General Assembly’s stated purpose for the expenditure, or if a statutory purpose is not available, the OSA’s inferred purpose as provided in our evaluation of the expenditure. Each economic development category includes a summary of the:

- Relevant state tax expenditures and statutory citations,
- Tax Years the expenditures are available,
- Geographic component, if applicable,

- OSA evaluation report number, if an evaluation has been conducted,
- State revenue impact of the tax expenditures, if available,
- Other state and local programs such as grants, alternative financing, local tax incentives, and educational or assistance programs that complement, or overlap with, the state tax incentives, and
- Similar federal tax expenditures.

We identified similar local and federal provisions through:

- U.S. Department of Treasury tax expenditure reports.
- Congressional Research Services reports on federal tax provisions.
- Internal Revenue Code and Internal Revenue Service guidance.
- Questionnaires to departments that administer tax expenditures and other related programs, and to local economic development organizations.
- Prior OSA tax expenditure evaluations.

Due to the complexity of federal and local (i.e., municipal and county governments) tax provisions and the numerous federal, state, and local resources available for different programs, we limited our review to federal and local provisions that are similar or related to state tax expenditures and the more significant incentives and programs available at the federal and local level. Therefore, our review does not include a comprehensive listing of all federal and local business tax incentives and programs. Additionally, the federal One Big Beautiful Bill Act (OBBBA), passed in July 2025, makes significant changes to how businesses calculate income tax liability, as well as modifying and repealing many tax expenditures and making changes to other incentives such as grant programs and regulations that set standards for qualifying for tax expenditures. While we attempted to capture the most significant recent changes, especially in sectors where Colorado's tax expenditures are intended to complement federal incentives, our review did not include the impact of all recent changes. A more detailed review of the impact of federal tax law on Colorado's tax base can be found in our [Report on Federal Tax Law Provisions and Changes that Impact the Colorado Tax Base](#), which was published in June 2025 and will be published on an annual basis, with future publications including more detailed information specific to the OBBBA.

Data Usage and Limitations

Generally, we used the most recent data available for our review of the tax expenditure provisions discussed in this report; however, due to data limitations, we used varying time periods and sources and, in some cases, lacked adequate data to provide information, such as state revenue impact, for tax expenditures. The following sections provide information on our general approach to using available data and the limitations we encountered while preparing this report.

Revenue Impacts

To report on the tax expenditures' revenue impacts to the State, we used the most recent data available in the Department's Tax Profile and Expenditure reports (published biennially). At the time of this report, data was generally available for income tax expenditures for even numbered years up to Tax Year 2022, and sales and use tax expenditures for odd numbered years up to Tax Year 2023 with the following limitations:

- **Data is Not Releasable.** Due to statutory taxpayer confidentiality requirements, the Department does not release aggregated data unless a minimum of three taxpayers exist in a group and a single taxpayer does not represent more than 80 percent of the total revenue impact of a group. Additionally, when the Department reports figures that make up aggregate totals that include some releasable and some non-releasable data (e.g., total income tax credits claimed), it must suppress its reporting of at least two expenditures that make up the aggregate total to avoid allowing totals for non-releasable data to be calculated.
- **Data is Not Itemized.** The Department's tax forms do not require taxpayers to separately report every expenditure claimed; instead, multiple tax expenditures are aggregated on a single line on tax forms. Therefore, values for specific tax expenditures cannot be isolated. This is common for sales and use tax expenditures or expenditures that are part of the same state program (e.g., Rural Jump-Start tax expenditures).
- **Data is Not Retrievable.** Some tax expenditures are collected on tax forms that do not allow for automated retrieval of the data. Specific credits and refunds may require taxpayers to file a document with their tax return that may be in a hard copy format and stored as a PDF in the Department's tax processing system, which must be manually retrieved.

Additionally, the Department reports income tax expenditures claimed by the following taxpayer return types, which we report in our revenue impact exhibits when available. As noted in the following bullets, several taxpayer return types can have income from more than one source, such as wages and business income.

- **Individuals.** Natural persons with income that can represent personal income such as wages, investment income, or retirement income, or it can represent income from a business, of which

the person is a sole-proprietor, partner, or shareholder. Taxable income and tax expenditures are reported at the individual level.

- C-corporations. Independent legal entities conducting business activities and owned by shareholders. Income represents business and investment income. Taxable income and tax expenditures are reported at the entity level.
- Fiduciaries. A person or organization that manages assets in an estate or trust on behalf of the beneficiaries of the estate or trust. Income generally represents investment or business activity, such as rental income or partnership interest. Income retained by the estate or trust and tax expenditures are reported at the entity level.
- Nonresident Composite Returns. Partnership or S-corporation filing a composite (i.e., grouped) return on behalf of its partners and shareholders that are individuals, estates, or trusts that are not Colorado residents. Taxable income and tax expenditures are reported at the entity level on behalf of the nonresidents.

Because taxpayer return types can represent income from various sources, reported state revenue impacts may be overstated in some cases in this report because the claims data includes amounts claimed by Individual taxpayers, which may represent either natural persons or a business; certain types of businesses pass-through taxable income amounts to the individual owner(s), partners, or shareholders to file on their personal income tax return. It is not always possible to determine whether an Individual return claiming a tax expenditure is a natural person or a pass-through business such as a Limited Liability Company (LLC) or Partnership. For some tax expenditures, such as the Job Growth Income Tax Credit, only businesses, regardless of their structure, would be eligible to apply for and claim the tax credit, so the total revenue impact likely represents the benefit provided to businesses. However, for other expenditures, such as the Child Care Contribution Income Tax Credit, the data available on Individuals claiming the credit may include both natural persons claiming the credit in their personal capacity, and a business claiming the credit on the owner's, partner's, or shareholders' Individual income tax return. Therefore, the revenue impact figures for several expenditures reflect the aggregate benefits to both individuals and businesses. We have noted this issue in the report when it is applicable to the tax expenditure being discussed.

Finally, some credits can be sold or transferred to another business or person. Therefore, the final reported taxpayer type that claims the expenditure may not represent whether a business, individual, or in some cases, a government agency or nonprofit organization, is the beneficiary of the expenditure. For example, tax credits for historic property preservation may be sold to an investment agency that provides the business completing the preservation project capital for the project. Therefore, the claim for the credit would be listed under a C-corporation, even though the entity preserving the historic property could be a nonprofit, government entity, or pass-through business.

If the OSA had previously evaluated the tax expenditure and determined that the Department estimate may be over or understated due to taxpayer filing errors, we report the estimated revenue impact from the OSA's most recent evaluation instead.

The Division of Insurance, not the Department, administers insurance premium taxes. The Division is not required to report on premium tax expenditures; therefore, all the revenue impacts for premium tax expenditures we report are from the OSA's most recent evaluations of the expenditures.

There are two unique limitations on data for sales and use tax expenditures. First, in contrast to income tax expenditures, sales and use tax expenditures are not reported by taxpayer type. Retailers of a good or item, not the consumer who purchased the good or item, are responsible for collecting and remitting sales tax to the Department of Revenue. The retailer will also typically apply any exemptions at the time of sale. As part of its sales tax filing, the retailer will report the amount of exempt sales it made to the Department of Revenue, but does not provide any information on the consumer who purchased the goods or items. Therefore, the Department of Revenue will often know the number of retailers who applied an exemption and the amount of exempt sales, but will not know how many consumers received an exemption or whether they were individual or business consumers. Second, the Department does not collect data on consumer use tax exemptions. Use tax is applied in lieu of sales tax, for example if goods are purchased out of state and brought into Colorado, the purchaser is generally required to pay use tax on the goods since the state sales tax was not applied. However, consumers report only the amount of purchases subject to use tax and are not required to report any information about purchases that are exempt from use tax.

Location of Incentives

In this report, we have compiled information on whether each expenditure includes a geographic component, such as targeting rural areas, disaster areas, or economically-distressed or disadvantaged areas. Identifying where the business or business activity receiving the final benefit of a tax expenditure is located requires data that the Department or other state agencies are often not required to collect. Additionally, in cases where a state agency does collect information on the business location, the registered address for the business does not always reflect where the business is located. For example, film and media projects or construction projects often create a limited liability company (LLC) specific to the project with a business address that is not the same as where the work takes place. Additionally, many tax credits can be sold or transferred to other organizations as a way to raise capital for a project, especially for development projects that tax-exempt organizations might undertake, such as a local government or nonprofit entity developing local infrastructure or renovating historic business districts. Therefore, the address of the taxpayer would not reflect the entity or location of the activity the expenditure is trying to incentivize. While some tax expenditures are administered by agencies that collect location information, it is not generally a statutory requirement, and therefore, there is not a systematic way to identify the location of the tax expenditure beneficiaries. If we have already evaluated a tax expenditure, we include the OSA report number, which provides more detail about the location of incentives claimed across the state.

Business Demographic Information

Similar to the data limitations that impact the reliability of location information, demographic information relevant to businesses claiming tax expenditures is generally not required to be collected, so it was typically not available during our review. Additionally, Colorado does not have any business tax incentive expenditures targeted specifically towards traditionally “disadvantaged businesses” such as minority, women, and/or veteran owned businesses, though some tax expenditures require the administering agency to prioritize approval for these types of businesses. Because there is not data on business demographics for most expenditures, we did not assess the extent to which current tax expenditures impact these types of businesses. Instead, in this report’s Best Practices section, we have incorporated information that is relevant to designing incentives that these types of businesses can use, including the federal Small Business Administration’s information on incentives targeting disadvantaged businesses. We also included information on incentives and assistance programs aimed towards minority, women, and veteran-owned businesses, such as grants or other financial and educational programs, at the federal, state, and local levels. For example, the Minority Business Office within the Office of Economic Development and International Trade (OEDIT), works with other OEDIT divisions to assist traditionally disadvantaged businesses with accessing resources to establish, expand, and strengthen their business. The Minority Business Office assists businesses with identifying and accessing grants and loans and provides small business advising, training, and networking. Several OEDIT divisions work with the Minority Business Office to market tax expenditures and reduce potential barriers to applying for tax incentives, such as complex applications.

Business Size

Data on business size are also limited. While the Department publishes information on C-corporations by the amount of their Colorado taxable income, this may not accurately reflect the ‘size’ of a business, as it does not necessarily reflect their annual revenue, market share in Colorado, job totals, total assets, or the nature of their income from non-operational sources, such as interest or dividend income. Additionally, Department data does not systematically identify whether income on Individual income tax returns includes pass-through income from sole-proprietors, partnerships, or S-corporations. Also, in general, agencies administering the State’s tax expenditures are not required to collect data such as number of employees, annual revenues, and business structure in order to reliably determine the size of businesses benefitting from tax expenditures, unless those components are a requirement for the business to be eligible for the tax incentive.

For this report, we reviewed whether current Colorado tax expenditures are targeted towards certain business sizes as defined by the Small Business Administration. In general, the State’s business tax incentive expenditures do not require businesses to meet a certain size requirement, such as a maximum amount of jobs or revenues, but there are a few expenditures that are targeted specifically towards assisting small businesses, such as incentives that provide funding for start-up costs, business expansion, or transitioning to an employee ownership model. Additionally, the Colorado Small Business Development Center Network, within OEDIT, works to support small businesses

with consulting services, training, and networking, and works with other OEDIT divisions to market tax expenditures and reduce potential barriers to applying for tax incentives, such as complex applications.

This report's Best Practices section provides information on methods for incentivizing businesses of various sizes, in terms of number of jobs, revenue amounts, and taxable income. Similar to incentives targeted toward businesses with certain ownership demographics, funding for small businesses often consists of federal, state, and local grant, educational, and alternative financing opportunities as opposed to tax expenditures.

Best Practices in Designing Business Incentive Tax Expenditures

Tax expenditures have grown in popularity as an economic development tool for local, state, and federal governments to incentivize businesses to undertake certain activities, such as capital investment and job creation; to support the stability or growth of certain industries; and to influence business location and expansion decisions¹. However, our evaluations of tax expenditure provisions show mixed results, with some tax expenditures working as intended and others having relatively little impact, going unused, or potentially having unintended consequences. In the following section, we provide best practices for designing business incentive tax expenditures based on our review of academic and economic research, other state and federal evaluations of tax expenditures, and the results of our prior evaluations of Colorado's business incentive tax expenditures.

Targeted Goals and Data-Driven Design

Include a Purpose and Measurable Outcomes

Tax expenditures should have clear goals to help policymakers, the public, and evaluators understand how the proposed incentive is intended to benefit the state economy². A statement of purpose, and a logical link between the tax expenditure and the desired economic outcome, in turn, helps the state assess the program and compare it to other strategies for achieving the same ends, such as a grant program or direct spending to build infrastructure. The purpose of the expenditure should be a clear goal that has measurable outcomes, such as a set number of jobs created in specific locations or industries, or a set number of new businesses to create economic diversity in geographic areas that historically are dependent on a single large business or industry³. Incentives with broad goals, such as to increase jobs and business activity generally, instead of targeting a specific action with measurable outcomes, can be difficult to evaluate whether the tax expenditure is meeting its intended purpose.

Example: Since 2021, statute [Section 39-21-304, C.R.S.] has required the Colorado General Assembly to include a performance statement in legislation for all new tax expenditures and when extending existing tax expenditures. The performance statement should indicate whether the tax expenditure is intended to induce certain activities; improve industry competitiveness; create or retain jobs; or provide tax relief for certain businesses; and should include the purpose of the tax expenditure and specified metrics

¹ Timothy J. Bartik, Making Sense of Incentives: Taming Business Incentives to Promote Prosperity (Kalamazoo, Michigan W.E. Upjohn Institute for Employment Research, 2019), p. 3-4, 7

² Pew Charitable Trusts, Questions for Lawmakers to Ask When Designing New Tax Incentives (2017))

³ Timothy J. Bartik, Making Sense of Incentives: Taming Business Incentives to Promote Prosperity (Kalamazoo, Michigan W.E. Upjohn Institute for Employment Research, 2019), p. 56 and 59

that can be used by the General Assembly and the OSA to determine whether the tax expenditure is meeting its intended purpose. While expenditures created in the last 5 years include a purpose statement and performance measures, many older expenditures still do not have a purpose statement or performance measures, making some of these expenditures difficult to evaluate.

For example, the Oil and Gas Severance Tax Ad Valorem Credit established in 1977 allows taxpayers to claim a credit against their severance tax liability for a percentage of property taxes assessed or paid to a local government (i.e., ad valorem tax). There is no stated purpose for this credit, making it difficult to determine whether the credit is operating as intended.

Design the Incentive to Target the Intended Beneficiaries and Outcomes

To the extent possible, policymakers should design tax expenditures to ensure that the intended beneficiaries can use the expenditures and will be incentivized to engage in the desired activity, while minimizing the opportunities for businesses to claim tax expenditures for activities they would engage in regardless of the tax benefit potential⁴. Information on the targeted sectors, regions, jobs, etc. should be reviewed prior to developing the tax incentive so the incentive can be designed to address specific policy issues and avoid potential barriers that might prevent the expenditure from meeting its purpose. For example, by reviewing the availability of resources needed to support economic growth, such as housing, healthcare, child care, schools, a skilled labor pool, and local infrastructure, legislators can better identify whether a tax expenditure versus another policy or program (i.e., direct grant funding or an infrastructure project) is the appropriate tool to achieve the desired outcome. These factors are often more important considerations for business location, hiring, and investment decisions than whether or not a tax expenditure is available.

Additionally, data on the targeted businesses' size and/or profits should help drive the design of the tax expenditure; the size of benefit allowed; whether it is refundable or transferable; and whether beneficiaries can carry the tax expenditure forward and claim it across multiple years. According to a 2022 report on federal tax incentives from the Congressional Research Service, there are many tax incentives that unintentionally only benefit, and therefore likely only incentivize, established businesses with higher incomes and significant tax liabilities to offset with tax credits⁵. Small businesses or businesses with high start-up costs may not have sufficient income tax liability to use a non-refundable income tax credit. Therefore, refundable or transferable credits, which provide a benefit regardless of whether the business owes taxes, may be more effective at incentivizing new

⁴ Timothy J. Bartik, Making Sense of Incentives: Taming Business Incentives to Promote Prosperity (Kalamazoo, Michigan W.E. Upjohn Institute for Employment Research, 2019), p. 26, 54-59

⁵ Congressional Research Service, Tax Expenditures: Compendium of Background Material on Individual Provisions (2022), No. 49-569

businesses and entrepreneurial activity⁶. While refundable tax credits create higher revenue impacts and generally require more administrative oversight from state agencies to prevent misuse, waste, or fraud, they are more likely to provide a benefit to certain types of businesses with low, or no, current income.

Example: Several of Colorado’s sustainable development tax credits are intended to incentivize individual and business consumers to purchase electric powered equipment (e.g., vehicles, lawn equipment, bicycles). The seller can claim the credits if the seller provides a discount to the purchaser in the amount of the credit. This allows the purchaser to receive an immediate cost reduction without filing additional forms on their tax return, which research shows is preferred to time-delayed incentives like an annual tax credit, and therefore is more likely to incentivize purchases of equipment among buyers than a refundable tax credit to the purchaser⁷. However, the seller must cover the cost of the discount until the seller receives the credit, and certain businesses may decide not to offer the discounts because the business could not cover the costs. Therefore, Colorado developed a different claims system specific to these credits that allows sellers to submit claims for the credit more frequently, acting more as a reimbursement than an annual tax credit. This alleviates the financial burden for sellers who are then more likely to provide purchasers the discount on eligible equipment.

The incentive’s value relative to the costs of the desired business activity is also an important consideration and the expenditure should be aligned with the likely costs. Research demonstrates that business tax incentives must be fairly substantial in order to influence business decisions⁸. Specifically, a 2018 study estimated that typical state incentives for job creation provide a value of about 2 to 3 percent of the company’s wages. Incentives of this size generally induce just 10 to 15 percent of total job creation among businesses that claim them, meaning that the incentives are generally not large enough to be a significant factor in whether a company creates new jobs. While tax expenditures that are a higher value will increase costs to the State, larger expenditures are more likely to affect a business’s location and investment decisions, and prevent the State from providing incentives to businesses that would have made the same decisions without the tax expenditure.

Example: The New Plastic Recycling Technology Investment Tax Credit, which was capped at \$2,000, was too small to incentivize investment in new plastic recycling technologies since the cost of equipment was too high for the credit to have a meaningful impact for

⁶ Elizabeth Gray, Lessons from Economic Development Incentive Evaluations Supporting Small Businesses, (Pew Charitable Trusts, 2024)

⁷ Laura Robertson and John Paul Helveston, “Not All Subsidies are Equal: Measuring Preferences for Electric Vehicle Financial Incentives.” Environmental Research Letters, Volume 17, Number 8, Report No. 17 084003, July 2022.

⁸ Timothy J. Bartik, “Who Benefits From Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy,” Upjohn Institute Technical Report No. 18-034, March 2018.

businesses that would be likely to make investments. The General Assembly repealed this expenditure in House Bill 22-1025.

Finally, tax expenditures should be designed to maximize their influence and minimize opportunities for businesses to claim them based on activities they would undertake regardless of the availability of a tax benefit⁹. Businesses consider a wide range of factors when making location and expansion decisions and research shows that a minority of businesses alter their location or expansion decisions based on tax expenditures, even when they claim the expenditures. As a result, the costs to the State can be large with relatively little benefit, unless tax expenditures are designed to target the businesses most likely to be incentivized. For example, the State can require businesses to submit applications to an administrator, such as OEDIT, that reviews information relevant to the business and awards credits only to those most likely to be influenced. Although this approach increases the cost of administering and claiming tax expenditures, overly broad incentives may be less cost-effective since the benefit may be spread across too many businesses, with many being compensated for activities they already planned to undertake.

Example: In our review of the Enterprise Zones Tax Expenditures, we found that Enterprise Zones (i.e., designated economically distressed areas) make up about 84 percent of the State's geographic area and the tax expenditures for businesses are often claimed for activities that are already likely to occur within Enterprise Zones, such as oil and gas drilling, construction of gas stations and cell phone towers along interstate highways, and agricultural operations. Therefore, it was difficult to measure the extent to which the expenditures encouraged job growth and investment that would not have otherwise occurred. Additionally, we found that the incentives were likely too small to "tip" business decisions on where to locate or how many employees to hire. Specifically, the credits available for business investments, such as depreciable property and certain research activities, provided businesses with between 1 percent and 4 percent of the total investment amount, while the credits for hiring new employees provided, at most, between 2 percent and 5 percent of total estimated annual employment costs for the new employees. Overall, in our survey of beneficiaries, only 11 percent of businesses that were certified for an Enterprise Zone Tax Credit reported that the credits were a significant influence or a deciding factor in their location and investment decisions, and 59 percent said that they would have created the same number of jobs without the credits. In 2025, the General Assembly passed House Bill 25-1296, which, starting in Tax Year 2026, excludes Enterprise Zone Tax Credits for investments in property used in the retail sale of gasoline or diesel fuel for use in motor vehicles, or a wireless telecommunications facility.

⁹ Timothy J. Bartik, Making Sense of Incentives: Taming Business Incentives to Promote Prosperity (Kalamazoo, Michigan W.E. Upjohn Institute for Employment Research, 2019), p. 22-24 and 56

Avoidance of Unintended Consequences

While tax expenditures can be an important tool for promoting economic growth, they should be designed in a manner that limits potential unintended consequences, such as incentivizing the creation of low-quality jobs, shifting economic activity between regions of Colorado, or supporting the in-migration of companies and workers that displace current companies in the state or do not reduce unemployment. In order to avoid these unintended consequences, legislators should ensure that tax expenditures are designed with specific requirements, such as targeting job training and worker placement in areas with high unemployment, requiring livable employee wages, and targeting businesses that are export based (i.e., sell products or services outside the targeted geographic area) and do not compete with other local businesses¹⁰. Additionally, the expenditure should be designed so that the provided benefit is directly linked with the intended purpose of the incentive. For example, research on tax expenditure impacts shows that providing broad tax exemptions or credits to all businesses that make capital investments may result in more capital investment, but may also result in unintended consequences, such as a net loss of jobs as businesses use the capital investments and tax savings to automate their processes and decrease their use of labor¹¹.

Example: In our review of the Regional Home Office Rate Reduction, which was intended to encourage insurers to increase employment in the state, we found that the structure of the incentive, which was calculated based on the amount of taxes insurers owe on insurance premiums, caused the benefits to increase based on increases in premium collections and not jobs created or maintained. Therefore, some insurers received increased benefits while reducing the number of staff they employ in Colorado.

Simplicity and Administrative Efficiency

When designing incentives, it is important for legislators to balance the need to establish well-targeted tax expenditures with the administrative cost to the State and the intended beneficiaries. Generally, the process for businesses to qualify for and claim the tax expenditures should be as simple and efficient as possible and should minimize the cost to the State for administration. Complex requirements, lengthy applications, and multi-step processes to claim tax incentives can discourage some businesses from using tax expenditures—even if they are eligible—and may increase costs for the Department, which must draft regulations, provide taxpayer guidance, and process and review claims. Legislators should consider whether the businesses they are targeting have the time, expertise, and resources to identify and claim a tax expenditure; in particular, if the

¹⁰ Timothy J. Bartik, Making Sense of Incentives: Taming Business Incentives to Promote Prosperity (Kalamazoo, Michigan W.E. Upjohn Institute for Employment Research, 2019), p. 24-26 and 56-57

¹¹ Timothy J. Bartik, Making Sense of Incentives: Taming Business Incentives to Promote Prosperity (Kalamazoo, Michigan W.E. Upjohn Institute for Employment Research, 2019), p. 5, 24-26

expenditure is targeted towards smaller businesses or entrepreneurial firms that may not have the ability to hire a tax professional or time to complete the application and claims process.

Example: In our review of the Rural Broadband Equipment Sales and Use Tax Refund, we found that none of the businesses that attempted to claim the Refund had received it because they did not submit sufficient documentation to show that they qualified. The amount and type of documentation required to receive the Refund resulted in administrative burdens for both taxpayers and the Department, costing both business and state resources with no benefit to the State.

The complexity and administration of a tax expenditure should also be commensurate with the anticipated benefit to taxpayers and revenue impact to the State. For example, a large tax credit incentivizing construction projects with significant projected revenue impacts may require more detailed applications, stricter eligibility criteria, and documentation to claim the credit than smaller incentives targeted to a broader group of beneficiaries, such as a sales and use tax refund intended to incentivize consumers to purchase electric yard equipment.

Policymakers may need to consult with agencies that will be responsible for administering tax expenditures to determine whether their current processes can be leveraged to reduce administrative costs when implementing the tax expenditure. For example, legislators should weigh the costs and benefits of requiring the Department or Division of Insurance to collect specific line-item data for tax expenditures. While data on the claims for tax expenditures is important for evaluating the effectiveness of a tax expenditure, there are associated administrative and operations costs that should be considered. For expenditures with anticipated revenue impacts that are significant, appropriating funding for changes to tax collection and reporting systems for future data collection may be reasonable and important to ensure the expenditure is meeting its purpose and fiscal risks related to inaccurate or ineligible claims are minimized. However, for tax expenditures that are expected to have a smaller revenue impact and target a smaller group of taxpayers, it may not be cost-effective to make changes to the State's tax reporting systems to capture data specific to the expenditure. Further, agencies may need additional resources to provide guidance, online tools, and centralized resources to help businesses navigate and claim available incentives.

Legislators should also weigh the costs and benefits when deciding how extensively a state agency (in Colorado this is typically the Department, OEDIT, or the Division of Insurance) will administer the tax expenditure. While having an agency closely oversee the administration of a tax expenditure—including determining whether a business qualifies, gathering data on outcomes, and issuing tax incentive approvals—helps ensure the tax incentive goes to intended beneficiaries, and is monitored and evaluated, these activities also come with additional costs. Our [2025 Increasing Taxpayer Awareness and Utilization of Tax Expenditures](#) report noted that stakeholders administering a typical business credit, including coordinating outreach, report that administration generally requires a minimum of one employee working full time, although stakeholders also noted that the number of employees needed will depend on the individual credit.

Example: Our 2025 evaluation of the Rural Jump-Start Tax Expenditures noted that in 2024, the General Assembly increased appropriations for OEDIT’s administration of the Rural Jump-Start Program from \$100,000 to \$300,000. Additionally, we noted that since our previous evaluation of these tax expenditures (published in 2020), “OEDIT staff dedicated specifically to the RJS Program have marketed the Program and worked on outreach to eligible counties and businesses, and the number of participating counties and businesses has increased.”

Return on Investment (ROI) and Fiscal Responsibility

Expenditures Should Target Activities that Have Higher Benefits to the State

To the extent possible, legislators should determine the anticipated return on investment for an expenditure, and design the expenditure to achieve the anticipated results. According to research on economic development incentives, tax expenditures designed to attract businesses into regions or business sectors experiencing higher rates of unemployment may yield a higher return on investment due to indirect economic benefits, such as increased spending and demand for services that result from increased employment among a previously unemployed population¹². Research also shows that incentives targeted towards areas with higher unemployment rates are likely to have larger economic impacts since businesses are more likely to hire people who are not currently employed, rather than hiring people with existing jobs away from other businesses, which is more likely to happen when the area’s unemployment rate is lower¹³.

Example: The Rural Jump-Start Program has several requirements that businesses must meet in order to qualify for tax expenditure benefits. The business must be located in a designated ‘distressed’ area that meets certain economic indicators of distress such as high unemployment rates, low per capita income, and a loss in workforce. Additionally, businesses may not compete with other businesses in adjacent distressed areas or hire new employees from existing jobs in the state. These requirements help ensure that any return on investment for the tax expenditures is not reduced by drawing economic activity from one area of the state to another.

In addition to financial returns on investment, the State should also consider whether tax expenditures sufficiently create intangible benefits for residents and the community, such as reduced

¹² Timothy J. Bartik, Making Sense of Incentives: Taming Business Incentives to Promote Prosperity (Kalamazoo, Michigan W.E. Upjohn Institute for Employment Research, 2019), p. 20, and 28-29

¹³ Timothy J. Bartik, Making Sense of Incentives: Taming Business Incentives to Promote Prosperity (Kalamazoo, Michigan W.E. Upjohn Institute for Employment Research, 2019), p. 29-32

pollution, increased access to quality child care, financial security, and other benefits. These tax expenditures are difficult to measure in terms of their return on investment, because they often do not have a direct quantifiable value; however, they should still be designed to maximize benefits to the State and its residents while reducing potential costs.

Example: The Conservation Easement Tax Credit provides an income tax credit to landowners to encourage them to preserve scenic, open, and natural land rather than sell land for development. While it is difficult to measure the tangible return on investment of this type of expenditure, we found that the Conservation Easement Tax Credit benefits the environment and state residents to the extent that conservation easements are created on land that would otherwise be subject to development.

In addition to designing incentives that maximize financial and intangible benefits to the State, the direct and indirect costs associated with tax expenditures should be factored into determining the return on investment. Along with reducing government revenues, increased economic activity associated with incentives also leads to indirect costs, such as a need for increased government spending on public goods, impacts from a decrease in funding for other government services, or both. For example, a new business moving into the state that brings in new jobs will require certain infrastructure investments like schools, hospitals, and roads to meet the needs of new workers. Additionally, increased population from new jobs may put pressure on housing affordability or road congestion and maintenance, and require more government spending on education, public safety, and other government funded services. Recent research shows that economic impact studies on incentives typically focus on the positive impacts from new economic activity and, therefore, tend to overstate the return on investment of incentives because increased government spending or reductions in government budgets to pay for the incentives are not always included in economic models¹⁴.

Expenditures Should Have Limitations to Ensure the State Can Control the Costs

Incentives should also be designed with fiscal control measures and oversight to ensure that the expenditures are fiscally sustainable and the risk of fraud or waste is minimized. For example, caps on the total amount of credits the State will provide each year, or caps on credits per taxpayer, can help prevent unanticipated revenue impacts. Legislators should avoid designing business incentive tax expenditures that are a percentage of income tax owed or business costs without also including a maximum amount that can be claimed. Income tax liability and costs for business activities can vary widely between industries and businesses and make it difficult to predict what the actual revenue impact to the State will be.

¹⁴ Timothy J. Bartik, Making Sense of Incentives: Taming Business Incentives to Promote Prosperity (Kalamazoo, Michigan W.E. Upjohn Institute for Employment Research, 2019), p. 26

Example: Colorado insurance companies that must pay an assessment to cover obligations of another insurer that is insolvent (i.e., unable to pay its debts) are allowed to claim a tax credit for 20 percent of the amount of assessments paid, spread over a 5-year period. In addition, the maximum amount of insurance premium tax credits that can be claimed annually is \$4 million. The design of this incentive prevents the State from incurring significant and immediate revenue impacts that could affect funding for the Division of Insurance and other state programs that are funded through insurance premium taxes.

Incentives should also include periodic reviews and sunset provisions (expiration dates) to ensure that the incentives remain effective and are fiscally sustainable as the State's revenue and budget priorities change.

Example: Since 2021, statute [Section 39-21-304, C.R.S.] requires the General Assembly to include a repeal date for all new tax expenditures, or specify the number of years an existing tax expenditure will be extended. Under statute [Section 39-21-305, C.R.S.], the OSA is required to evaluate state tax expenditures, including whether the expenditure(s) are meeting their intended legislative purpose.

Complementarity with Other Economic Development Tools

Finally, aligning tax incentives with other economic development programs and funding can increase a tax expenditure's impact. For example, OEDIT administers most of the State's economic development grants, industry development programs, and job training and creation programs. Because tax expenditures can also support these activities, aligning the tax expenditures with other programs, financing options, and benefits can increase administrative efficiency, reduce taxpayer confusion, and address multiple economic development goals simultaneously. For example, OEDIT can market multiple types of programs to drive awareness and interest in certain business activities; assist businesses with piecing together both tax expenditures and grants, or other financing opportunities to ensure the business can accomplish the activity; and assist businesses with networking and partnerships with organizations that can provide economic development resources, trained workers, and other resources. Additionally, if tax expenditures are designed to complement other economic development tools with a broader purpose, such as rural business development grants or low-interest loans, the expenditures can incentivize activities like housing construction, workforce training through local education programs, and reduce costs for new businesses, as well as help ensure that the local community has the necessary infrastructure, workforce, and assistance programs for businesses to be successful.

Example: OEDIT administers the Preservation of Historic Structures Tax Credit for commercial historic preservation projects (i.e., renovation of buildings for commercial purposes such as food and beverage, retail, entertainment, and housing rentals). The Preservation of Historic Structures Tax Credit can be claimed alongside federal historic preservation credits, and local incentives such as historic preservation grants, which can reduce the high costs of historic preservation and incentivize new business activity in previously vacant areas. Furthermore, these projects may qualify for other economic development incentives that support other needs in the community, such as tax credits or low interest rate loans for affordable housing development, or Enterprise Zone Tax Credits for job growth. Access to a variety of types of funding (e.g., tax expenditures, grants, alternative financing) allows both large and small businesses to have access to incentives and can drive both immediate economic activity (e.g., a new business opening and hiring new employees) and long-term economic activity that supports sustainable growth (i.e., affordable housing for public employees such as teachers or child care workers that support new job growth).



Employee Benefits and Community Development

Colorado offers several incentives that are intended to incentivize businesses to provide employee benefits, such as health insurance, employee ownership structures, or child care, and incentives for businesses to financially support programs that impact the community, such as programs that address homelessness or food insecurity. While businesses may claim the tax benefit, the intended beneficiaries of community development incentives are the employees of the businesses and the broader community as a whole.

Child Care

What are the State's tax incentives?

Colorado currently offers three tax credits designed to encourage investment in, or development and construction of, child care programs and facilities in the state. The intent of these tax credits is to help address access to child care, which a breadth of economic research finds is a driver of both children's long-term academic success and economic activity since it allows parents to work, thereby increasing their economic stability, creating local employment opportunities for child care workers, and expanding labor force participation for businesses.

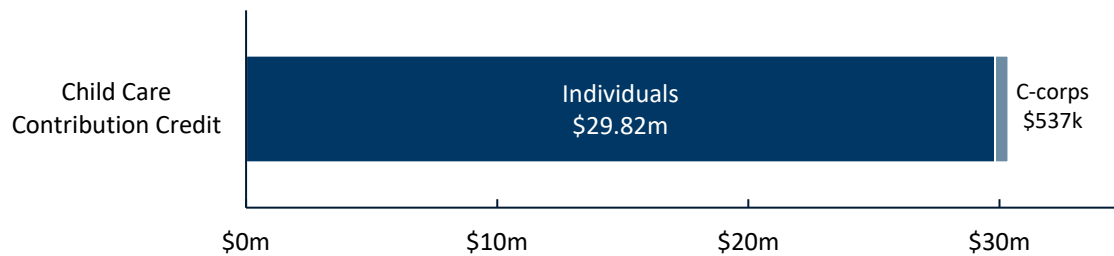
Tax Expenditure	Description	Other Information
Child Care Contribution Tax Credit	Income tax credit for taxpayers making monetary contributions to support child care, including, but not limited to contributions to licensed child care facilities, unlicensed child care facilities, and organizations that provide educator training, referral services for child care, or financial support for parents to access child care. Section 39-22-121, C.R.S.	Geographic Component: None Years Available: 1990 to 2027 OSA Report: 2021-TE26
Child Care Facility Owner Investment Tax Credit	Income tax credit for the owners of licensed child care facilities, family care homes, and foster care homes for a percent of the owners' investment in qualified property and equipment. Section 39-22-517(1), C.R.S.	Geographic Component: None Years Available: 1992 to 2028 OSA Report: 2022-TE8
Employer Child Care Facility Investment Tax Credit	Income tax credit for employers that provide child care facilities for their employees, for a percent of the employers' investment in qualified property and equipment for the child care facility. Section 39-22-517(2), C.R.S.	Geographic Component: None Years Available: 1992 to 2028 OSA Report: 2022-TE8

What is the revenue impact to the State?

The Department of Revenue (Department) reported that C-corporations claimed approximately \$537,000 in Child Care Contribution Tax Credits in Tax Year 2022, the most recent year with data available. Individual filers claimed another \$29.82 million, which could reflect contributions from individuals as well as businesses such as sole-proprietors, partnerships, or other pass-through entities that would claim the credit on Individual tax filings Exhibit 1 shows the total revenue impact of about \$30.36 million reported for the Child Care Contribution Tax Credit for Tax Year 2022.

Exhibit 1

State Revenue Impact of the Child Care Contribution Tax Credit¹ for Tax Year 2022



Source: Department of Revenue.

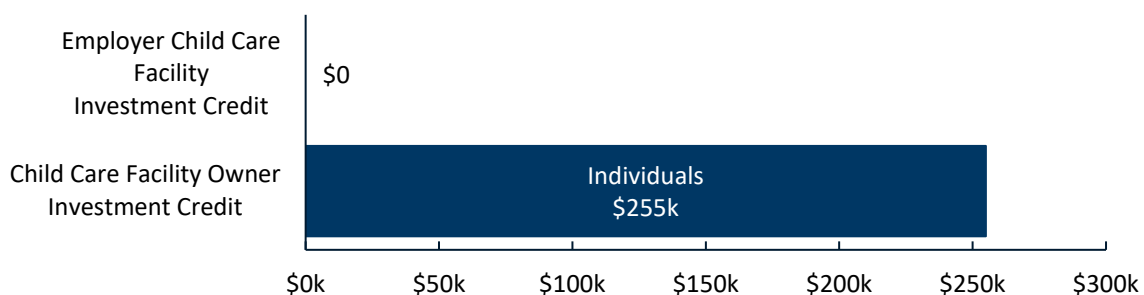
¹Data on Fiduciary claims is not itemized on tax returns and data on Nonresident composite returns is not releasable to protect taxpayer confidentiality.

For the Child Care Facility Owner Investment Tax Credit and the Employer Child Care Facility Investment Tax Credit, we provide data for Tax Year 2018 because our 2022 evaluation of the credits found that for the 2018 Tax Year, many taxpayers claimed one of these two credits when they had actually intended to claim the Child Care Contribution Tax Credit. Since we have not re-evaluated the Child Care Facility Investment Credits since the 2022 Tax Year data was released to estimate its accuracy, we chose to report the estimated range of credits claimed for Tax Year 2018. We reviewed all returns claiming the Employer Child Care Facility Investment Tax Credit in 2018 and found that there had been no valid claims for the credit, and, therefore, we reported no revenue impact. Based on a sample of returns claiming the Child Care Facility Owner Investment Tax Credit, we estimated a revenue impact between \$102,000 and \$255,000.

Exhibit 2 shows the estimated revenue impact for the Child Care Facility Owner Investment Tax Credit and Employer Child Care Facility Investment Tax Credit for Tax Year 2018.

Exhibit 2

Estimated State Revenue Impact of the Employer Child Care Facility Investment Tax Credit and the Child Care Facility Owner Investment Tax Credit, Tax Year 2018



Source: Department of Revenue and Office of the State Auditor 2022 credit evaluation.

What are other related state and local incentives?

The Governor’s Department of Early Childhood (CDEC), formerly part of the Department of Human Services, administers grants to child care organizations and community organizations that support child care in order to promote quality, affordability, and access to child care. Following the COVID-19 pandemic, CDEC administered more than 40 state and federal stimulus-funded programs designed to increase the number of licensed child care programs; improve the quality of licensed programs; ensure equitable access for underserved families; and sustain services by helping child care operators address operating shortfalls. While most of the grant programs have ended, Employer-Based Child-Care Grants—which were designed to assist employers with developing on-site or near-site child care for their employees, and to incentivize employers to construct on-site or near-site child care facilities for their employees—can be expended through 2026.

What are the related federal incentives?

Employers are generally able to deduct employee compensation as “ordinary and necessary” business expenses, including compensation related to providing child care services for employees such as direct payments to a child care or adult daycare provider; or employer reimbursement of employee child care costs. In addition, federal law also allows employers to claim an income tax credit for operating a child care facility for employees. A business cannot deduct the same expenses that are used to claim the credit.

Tax Expenditure	Description
Employer-Provided Child Care Facilities and Services Tax Credit	Income tax credit for a percent of a business’s qualified child care expenditures including costs associated with acquiring, constructing, or rehabilitating property as well as operating costs such as staff wages and training, or costs associated with a third-party contractor providing child care to employees. 26 USC 45F

Employee Benefits

What are the State's tax incentives?

Colorado currently offers tax credits that are designed to encourage businesses to contribute to employee savings accounts for education or the purchase of a primary residence. Additionally, the State provides income tax credits and subtractions for business owners that are intended to incentivize businesses to convert to employee ownership models. According to the statutory purposes for these expenditures, they are intended to support additional employee benefits that carry over into employees' financial well-being, such as home-ownership or educational savings, and long-term job security and the retention of business wealth with employees.

Tax Expenditure	Description	Other Information
Employer Contribution to 529 Plan Tax Credit	Income tax credit for a percentage of an employer's contributions to employee-owned 529 qualified state tuition program accounts. Assets in a 529 savings plan can typically grow tax-free and distributions (i.e., withdrawals) are also tax free for the beneficiary if used to pay for qualified education expenses. Section 39-22-539, C.R.S.	Geographic Component: None Years Available: 2019 to 2031 OSA Report: 2020-TE12
Employer Assistance for Employee Home Purchase Tax Credit	Income tax credit for a percent of employer contributions to employees' qualifying home savings accounts, which an employee can use to pay for a down payment, closing costs, mortgage origination fees, and inspection fees on a primary residence. Section 39-22-558, C.R.S.	Geographic Component: None Years Available: 2024 to 2026 OSA Report: Not Yet Evaluated
Business Conversion Tax Credit	Income tax credit for Colorado-headquartered businesses for a percentage of costs related to converting the business to a worker-owned cooperative, employee ownership trust, employee stock ownership plan, or alternate equity structure; or costs related to expanding the businesses' worker-owned cooperative, employee ownership trust, employee stock ownership plan, or alternate equity structure. Section 39-22-542, C.R.S.	Geographic Component: None Years Available: 2022 to 2031 OSA Report: Not Yet Evaluated

Tax Expenditure	Description	Other Information
Entities Supporting Business Conversion Tax Credit	Income tax credit for Colorado-headquartered entities (e.g., business or nonprofits) for a percentage of costs related to assisting businesses to convert to employee-owned structures or assisting with businesses expanding employee-ownership. Section 39-22-542(j.5), C.R.S.	Geographic Component: None Years Available: 2027 to 2031 OSA Report: Not Yet Evaluated
New Employee-Owned Business Tax Credit	Income tax credit for Colorado-headquartered businesses for a percentage of costs directly related to being a new employee-owned business (i.e., a business that has been employee-owned for seven years or fewer). Section 39-22-542.5, C.R.S.	Geographic Component: None Years Available: 2025 to 2029 OSA Report: Not Yet Evaluated
Capital Gains Subtraction for Business Conversion	Subtraction of capital gains income that a business owner realizes during the conversion of a business to an employee-owned business ('qualifying sale'), where the conversion of ownership of the business to employees is at least 20 percent of total ownership. Sections 39-22-104(4)(dd) and 39-22-304(3)(s), C.R.S.	Geographic Component: None Years Available: 2027 to 2037 OSA Report: Not Yet Evaluated
Worker-Owned Cooperatives Subtraction	Income tax subtraction for worker-owned cooperatives equal to the cooperatives' federal taxable income. Section 39-22-304(3)(t), C.R.S.	Geographic Component: None Years Available: 2027 to 2037 OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

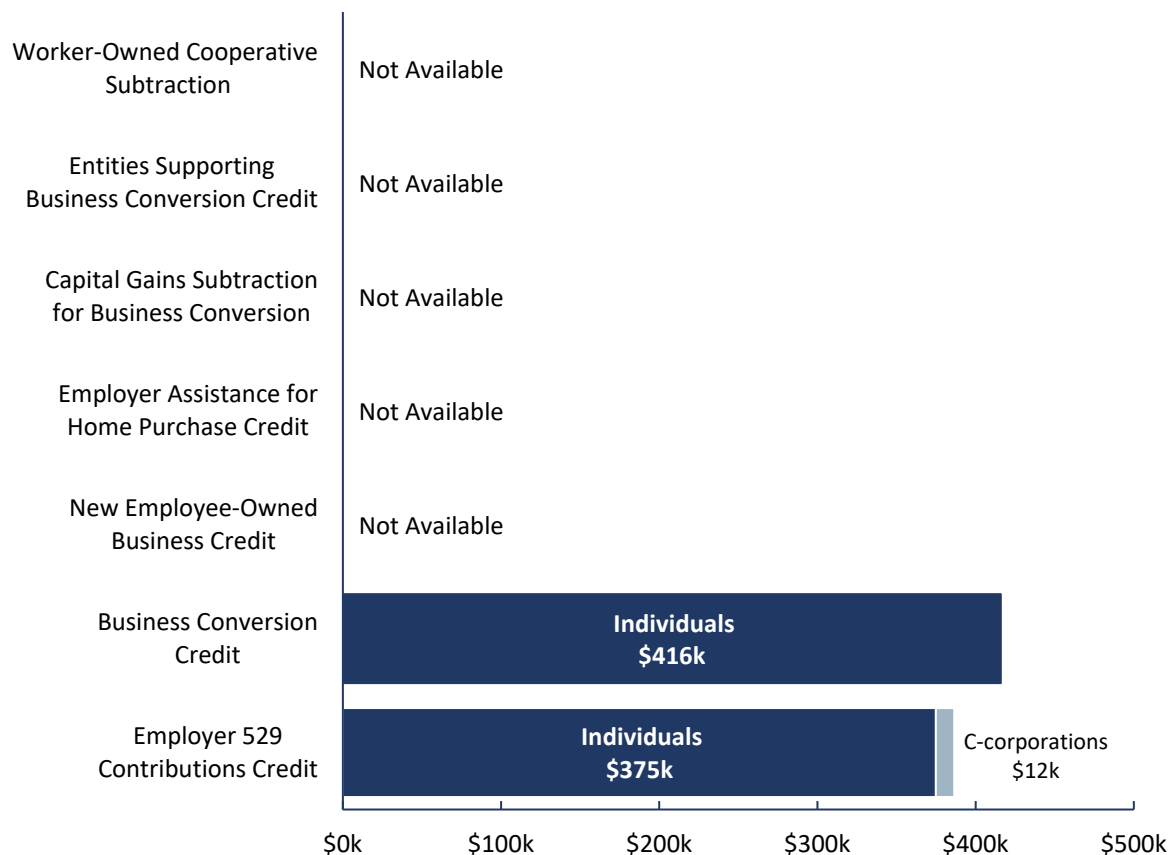
The Department reported a total revenue impact of about \$387,000 in Employer Contributions to a 529 Plan Tax Credits in Tax Year 2022. C-corporations claimed approximately \$12,000 in Employer Contributions to a 529 Plan Tax Credits and Individuals claimed about \$375,000, which could reflect contributions from businesses such as sole-proprietors, partnerships, or other pass-through entities that would claim the credit on Individual tax filings. The Employer Assistance for Employee Home Purchase Tax Credit became available in Tax Year 2024; therefore, the Department does not yet have data available on its revenue impact.

For the Business Conversion Tax Credit, the Department reported that only Individuals claimed the Tax Credit, with about \$416,000 in credits claimed in Tax Year 2022, which was the first year the Business Conversion Tax Credit was available and the only year the Department reported data. This data likely represents businesses such as sole-proprietors, partnerships, or other pass-through entities

that would claim the Business Conversion Tax Credit on Individual tax filings. Because the New Employee-Owned Business Tax Credit did not become available until Tax Year 2025 and there is not data available on preliminary reservations for the New Employee-Owned Business Tax Credit, data on the revenue impact is not yet available. Additionally, during the 2025 Legislative Session, House Bill 25-1021 created the Capital Gains Subtraction for Business Conversion, Worker-Owned Cooperatives Subtraction, and the Entities Supporting Business Conversion Tax Credit, which all are set to go into effect in Tax Year 2027.

Exhibit 3 shows the revenue impact for the Employer Contribution to a 529 Plan Tax Credit and the Business Conversion Tax Credit for Tax Year 2022.

Exhibit 3
State Revenue Impact of Employee Benefit Tax Credits, Tax Year 2022



Source: Department of Revenue.

What are other related state and local incentives?

The Employee Ownership Office (Office), in the Office of Economic Development and International Trade (OEDIT), administers the Employer Ownership tax credits and subtractions, as well as provides training, support, education, and consulting for businesses considering employee

ownership structures. The Colorado Employee Ownership Commission supports the Office and is intended to make employee ownership more accessible through outreach, technical support, education, and identifying barriers to the development of employee-owned businesses. Additional grant opportunities existed from 2019 through January 2024 to incentivize employee ownership conversions by reimbursing Colorado-headquartered small businesses the cost of professional technical services for businesses to transition to employee ownership. Also, the Colorado Small Business Development Center within OEDIT provides online courses for businesses about Employee Ownership structures and provides an Exit Planning course and consulting services for business owners planning to sell their business. These resources are provided through a partnership with the federal Small Business Administration.

What are the related federal incentives?

Employers are generally able to deduct employee compensation as “ordinary and necessary” business expenses, including employer-provided educational assistance contributions, which may include contributions to an employee-held 529 Savings Account Plan. However, there are no federal tax expenditures that are intended to incentivize employer contributions to home-ownership savings accounts.

Additionally, certain employer defined contribution plans, such as Employee Stock Ownership Plans (ESOPs), provide several tax incentives to employers to encourage employee stock ownership in the business, which can provide employees with a source of retirement income and act as a mechanism for business owners to transfer their ownership to employees.

Tax Expenditure	Description
Employer Contributions to ESOP Deduction	Income tax deduction for employer-paid contributions to an ESOP, (i.e., the value of stock issued to the ESOP). 26 USC 404
Deferred Gains for Sale of Employer Securities	Deferral of income taxes on gains from the sale of qualified securities (e.g., employer issued stock) to an ESOP or worker-owned cooperative, when specific ownership and sale requirements are met. 26 USC 1042
Dividends Issued through an ESOP Deduction	Income tax deduction for ESOP dividends paid to ESOP participants through the ESOP or reinvested in employer stock. 26 USC 404k

Food Security

What are the State’s tax incentives?

Colorado offers two income tax credits to foster Colorado’s agricultural industry and assist small food businesses in order to improve access to, and lower prices for, healthy foods in low-income and underserved areas in the state. Both credits are part of the State’s Community Food Access Program.

Tax Expenditure	Description	Other Information
Food Consortium Tax Credit	Income tax credit for members of the state Community Food Consortium (discussed below) for a percentage of costs associated with completing duties and responsibilities of the Consortium. These may include amounts spent on distribution and delivery fees, or transportation materials such as pallets, to distribute food from small food producers to small food retailers and connect low-income and underserved areas with local food. Section 39-22-549(3)(a)(I), C.R.S.	Geographic Component: Yes Retailers in and small farms that supply, low-income and low-access communities, defined as tribal areas, and USDA Healthy Food Financing Initiative areas. Years Available: 2024 to 2030 OSA Report: Not Yet Evaluated
Food Recovery and Resilience Equipment Tax Credit	Income tax credit for small food businesses or small family farms that purchase equipment that is used to increase access to, or lower prices for, healthy food in low-income, low-access and underserved areas of the state (e.g., display shelving, cold storage, point-of-sale equipment related to implementing or improving SNAP and WIC, tractors, irrigation, or storage equipment). Section 39-22-549(3)(a)(II), C.R.S.	Geographic Component: Yes Retailers in and small farms that supply, low-income and low-access communities, defined as tribal areas and USDA Healthy Food Financing Initiative areas. Years Available: 2024 to 2030 OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

The Food Consortium Tax Credit and Food Recovery and Resilience Equipment Tax Credit became available in Tax Year 2024. The Department does not yet have data available on the amount of credits claimed; however, the Department of Agriculture reports that approximately \$720,000 in tax credit certificates have been issued.

What are other related state and local incentives?

The Community Food Access Program was established in the Department of Agriculture in 2022 “to improve access to and lower prices for healthy foods in low-income and underserved areas of the state by supporting small food retailers.” The program includes a Community Food Consortium

for small food retailers and Colorado-owned and Colorado-operated farms. Participating businesses receive technical assistance, subsidies for materials or delivery fees, and networking to connect small food producers and retailers. Participating businesses could also receive the Small Food Business Recovery and Resilience grant, which was originally funded through federal COVID-19 recovery funds and is now funded with state funds. The Department of Agriculture awarded grants to small food retailers and small family farms to expand their goods to low-income, low-access communities to increase access to healthy, affordable food. Grants were provided in two rounds of funding between September 2023 and March 2024, for a total of about \$450,000 in reimbursements since 2023. According to the Department of Agriculture, these grants help stores, farm stands, farmers markets, and farms purchase equipment or cover operating expenses that would allow them to increase the availability of healthy food. While a business could apply for and receive both a Small Food Business Recovery and Resilience grant and a Food Consortium Tax Credit or Food Recovery and Resilience Equipment Tax Credit, the business could not use the same expenses to qualify for both benefits.

While the Department of Agriculture was not aware of any local programs that offer funding or assistance for equipment costs like the Food Consortium Tax Credit or Food Recovery and Resilience Equipment Tax Credit, there are a number of local programs funded through local taxes. These programs provide compensation to local farmers for food grown and distributed to low-income households, grants to nonprofit organizations that are not eligible for the Tax Credits but are working to provide access to healthy foods in low-income and low-access communities, and reduced cost food to low-income residents.

What are the related federal incentives?

While there are many federally funded programs intended to address food insecurity, such as the Supplemental Nutrition and Assistance Program (SNAP), the Women, Infants, and Children (WIC) program, and the Healthy Food Financing Initiative, there are not specific tax incentives targeted towards connecting small farms and small food retailers with distributing healthy foods to low-income and underserved areas. However, purchases of greenhouses, solar equipment, or electric vehicles may qualify for other state and federal tax credits, such as the State's Low-emitting Trucks Tax Credit or the federal Clean Energy Tax Credit [See Sustainable Development chapter]. Additionally, the U.S. Department of Agriculture's Natural Resources Conservation Services grants may be used to help businesses purchase greenhouses or solar equipment, which may also qualify for federal tax credits.

Additionally, according to the Department of Agriculture, two Colorado communities were awarded Healthy Food Financing Initiative grants in 2021, which are intended to help businesses increase access to healthy food in low-income, low-access areas, similar to the purpose of Colorado's Food Consortium Tax Credit or Food Recovery and Resilience Equipment Tax Credit.

Homelessness

What are the State’s tax incentives?

Colorado offers a tax credit to Colorado residents and businesses that make financial contributions to efforts to provide housing and services to individuals and families experiencing homelessness. The tax expenditure is intended to catalyze and strengthen statewide efforts to address the effects of homelessness through private investment and civic engagement in Colorado-based service providers for individuals and families experiencing homelessness.

Tax Expenditure	Description	Other Information
Homelessness Contribution Tax Credit	Income tax credit for a percentage of monetary or in-kind contributions to approved nonprofit organizations, or approved projects, that work to address issues of homelessness, such as housing, job placement, and case management for health or mental health services. Section 39-22-548, C.R.S.	Geographic Component: Yes Contributions to organizations in underserved, rural counties, as defined by the Division of Housing, are eligible for a higher percentage tax credit. Years Available: 2023* to 2026 *Prior to Tax Year 2023, contributions to projects that supported housing or job placement were eligible for a tax credit under the Enterprise Zone Contribution Tax Credit. OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

The Homeless Contribution Tax Credit became available in Tax Year 2023; however, the Department does not yet have data available for this credit. Preliminary data from the Division of Housing’s Office of Homeless Initiatives (Office) within the Department of Local Affairs (DOLA) shows that nearly \$7 million in tax credit certificates were issued in Calendar Year 2024.

What are other related state and local incentives?

The Office works to build, promote, and support collaborative approaches to reduce homelessness in the state. It manages and administers rental assistance programs; creates, funds, and evaluates supportive housing and other solutions; and provides technical assistance related to the implementation of best practices to address homelessness (e.g., supportive housing, rapid re-housing, and coordinated referrals.) According to the Office, in Fiscal Year 2025, approximately \$9.6 million in state-funded grants were awarded to organizations that also participate in the Homeless Contribution Tax Credit program. Additionally, taxpayers may make voluntary donations to fund

homeless prevention activities through the State's income tax checkoff program, which allows taxpayers to donate a portion of their state tax refund, or increase their tax payments, to specific programs; however, taxpayers do not receive a tax incentive for these donations. According to the Office, in Fiscal Year 2025, grants for homeless prevention activities funded by the tax checkoff contributions totaled \$288,000.

What are the related federal incentives?

There are no federal tax incentives directed towards incentivizing businesses to contribute to efforts to address homelessness. However, DOLA administers grants from the U.S. Department of Housing and Urban Development, and the Office reported that approximately \$4.5 million in federal funding was awarded to organizations that also participate in the Homeless Contribution Tax Credit program.

Insurance Coverage

What are the State's tax incentives?

Colorado currently offers three tax expenditures designed to promote insurance coverage for individuals in the state by reducing the cost of insurance. These expenditures provide a tax credit or deduction for insurance companies against their premium taxes, which are generally equivalent to 2 percent of premiums insurers collect in the state.

Tax Credit	Description	Other Information
Contributions to Colorado Health Benefits Exchange Premium Tax Credit	Premium tax credit for insurance companies that contribute funds to the Health Benefit Exchange (known as Connect for Health Colorado), which is Colorado's state-based health insurance marketplace that is intended to "increase access, affordability, and choice for individuals and small businesses purchasing health insurance." Section 10-22-110, C.R.S.	Geographic Component: None Years Available: 2013 and later (no expiration date) OSA Report: 2022-TE28
Premiums Sold to Tax-Exempt Organizations Premium Tax Deduction	Premium tax deduction for insurers on premiums for policies sold to tax-exempt organizations to reduce the cost of premiums for tax-exempt organizations. Section 10-3-209(1)(d)(IV), C.R.S.	Geographic Component: None Years Available: 1969 and later (no expiration date) OSA Report: 2024-TE3
Premiums for Employee Retirement Plan Insurance Premium Tax Deduction	Premium tax deduction for insurers on premiums for pensions, profit-sharing, or annuity plans sold to employers, if the contributions to the plans are deductible from the employers' net income under federal law. Section 10-3-209(1)(d)(IV), C.R.S.	Geographic Component: None Years Available: 1969 and later (no expiration date) OSA Report: 2022-TE8

What is the revenue impact to the State?

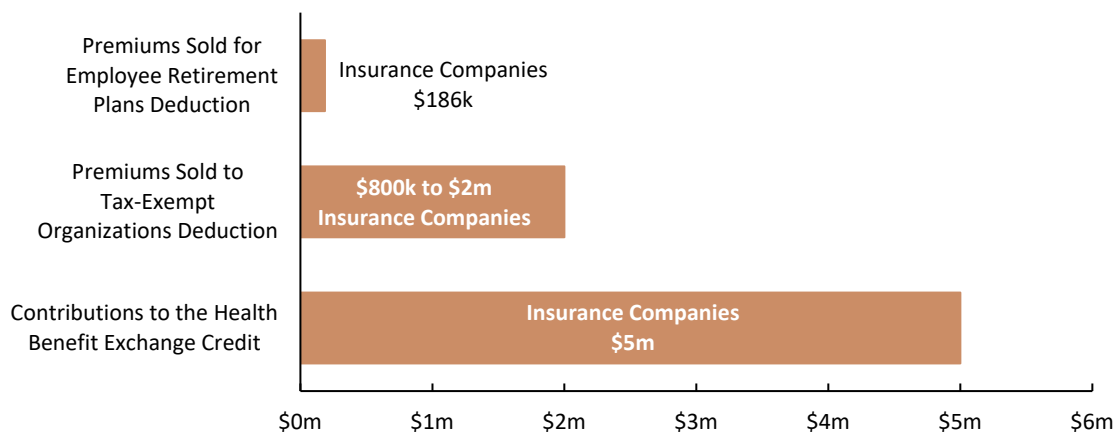
The revenue impact for the Premiums for Employee Retirement Plans Deduction was about \$186,000 in 2018. According to our most recent evaluation of the Health Benefit Exchange Tax Credit, insurance companies claimed approximately \$5 million in insurance premium tax credits for amounts contributed to Connect for Health Colorado in Tax Year 2021.

In our most recent evaluations of the Premiums Sold to Tax-Exempt Organizations Deduction, we estimated that the revenue impact for deductions likely ranged between \$4 million and \$10 million between Tax Year 2018 and 2022—or an average of \$800,000 to \$2 million annually. We had to estimate the amount because the Division of Insurance (Division), within the Department of Regulatory Agencies, which administers premium tax collections and associated tax expenditures for

the State, did not have reliable data for the premium tax deductions. Specifically, the Division did not provide guidance to insurers on the types of eligible premiums and how insurers should categorize their deductions when they file their premium taxes. As a result, insurers were inconsistent in where they reported the Deduction and did not separate their deductions of Premiums Sold to Tax-Exempt Organizations from other premium tax deductions they were claiming. Therefore, we could not determine a precise revenue impact in our most recent evaluations. During the 2025 Legislative Session, the General Assembly passed House Bill 25-1296, which will require insurance companies to report the total dollar amount of premiums for insurance policies for tax-exempt organizations to the Division. Therefore, the State should have data on the precise amount insurers are deducting due to the Premiums Sold to Tax-Exempt Organizations going forward.

Exhibit 4 shows the estimated revenue impact of the Premiums for Employee Retirement Plans Deduction for Tax Year 2018; the estimated average revenue impact for Premiums Sold to Tax-Exempt Organizations Deduction for Tax Year 2022; and the revenue impact for the Contributions to the Health Benefit Exchange Tax Credit for Tax Year 2021, which were the most recent year(s) of data available for each of these tax expenditures.

Exhibit 4
State Revenue Impact of Insurance Premium Tax Expenditures for Community Insurance Coverage, Various Tax Years¹



Source: Division of Insurance and Office of the State Auditor evaluations.

¹Tax expenditure data was available for various years based on OSA evaluations. This table includes Tax Year 2018 data for the Premiums Sold for Employee Retirement Plans Deduction, an estimated average revenue impact between Tax Years 2018 and 2022 for the Premiums Sold to Tax-Exempt Organizations Deduction, and Tax Year 2021 data for the Contributions to the Health Benefit Exchange Tax Credit.

What are other related state and local incentives?

We did not identify other state or local incentives offered to insurance companies that are intended to increase taxpayer access to insurance.

What are the related federal incentives?

On the federal level, insurance companies are subject to tax on specified income rather than only on the premiums sold. Therefore, there are not similar insurance premium tax incentives at the federal level. However, there is a federal tax credit for small employer costs related to providing insurance for employees, and in general, employer contributions to certain employee insurance plans are considered employee compensation and deductible as “ordinary and necessary business expenses”.

Tax Expenditure	Description
Employee Health Insurance Expenses for Small Businesses Tax Credit	Income tax credit to qualified small employers that make a certain level of non-elective contributions towards the purchase of certain health insurance coverage for their employees. The credit is phased out based on the number of employees and average employee wages. 26 USC 45R



Infrastructure Development

Colorado offers several incentives related to the development of infrastructure in the state. These tax incentives cover the investment in, and construction of, private infrastructure projects such as affordable housing, rail transportation, and broadband utility services. This section also covers infrastructure projects, such as capital construction and rehabilitation in specific areas to target economic revitalization, such as the renovation of buildings in historic areas, creative districts, and main streets, as well as capital projects to support creative industries.

Affordable Housing

What are the State's tax incentives?

Colorado currently offers three tax credits designed to encourage investment in, or development and construction of, affordable housing in the state. The Colorado Housing and Finance Authority (CHFA) manages all three credits.

Tax Expenditure	Description	Other Information
Affordable Housing Tax Credit	Income or insurance premium tax credit for capital investment in affordable housing projects anywhere in the state. Section 39-22-2101 et. seq, C.R.S.	Geographic Component: Yes The annual cap on credits may be exceeded for qualified developments located in counties that have been impacted by a federally declared disaster to leverage state and federal natural disaster funds for recovery efforts. Years Available: 2015 to 2031 OSA Report: 2022-TE25
Affordable Housing in Transit-Oriented Communities Tax Credit	Income or insurance premium tax credit to support the development of affordable housing in transit areas and transit centers, or neighborhood centers within a transit-oriented community (i.e., local governments that meet specific minimum population and proximity to transit stations and public bus route requirements). Section 39-22-5501 et. seq, C.R.S.	Geographic Component: Yes Credit is only available in transit areas and transit centers, or neighborhood centers within a transit-oriented community. Years Available: 2025 to 2029 OSA Report: Not Yet Evaluated
Middle-Income Housing Tax Credit	Income or insurance premium tax credit for owners of rental properties that are rented to "middle-income" residents. Section 39-22-5401 et seq., C.R.S.	Geographic Component: None Years Available: 2025 to 2029 OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

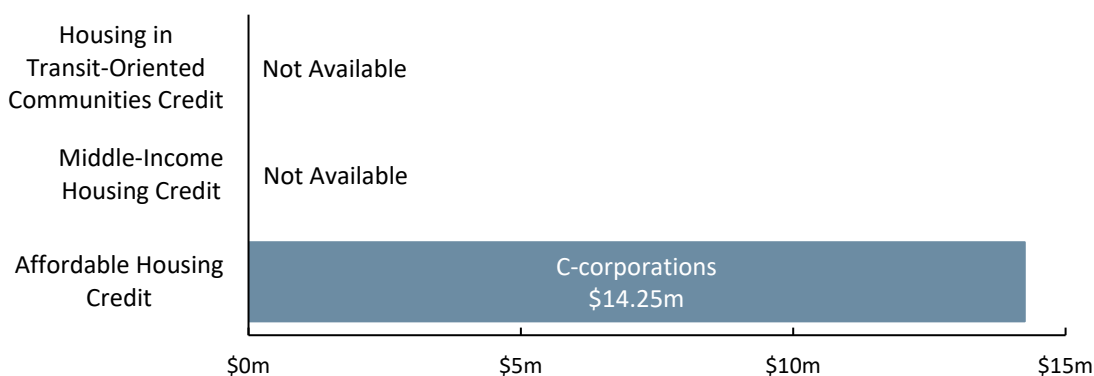
The Department of Revenue (Department) reported that C-corporations claimed a total of approximately \$14.25 million for the Affordable Housing Tax Credit in Tax Year 2022, the most recent year with data available. This does not include Individual claims, which are not releasable to protect taxpayer confidentiality. Additionally, we were unable to estimate the revenue impact resulting from insurance premium tax credits for the Affordable Housing Tax Credit. Insurance

premium tax credits, are not reported to the Department, and instead are issued through the Division of Insurance, which does not report insurers' claims of the Affordable Housing Tax Credit.

Because the Affordable Housing in Transit-Oriented Communities Tax Credit and Middle-Income Housing Tax Credit did not become available until Tax Year 2025, the Department does not have data available on these credits.

Exhibit 5 shows the revenue impact for the three affordable housing income tax credits for Tax Year 2022.

Exhibit 5
State Revenue Impact of Affordable Housing Income Tax Credits¹ for Tax Year 2022



Source: Department of Revenue.

¹Data for Individuals is not releasable to protect taxpayer confidentiality. Insurance premium tax credit data was not available from the Division of Insurance.

What are other related state and local incentives?

Colorado offers multiple programs administered by the Office of Economic Development and International Trade (OEDIT) and the Department of Local Affairs (DOLA) that provide grants and financing opportunities related to affordable housing development, such as tax-exempt bonds, short-term loans, forgivable loans, and below-market rate equity financing. Additionally, DOLA offers information and education to local governments to assist them with opportunities to develop local policies that promote affordable housing development such as reducing, deferring, or waiving permitting fees for affordable housing projects; leveraging property tax revenue, including short-term rental taxes, to provide additional funding opportunities for affordable housing projects; and providing funding to reduce utility fee charges for affordable housing units. Additionally, if an affordable housing construction project qualifies as preservation of a historic structure, or provides housing for workers in creative industries, other business district development tax credits may be available.

What are the related federal incentives?

There are two federal tax incentives that are related to affordable housing development. CHFA works with housing developers to help them apply for state and federal tax incentives, which are intended to be paired together to support affordable housing development. CHFA also works with other state agencies to manage additional state and federal grant and alternative financing programs.

Tax Expenditure	Description
Low-Income Housing Tax Credit	Income tax credit for developers of qualified low-income housing projects for a percentage of the cost of construction. Credits are allocated through state housing agencies, and developers may sell the credits to investors to raise capital for a development project. 26 USC 42
Interest on Rental Housing Bonds Exclusion	Exclusion of interest earned on state and local government bonds used to finance construction of multifamily rental housing projects for low- and moderate-income families. 26 USC 142

Rail Transportation

What are the State's tax incentives?

Colorado currently offers two tax credits designed to encourage development and maintenance of railroads for freight and transportation purposes in communities that are experiencing economic decline due to the retraction of the coal industry. These credits are intended to incentivize the use and maintenance of rail lines to support local business's access to transportation and to maintain economic activity in the communities. OEDIT and the Colorado Department of Transportation (CDOT) manage the railroad credits.

Tax Expenditure	Description	Other Information
New Railroad Operator Tax Credit	Income tax credit for common carriers engaged in the transportation of freight on a qualified rail line for direct operating and capital improvement expenditures necessary to maintain or improve a qualified rail line. Qualified rail lines are those at risk of inactivity or abandonment due to a lack of demand and covered by an access agreement for passenger rail access on the line between the qualified taxpayer and the State. Section 39-22-564, C.R.S.	Geographic Component: Yes "Coal Transition Communities" are communities that had or have a coal-fired power plant that was producing or operating in 2017 and are transitioning to more economic diversity to counteract the loss of jobs tied to coal mining and burning. Years Available: 2027 to 2037 OSA Report: Not Yet Evaluated
Freight Rail Use Tax Credit	Income tax credit for taxpayers who have regular demand for substantial new or expanded freight rail transportation in Coal Transition Communities, and incur expenses when using freight rail transportation for manufacturing, agriculture, repairing or refurbishing, recycling, distribution centers for consumer products, or energy production Section 39-22-563, C.R.S.	Geographic Component: Yes "Coal Transition Communities" are communities that had or have a coal-fired power plant that was producing or operating in 2017 and are transitioning to more economic diversity to counteract the loss of jobs tied to coal mining and burning. Years Available: 2026 to 2038 OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

The Freight Rail Use Tax Credit and New Railroad Operator Tax Credit are not available until Tax Years 2026 and 2027 respectively; therefore, there is no current state revenue impact.

What are other related state and local incentives?

Both of the state credits are tied to “Coal Transition Communities” which are communities that had or have a coal-fired power plant that was producing or operating in 2017, and are transitioning to more economic diversity to counteract the loss of jobs tied to coal mining and burning. While OEDIT and CDOT manage the railroad credits, the Department of Labor and Employment’s Office of Just Transition manages a broader based strategic plan to assist with the economic transition of these communities, including the provision of grants for infrastructure projects, the development of tourism projects, and workforce development and training programs.

What are the related federal incentives?

A general federal income tax credit for Qualified Railroad Track Maintenance is allowed, which may overlap with railways in Coal Transition Communities.

Tax Expenditure	Description
Qualified Railroad Track Maintenance Tax Credit	Income tax credit for a percentage of expenditures for maintenance of a railroad track for railroads that are smaller, short-line, regional railroads, which may include railroads in Coal Transition Communities. 26 USC 45G

Broadband Services

What are the State’s tax incentives?

Colorado currently offers a state sales and use tax refund on the purchase of tangible personal property used to develop broadband infrastructure in rural areas. According to statute, the Rural Broadband Equipment Sales and Use Tax Refund is intended to encourage broadband providers to deploy broadband infrastructure in rural areas of the state. Passed by the General Assembly during the 2025 Legislative Session, House Bill 25-1080 updated the purpose of the Rural Broadband Equipment Sales and Use Tax Refund to incentivize private sector investment in broadband infrastructure, and to prevent the taxation of federal and state grant funds that providers use to develop broadband infrastructure.

Tax Expenditure	Description	Other Information
Rural Broadband Equipment Sales and Use Tax Refund	Sales and use tax refund for broadband providers to claim a refund of state sales and use tax paid for tangible personal property that is installed in a “target area” for the provision of broadband service Section 39-26-129, C.R.S.	Geographic Component: Yes “Target areas” are defined as the unincorporated part of a county or a municipality with a population of less than 30,000 people, according to the most recently available population statistics of the U.S. Census Bureau. Years Available: 2014 to 2026 OSA Report: 2022-TE30

What is the revenue impact to the State?

The Department reported that no refunds were granted under the Rural Broadband Equipment Sales and Use Tax Refund in Tax Year 2021, the most recent year with data available. Our evaluation of the Rural Broadband Equipment Sales and Use Tax Refund in 2022 found that while 14 providers had filed claims for the Refund between 2014 and 2018, the Department had ultimately rejected all claims due to documentation issues that were not resolved. Data for Tax Year 2023 is not yet available.

What are other related state and local incentives?

The Governor’s Office of Information Technology, Colorado Broadband Office (CBO) does not administer the state Rural Broadband Equipment Sales and Use Tax Refund, but does administer many other programs to increase access to affordable and reliable broadband services in Colorado. The CBO manages the Advance Colorado Broadband State and Local Dollars Grant Program, created under House Bill 24-1336, to fund middle mile, last mile, and non-deployment broadband

activities such as workforce development activities to complement federally funded programs. CBO reports that approximately \$15 million in state funded grants will be provided annually.

Additionally, House Bill 25-1080 permits local governments to provide local tax incentives, such as credits or exemptions on real or tangible personal property, for businesses that establish or expand broadband services.

What are the related federal incentives?

The CBO also administers the federally-funded Advance Colorado Broadband Grant Program to increase access to broadband across the state. Initiatives to improve and expand broadband infrastructure are being funded through approximately \$1.2 billion in federal grants for Colorado projects that were authorized under the Infrastructure Investment and Jobs Act (IIJA) and the American Rescue Plan Act (ARPA). CBO awarded the grants from the National Telecommunications and Information Administration (NTIA) and the U.S. Department of Treasury in 2023 and 2024.

Additionally, several other federal agencies administer programs to increase broadband access, including the Federal Communications Commission (FCC) and the U.S. Department of Agriculture (USDA). To prevent businesses from receiving multiple federal grants, NTIA directs each state not to treat any location as ‘unserved’ that already received other federal, state, or local broadband deployment funding.

In addition to federal grants, the IIJA created a federal tax expenditure intended to incentivize investment in the expansion of broadband infrastructure.

Tax Expenditure	Description
Interest on Bonds for Qualified Broadband Projects Exclusion	Income tax exclusion for interest earned on bonds issued to finance broadband projects in areas that are underserved. 26 USC 142(n)

Business Districts

What are the State's tax incentives?

Colorado offers two tax expenditures to incentive development in defined districts to increase economic activity within creative districts, historic districts, neighborhood commercial centers, or main streets. The credits support capital improvement projects that rehabilitate, restore, or convert historic structures or buildings that support new business activity, affordable housing, and creative industries and workers. OEDIT administers both tax credits, and projects may qualify for both credits.

Tax Expenditure	Description	Other Information
Preservation of Historic Structures Tax Credit	Income tax credit for a percentage of qualified costs for the rehabilitation or preservation of a commercial certified historic structure in Colorado. Projects apply to OEDIT for the credit and OEDIT must reserve a portion of tax credits for commercial structures that at least half of the square footage will be new rental housing, and OEDIT must also reserve a portion of tax credits for 'small' projects, with under \$2 million in expenses. OEDIT may reserve the remaining portion of credits for 'large' projects with expenses over \$2 million. Section 39-22-514.5, C.R.S.	Geographic Component: Yes The tax credit provides a higher percentage of qualified costs in rural areas (i.e., a municipality or unincorporated areas of a county with a population of less than fifty thousand people that is not located within the Denver metropolitan area). Years Available: 2016 to 2036 *Prior to Tax Year 2020, an income tax credit of up to \$50,000 was allowed for both historic and commercial property rehabilitation projects. OSA Report: 2022-TE33
Community Revitalization for Creative Industries Tax Credit	Income tax credit for a percentage of qualified costs for construction, rehabilitation, conversion, or remodeling of structures, or facilities for uses that support creative industries and creative industry workers. These projects may include mixed-use capital improvement projects within a creative district, a historic district, or a neighborhood commercial center or a main street, including affordable housing and live-work spaces for creative industry workers and creative-use performance and exhibition spaces. Section 39-22-569, C.R.S.	Geographic Component: Yes OEDIT may prioritize projects based on proximity to public transportation, whether the project serves rural, under-resourced, or under-served communities, and the geographic diversity of projects, among other factors. Years Available: 2026 to 2032 OSA Report: Not yet evaluated

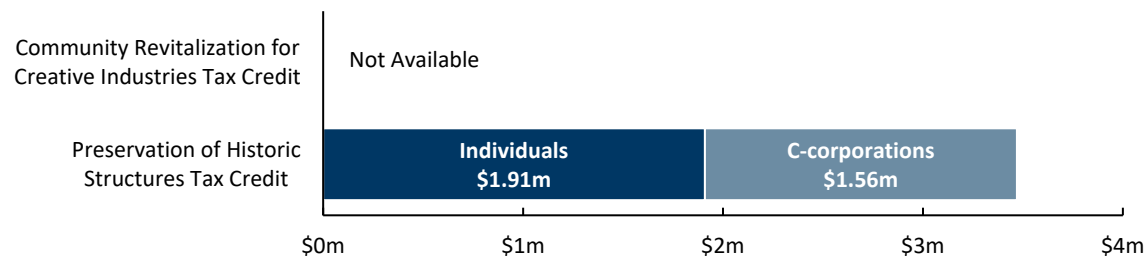
What is the revenue impact to the State?

The Department reported that Individuals, which may include natural persons or sole-proprietors, partnerships, or S-corporations, claimed approximately \$1.91 million in Preservation of Historic Properties Tax Credits in Tax Year 2022, the most recent year with data available. Data was not available for us to determine the amount of tax credits issued to businesses for commercial purposes, versus the amount issued to individuals for residential property rehabilitation. C-corporations claimed approximately \$1.56 million in Preservation of Historic Properties Tax Credits, for a total Tax Year 2022 revenue impact of \$3.47 million.

Because the Community Revitalization for Creative Industries Tax Credit does not become available until Tax Year 2026, there is no data available on its revenue impact or preliminary reservations for the Tax Credit. Exhibit 6 shows the revenue impact for the Preservation of Historic Structures Tax Credit for Tax Year 2022.

Exhibit 6

State Revenue Impact of the Preservation of Historic Structures Tax Credit¹ Tax Year 2022



Source: Department of Revenue.

¹ Data for Fiduciaries is not releasable to protect taxpayer confidentiality.

What are other related state and local incentives?

Colorado offers a variety of programs to assist with rehabilitation and renovation of historic structures. Specifically, the State Historic Preservation Office (SHPO) within History Colorado works with the U.S. Department of the Interior to certify local governments to create local ordinances for historic preservation, access funding for historic preservation projects, and review and approve historic rehabilitation projects. Certified local governments may establish their own incentive programs, providing grants or property tax rebates to support historic property preservation. SHPO also assists with reviewing applications for the state Preservation of Historic Structures Tax Credit and administering federal grants for certified local governments to administer historic property preservation programs. Additionally, History Colorado's State Historical Fund awards a portion of the State's gaming revenue to public and nonprofit entities in Colorado engaged in a range of historic preservation activities. The Colorado Main Street Program, which is administered by the State's Department of Local Affairs, has received grants from the State

Historical Fund to supplement funding for historic preservation and economic development efforts. Additionally, the Colorado Historical Foundation, a private, nonprofit organization, supports history and preservation projects throughout the state through a Revolving Loan Fund that partners with the State Historical Fund to provide low interest rate loans as an additional source of funding for historic preservation.

The Community Revitalization for Creative Industries Tax Credit was developed to replace the now expired Community Revitalization Grant program, that supported creative capital projects that combined creative industry workforce housing, commercial spaces, performance space, community gathering spaces, child care centers, and/or retail partnerships for the purpose of economic recovery and diversification by supporting creative sector entrepreneurs, artisans, and community nonprofit organizations.

To the extent that a project meets the requirements of different tax credit programs, a project owner may apply for and receive other state tax and federal credits, such as the Affordable Housing Tax Credit or the Enterprise Zone Vacant Commercial Building Tax Credit.

What are the related federal incentives?

In addition to federal grants for historic preservation, a federal tax credit is offered for the rehabilitation of historic properties. Property owners are eligible to claim both the federal and state credits for the same project, and the state Preservation of Historic Structures Tax Credit is based on the same standards as the Secretary of the Interior's Standards for Rehabilitation.

There are no federal incentives for capital development projects specific to creative industries.

Tax Expenditure	Description
Rehabilitation of Historic Structures Tax Credit	Income tax credit for a percentage of qualified rehabilitation expenditures for certified historic structures that are a business or income producing property. 26 USC 47



Job Creation and Workforce Development

Colorado offers several incentives related to creating and maintaining jobs in the state, and developing the workforce in specific industries. These incentives differ from general industry development or business growth because they are targeted towards ensuring individuals have the training and skills necessary to be employed in specific industries (e.g., workforce development) and/or incentivizing businesses to create new employment opportunities.

This section covers general human capital development incentives across Colorado; for incentives related to job creation and workforce development in targeted regions, see the Geographic -Based Development chapter of this report.

Job Creation and Workforce Development

What are the State’s tax incentives?

Colorado currently offers four tax expenditures designed to encourage workforce development and the creation and maintenance of new jobs. The Governor’s Office of Economic Development and International Trade (OEDIT) and the Economic Development Commission (EDC), which is an independent commission housed in OEDIT, administer two workforce credits—the Job Growth Incentive Tax Credit and the Workforce Shortage (Opportunity Now) Tax Credit—while the Colorado Department of Labor and Employment’s State Apprenticeship Agency (SAA) administers the New and Emerging Industries Apprenticeship Tax Credit for businesses that employ apprentices. Finally, the Division of Insurance (DOI) administers the Regional Home Office Premium Tax Rate Reduction.

Tax Expenditure	Description	Other Information
Job Growth Incentive Tax Credit	Income tax credit for a percentage of business’ FICA taxes paid [i.e., Federal Insurance Contributions Act (FICA) taxes include social security taxes and Medicare taxes], for business projects that meet a minimum amount of ‘net job growth’ (i.e., the difference in full-time equivalent employees at the start of the project, and at the end of each calendar year of the project). To qualify, jobs created must have an average yearly wage that equals or exceeds the county average yearly wage where the business is located. The EDC approves projects that qualify; projects may include, but are not limited to projects that encourage, promote, and stimulate economic development in key economic sectors such as aerospace, bioscience, life science, clean energy technology, tourism, film and television production, and information technology. Section 39-22-531, C.R.S.	Geographic Component: Yes Projects located in Enhanced Rural Enterprise Zones may qualify with fewer net jobs than projects located in other areas. Years Available: 2009 to 2026 OSA Report: 2022-TE38

Tax Expenditure	Description	Other Information
Workforce Shortage (Opportunity Now) Tax Credit	Income tax credit for a percentage of business' investments (i.e., facility improvements and/or equipment, software, or land acquisition costs) for training programs designed to alleviate demonstrated workforce shortages in industries that have targeted federal grants and tax credits [e.g., Infrastructure Investment and Jobs Act, Inflation Reduction Act, and the CHIPS and Science Act]. Credit amounts are reduced based on state revenue forecasts starting in 2025. Section 39-22-565, C.R.S.	Geographic Component: None Years Available: 2026 to 2032 OSA Report: Not Yet Evaluated
New and Emerging Industries Apprenticeship Tax Credit	Income tax credit for businesses that employ apprentices (i.e., individuals employed in program that involves the progressive attainment of skills and knowledge through structured on-the-job training and related instruction) through either the business' registered apprenticeship program, or an employer-partner registered apprenticeship program in "new and emerging industries." New and emerging industries include a variety of industries such as nursing, hospitality, information technology, etc., but do not include occupations under building and construction trades. The credit is a set amount based on the number of apprentices employed and length of employment. Section 39-22-562, C.R.S.	Geographic Component: None Years Available: 2025 to 2034 OSA Report: Not Yet Evaluated
Regional Home Office Premium Tax Rate Reduction	Premium tax rate reduction for insurance companies that maintain a "home office" or "regional home office" in Colorado (i.e., the company substantially performs certain business operations or maintains significant direct insurance operations in the state such as owning or leasing office space, meeting a minimum amount of spending on salaries, administration, or operating expenses, and/or maintaining at least 150 full-time employees). Additionally, the insurance company must maintain at least 2.5 percent of its total domestic workforce in Colorado. Section 10-3-209(1)(b)(I)(B), C.R.S.	Geographic Component: None Years Available: 1959 and later (no expiration date) OSA Report: 2025-TE5

What is the revenue impact to the State?

The Department of Revenue reported that C-corporations claimed approximately \$8.7 million in Job Growth Incentive Tax Credits, and Individuals, which may include sole-proprietors, partnerships, or other non-corporation business entities, claimed about \$676,000 for a total of about \$9.4 million in Job Growth Incentive Tax Credits in Tax Year 2022, the most recent year with data available.

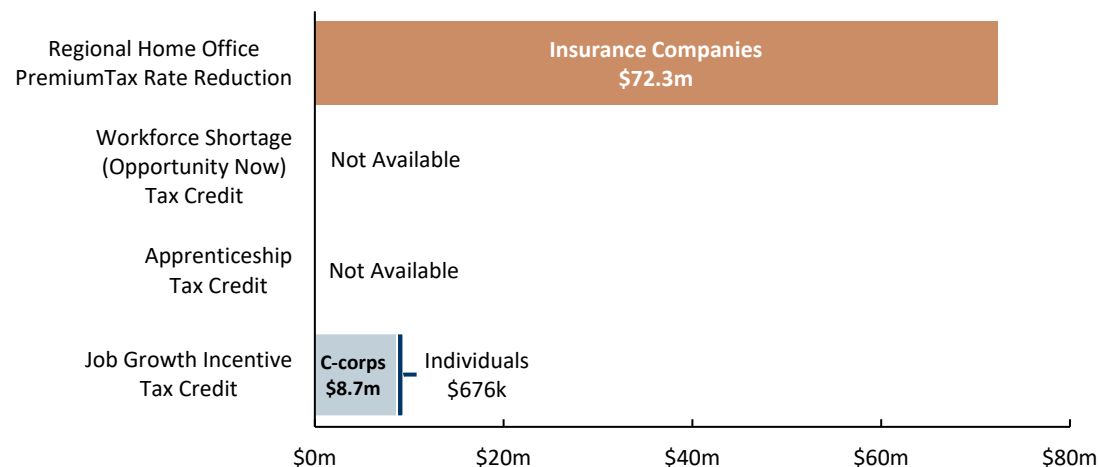
Because the New and Emerging Industries Apprenticeship and the Workforce Shortage (Opportunity Now) Tax Credits are not available until Tax Years 2025 and 2026, respectively, there is not data available on their revenue impact or the amount of preliminary reservations for these tax credits.

The Division of Insurance reported that insurance companies claimed approximately \$72.3 million in Regional Home Office Premium Tax Rate Reductions in Tax Year 2024, the most recent year with data available.

Exhibit 7 shows the revenue impact for the Job Growth Incentive Tax Credit for Tax Year 2022 and the Regional Home Office Premium Tax Rate Reduction for Tax Year 2024.

Exhibit 7

State Revenue Impact of the Job Growth Incentive Tax Credit¹ and Regional Home Office Premium Tax Rate Reduction²



Source: Colorado Department of Revenue and Office of the State Auditor analysis of Division of Insurance data.

¹ Job Growth Incentive Tax Credit revenue impact is for Tax Year 2022. Data for Nonresident composite returns are not releasable to protect taxpayer confidentiality, and data for Fiduciaries are not itemized on tax returns.

² Regional Home Office Premium Tax Rate Reduction revenue impact is for Tax Year 2024.

What are other related state and local incentives?

Colorado offers multiple programs administered by OEDIT and the SAA that are intended to encourage workforce development and job creation. OEDIT administers the location-based Enterprise Zone New Employee Credit, and businesses located in an Enterprise Zone may claim both the Enterprise Zone New Employee Credit and Job Growth Credit for the same new jobs to increase the amount of the incentive.

In addition to tax incentives, OEDIT also administers the Strategic Fund Job Growth Incentive, which provides grants to companies that meet the program requirements and create permanent, full-time net new jobs in Colorado; the Skills Advance Colorado Job Training Grant, which assists businesses with creating customized job training for employees; and the Opportunity Now grant program which uses state and federal funding to provide grants supporting talent and workforce development programs. According to OEDIT, many local economic development organizations also offer incentives to complement the State's tax credits for job creation and workforce development.

The SAA oversees the State's apprenticeship programs, including registration, required standards for registration, certification, quality assurance, record-keeping, compliance with federal laws and standards, and provision of administrative and technical assistance. The SAA also administers various grants related to organizations developing or expanding registered apprenticeship programs, such as the Scale Up grants, established with the Apprenticeship Tax Credit under House Bill 24-1439, to support organizations to develop or expand a registered apprenticeship program.

Additionally, the Colorado Workforce Development Council (CWDC), a public-private partnership, is statutorily charged with aligning the efforts of economic development, education, workforce development, government and business stakeholders at the local, regional, and state levels to help businesses create jobs, retain jobs, and access a highly competitive workforce. The CWDC has provided grants for career navigation, workforce training opportunities, and small business apprenticeship programs.

What are the related federal incentives?

While there are no specific federal business tax incentives that are intended to incentivize job creation or workforce development, many federal tax incentives allow for increased incentive amounts if businesses meet certain wage and/or apprenticeship requirements. For example, the federal tax credit for investments in qualified clean energy facilities, allows for a "bonus" credit if the project meets certain wage and apprenticeship requirements.

Additionally, there are several federal grant programs that target state investment in workforce development in specific industries. Specifically, the Infrastructure Investment and Jobs Act (IIJA) continued grants to states for public transportation workforce development, and helps fund outreach, training, and educational programs, while the CHIPS and Science Act provides grant

funding for workforce development activities in the semiconductor industry. Additionally, the federal State Apprenticeship Expansion grants provide funding to states to expand their Registered Apprenticeship systems. However, none of these grants are directly available to businesses for workforce or apprenticeship development programs.

Geographic-Based Development

Colorado currently has three geographic-based incentive packages that each provide multiple tax expenditures to businesses to encourage economic development in economically distressed areas of the state. These incentive packages offer multiple types of tax expenditures aimed at attracting businesses, growing businesses, creating jobs, attracting investment, developing infrastructure, and supporting specific industries such as technology, manufacturing, and entrepreneurship.

Enterprise Zones

What are the State's tax incentives?

Colorado's Enterprise Zone Program (Section 39-30-101 et seq., C.R.S.) provides nine income tax credits, related insurance premium tax credits for insurers (who pay premium tax and not income tax), and a sales and use tax exemption for various investments in designated economically distressed areas of the state, referred to as Enterprise Zones. Any county, municipality, or group of contiguous counties or municipalities that meet designated population limits, unemployment rates, population growth rates, and per capita income limits in statute may apply to the State's Economic Development Commission (EDC) and the Governor's Office of Economic Development and International Trade (OEDIT) to become a designated Enterprise Zone. Colorado currently has 16 Enterprise Zones that span both urban and rural areas of the state and cover approximately 84 percent of the state's land area. Additionally, half of Colorado's counties meet additional economic distress criteria that qualifies them as Enhanced Rural Enterprise Zones. Businesses must apply to their EDC appointed Enterprise Zone Administrator in order to qualify for the tax expenditures.

Tax Expenditure	Description	Other Information
Enterprise Zone Investment Tax Credit	Income tax credit for a percentage of qualifying investments in Enterprise Zones. Eligible investments may include depreciable tangible personal property such as machinery, livestock, furniture, appliances, and vehicles as well as certain types of real property used in manufacturing, extraction, transportation, and energy production. Starting in 2026, a credit cannot be claimed for investments in property directly used in the retail sale of gasoline or diesel fuel for motor vehicles, or property that is part of a wireless telecommunications facility. Section 39-30-104(1)(a), C.R.S.	Additional Geographic Component: None Years Available: 1986 and later (no expiration date) OSA Report: 2020-TE9
Enterprise Zone New Employee Tax Credit	Income tax credit per new employee of a new or replacement business facility, if the business has job growth each year. Section 39-30-105.1(1)(a)(I) and (II), C.R.S.	Additional Geographic Component: Yes Credit amounts per employee are increased if the business is located in an Enhanced Rural Enterprise Zone. Years Available: 1986 and later (no expiration date) OSA Report: 2020-TE9

Tax Expenditure	Description	Other Information
Enterprise Zone Agricultural Processing Employee Tax Credit	Additional income tax credit amount for the New Employee credit if the business is engaged in manufacturing or processing agricultural commodities. Section 39-30-105.1(3)(a) and (b), C.R.S.	Additional Geographic Component: Yes Credit amounts per employee are increased if the business is located in an Enhanced Rural Enterprise Zone. Years Available: 1987 and later (no expiration date) OSA Report: 2020-TE9
Enterprise Zone Employee Health Insurance Tax Credit	Income tax credit per employee that a business covers under a health insurance plan, as long as the business covers at least 50 percent of the total cost of the plan. Section 39-30-105.1(1)(b), C.R.S.	Additional Geographic Component: None Years Available: 1987 and later (no expiration date) OSA Report: 2020-TE9
Enterprise Zone Qualified Job Training Program Investment Tax Credit	Income tax credit for a percentage of a business' investment in a qualified job training program for employees that work predominantly within an Enterprise Zone. Section 39-30-104(4)(a)(II), C.R.S.	Additional Geographic Component: None Years Available: 1997 and later (no expiration date) OSA Report: 2020-TE9
Enterprise Zone Research and Experimental Activities Tax Credit	Income tax credit for a percentage of the amount a business spent on qualifying research and experimental activities within an Enterprise Zone that are more than the average total amount the business spent in the prior two years. Section 39-30-105.5, C.R.S.	Additional Geographic Component: None Years Available: 1989 and later (no expiration date) OSA Report: 2020-TE9
Enterprise Zone Vacant Building Rehabilitation Tax Credit	Income tax credit for owners or tenants of a qualified building located in an Enterprise Zone for a percentage of costs incurred to rehabilitate the vacant building. Section 39-30-105.6, C.R.S.	Additional Geographic Component: None Years Available: 1989 and later (no expiration date) OSA Report: 2020-TE9
Enterprise Zone Commercial Vehicle Investment Tax Credit	Income tax credit for a percentage of a business' investment in qualifying commercial trucks, truck tractors, tractors, or semi-trailers and vehicle parts, when the vehicle is primarily housed at the business' trucking facility located in an Enterprise Zone. Section 39-30-104(1)(b), C.R.S.	Additional Geographic Component: None Years Available: 2009 and later (no expiration date) OSA Report: 2020-TE9

Tax Expenditure	Description	Other Information
Enterprise Zone Manufacturing Machinery Sales and Use Tax Exemption	State sale and use tax exemption on the purchase of machinery, machine tools/parts, and materials used for the construction and repair of machinery and machine tools/parts for property used exclusively in an Enterprise Zone. Section 39-30-106, C.R.S.	Additional Geographic Component: None Years Available: 1986 and later (no expiration date) OSA Report: 2020-TE9
Enterprise Zone Insurance Premium Tax Credit	Insurance premium tax credits for insurers that meet the requirements of the Enterprise Zone income tax credits, as insurers are not subject to income tax. Section 39-30-107.6, C.R.S.	Additional Geographic Component: None Years Available: 1989 and later (no expiration date) OSA Report: 2020-TE9
Enterprise Zone Contribution Tax Credit	Income tax credit for a percentage of the value of a taxpayer's monetary or in-kind contributions to qualified Enterprise Zone contribution projects that support the economic development plan for the Enterprise Zone. Qualified projects may include, but are not limited to, capital projects such as hospital construction, tourist or visitor attractions, community facilities, or workforce housing, or can include job training programs, business assistance such as a local business incubator or professional services such as legal or accounting assistance. Section 39-30-103.5, C.R.S.	Additional Geographic Component: None Years Available: 1989 and later (no expiration date) OSA Report: 2021-TE16

What is the revenue impact to the State?

The Department of Revenue (Department) reported that a total of \$53.1 million in Enterprise Zone credits were claimed in Tax Year 2022, the most recent year with data available; however, this does not include the insurance premium tax credits that insurers may have claimed for the same activities because the Division of Insurance, which administers insurance premium taxes and credits, does not report this information.

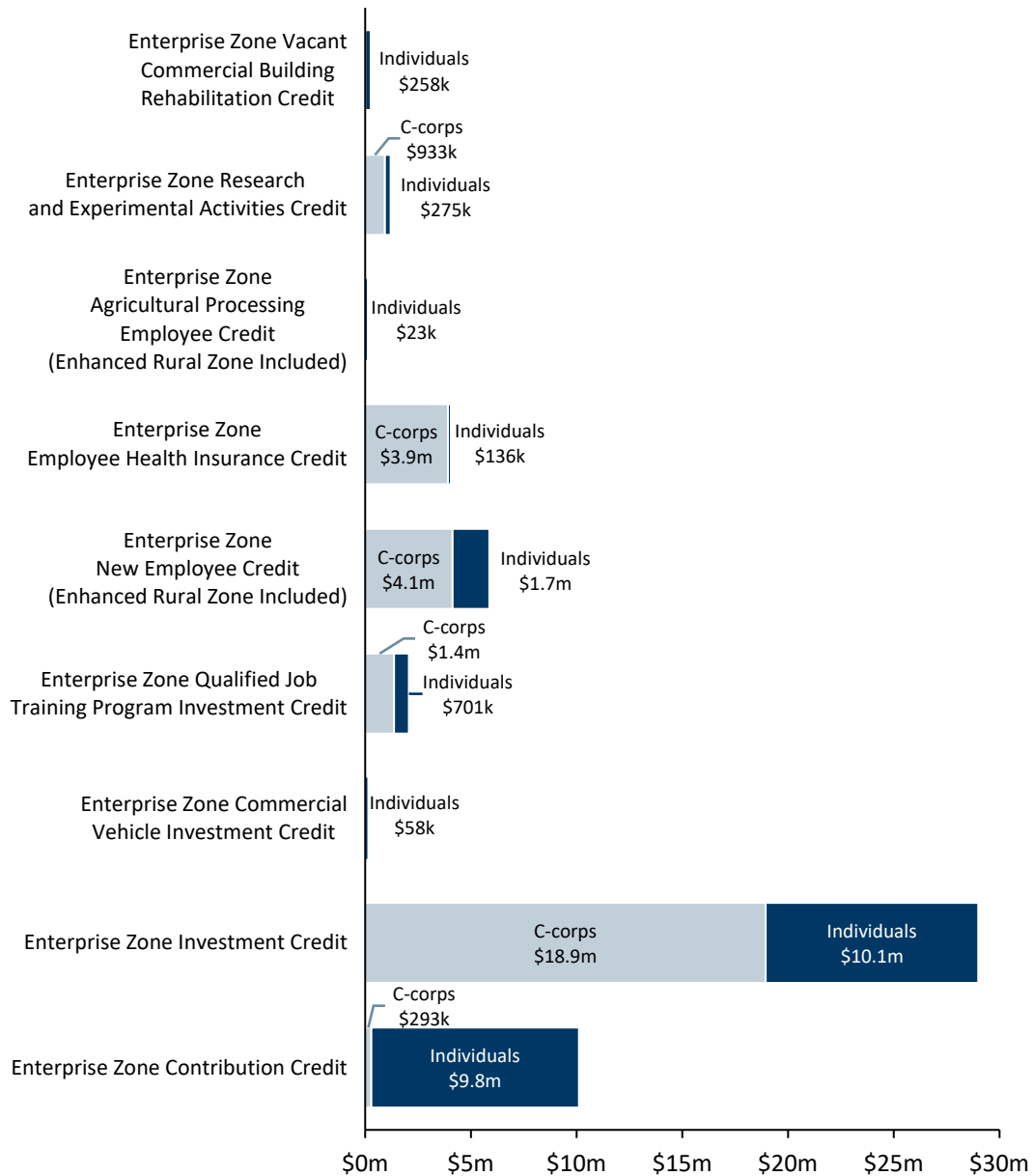
Additionally, the Enterprise Zone Manufacturing Machinery Sales and Use Tax Exemption data is aggregated with the State's general Manufacturing Machinery Sales and Use Tax Exemption data; therefore, we could not determine the revenue impact of the Enterprise Zone Manufacturing Machinery Sales and Use Tax Exemption.

Exhibit 8 shows the revenue impact for the Enterprise Zone tax credits for Individuals and C-corporations for Tax Year 2022. For clarity, the exhibit does not display values for taxpayer returns that are too small to be accurately represented visually alongside larger revenue impacts. Instead, those amounts are reported in the footnotes.

Exhibit 8

State Revenue Impact of Enterprise Zone Tax Credits ^{1,2,3,4,5,6,7}

Tax Year 2022



Source: Department of Revenue.

¹ Enterprise Zone Research and Experimental Activities Credit, Fiduciaries claimed \$12,000.

² Enterprise Zone Employee Health Insurance Credit, Fiduciaries claimed \$7,000.

³ Enterprise Zone New Employee Credit, Fiduciaries claimed \$14,000.

⁴ Enterprise Zone Qualified Job Training Program Investment Credit, Fiduciaries claimed \$5,000.

⁵ Enterprise Zone Commercial Vehicle Investment Credit data for C-corporations is not releasable to protect taxpayer confidentiality.

⁶ Enterprise Zone Investment Credit, Fiduciaries claimed \$400,000 in tax credits and data for Nonresident composite returns is not releasable to protect taxpayer confidentiality.

⁷ Enterprise Zone Contribution Credit, Fiduciaries claimed \$10,000 in tax credits and Nonresident composite returns claimed \$3,000 in tax credits.

What are other related state and local incentives?

Colorado offers multiple programs administered by OEDIT, such as grants, loans, and business assistance services. Additionally, to the extent that a business located in an Enterprise Zone performs other qualifying activities, such as meeting requirements for the Job Growth Incentive Tax Credit, the business may be able to claim multiple tax credits.

What are the related federal incentives?

There are multiple geographic-related incentives at the federal level that are designed to stimulate investment in low- and moderate-income rural and urban communities including the New Markets Tax Credit and the Opportunity Zones Investment in Qualified Opportunity Funds Capital Gains Incentives. While the State's Enterprise Zone Program is not directly tied to these programs, the targeted communities and activities from the federal programs may overlap with the State's Enterprise Zone Program. While OEDIT does not administer either federal program, OEDIT does assist with the designation of Qualified Opportunity Zones and provides information to investors on Qualified Opportunity Zone Funds. OEDIT also administers grants to provide technical assistance to businesses in Qualified Opportunity Zones to help attract investment from the Qualified Opportunity Zones Funds.

While the New Markets and Qualified Opportunity Zones tax incentives were originally set to expire in December 2025 and 2026, respectively, the federal OBBBA made these provisions permanent. The OBBBA changes may impact the designation of eligible geographic areas.

Tax Expenditure	Description
New Markets Tax Credit	Income tax credit for a percentage of an investor's equity investments in eligible low-income communities. Credits are allocated from the U.S. Department of Treasury's Community Development Financial Institutions (CDFI) Fund to approved investors. 26 USC 45D
Opportunity Zones Investment in Qualified Opportunity Funds Capital Gains Incentives	Qualified Opportunity Funds (QOF) are investment vehicles organized as a corporation or partnership for the purpose of investing in qualified property in Opportunity Zones. Qualified property includes stock, partnership interest, or business property. There are three capital gains tax incentives available for investments in QOFs, ranging from short-term deferral of gains to permanent exclusion. Taxpayers may defer taxes on capital gains from non- QOF investments if the gains are reinvested in a QOF within 180 days. Total capital gains on QOF investments held for the long- term can be reduced by a percentage depending on the length of time of the investment, reducing capital gains tax. Capital gains on investments held for at least 10 years and until at least 2027, but not after, can be permanently excluded from capital gains tax. 26 USC 1400Z-1 and 2

Semiconductor Manufacturing Zones

What are the State's tax incentives?

The Semiconductor Manufacturing Zone (CHIPS Zone) tax credits are intended to improve the competitiveness of Colorado's semiconductor manufacturing industry, induce investment in new and existing semiconductor manufacturing businesses, and to create well-paying private sector jobs. In 2023, the General Assembly, through House Bill 23-1260, created the CHIPS Zone Act which allows municipalities, counties, or a group of contiguous municipalities or counties to create a CHIPS Zone to allow semiconductor manufacturers to use certain Enterprise Zone tax credits and the Job Growth Incentive Tax Credit, as long as they are located in an approved CHIPS Zone. Local governments must apply to the EDC and OEDIT to create a designated CHIPS Zone. Once the CHIPS Zone is approved, semiconductor manufacturers (i.e., businesses involved in "the fabrication, assembly, testing, advanced packaging, production, or research and development of semiconductors, materials used to manufacture or enhance semiconductors, or semiconductor manufacturing equipment") may apply for certain tax credits established as part of the Enterprise Zone Program, or apply for the the Job Growth Incentive Tax Credit. The Enterprise Zone tax credits and the Job Growth Incentive Tax Credit are non-refundable, with the exception that eligible businesses in a CHIPS Zone may apply to the EDC to have up to 80 percent of the tax credit amounts certified made refundable.

Tax Expenditure	Description	Other Information
Investment Tax Credit	Income tax credit for a percentage of qualifying investments in CHIPS Zones. Eligible investments must be related to semiconductor manufacturing. Section 24-46-108(2)(a), C.R.S.	Additional Geographic Component: None Years Available: July 2023 to June 2029 OSA Report: Not Yet Evaluated
New Employee Tax Credit	Income tax credit per new employee of a new or replacement business facility if the business has job growth each year. Section 24-46-108(2)(a), C.R.S.	Additional Geographic Component: Yes Credit amounts per employee are increased if the business is also located in an Enhanced Rural Enterprise Zone. Years Available: July 2023 to June 2029 OSA Report: Not Yet Evaluated
Qualified Job Training Program Investment Tax Credit	Income tax credit for a percentage of a business' investment in a qualified job training program. Section 24-46-108(2)(a), C.R.S.	Additional Geographic Component: None Years Available: July 2023 to June 2029 OSA Report: Not Yet Evaluated

Tax Expenditure	Description	Other Information
Research and Experimental Activities Tax Credit	Income tax credit for a percentage of a business' amount spent on qualifying research and experimental activities that are more than the average total amount the business spent in the prior two years. Section 24-46-108(2)(a), C.R.S.	Additional Geographic Component: None Years Available: July 2023 to June 2029 OSA Report: Not Yet Evaluated
Commercial Vehicle Investment Tax Credit	Income tax credit for a percentage of a business' investment in qualifying commercial trucks, truck tractors, tractors, or semi-trailers and vehicle parts, when the vehicle is primarily housed at the business' trucking facility located in a CHIPS Zone. Section 24-46-108(2)(a), C.R.S.	Additional Geographic Component: None Years Available: July 2023 to June 2029 OSA Report: Not Yet Evaluated
Job Growth Incentive Tax Credit	Income tax credit for a percentage of a business' Federal Insurance Contributions Act (FICA) taxes (i.e., social security and Medicare taxes) for business projects that meet a minimum amount of "net job growth" (i.e., the difference in full-time equivalent employees at the start of the project and at the end of each calendar year of the project). To qualify, jobs created must have an average yearly wage that equals or exceeds the county average yearly wage where the business is located. The State's EDC approves projects that qualify; these projects must promote and stimulate economic development in the semiconductor manufacturing industry. Section 24-46-108(2)(a), C.R.S.	Additional Geographic Component: Yes Projects also located in Enhanced Rural Enterprise Zones may qualify with fewer net jobs than projects located in other areas. Years Available: 2024 to 2028 OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

Data on the revenue impact of the Semiconductor Manufacturing (CHIPS Zone) tax credits are not available yet because the State CHIPS Enterprise Zone tax credits did not become available until July 2023 and the CHIPS Job Growth Tax Credit did not become available until January 2024 and the Department has not yet published data on their use.

What are other related state and local incentives?

Colorado offers multiple programs administered by OEDIT, such as grants, loans, and business assistance services that semiconductor manufacturers may also be eligible for.

What are the related federal incentives?

In 2022, the federal CHIPS and Science Act, otherwise referred to as the Creating Helpful Incentives to Produce Semiconductors and Science Act, was created to provide tax incentives, loans, and grant programs to support investment in domestic semiconductor manufacturing.

The federal CHIPS and Science Act created the Advanced Manufacturing Investment Tax Credit for manufacturers of semiconductors and semiconductor manufacturing equipment within the United States. While the State Semiconductor Manufacturing Zone Tax Credits are not based on the federal credit, statute requires the EDC to prioritize projects that have received or expect to receive matching funds under the federal CHIPS and Science Act or other federal legislation, such as the American Rescue Plan Act (ARPA), that provides incentives for semiconductor manufacturing.

Tax Expenditure	Description
Advanced Manufacturing Investment Tax Credit	Income tax credit for a percentage of investments in qualified advanced manufacturing facilities, where the primary purpose of the facility is manufacturing semiconductors or semiconductor manufacturing equipment. 26 USC 48D

Rural Jump-Start Zones

What are the State’s tax incentives?

Colorado’s Rural Jump-Start (RJS) Program [Section 39-30.5-101, et seq., C.R.S.] provides an income tax credit and a sales and use tax refund for new businesses that locate in designated economically distressed areas of the state, referred to as RJS Zones. The tax expenditures are intended to incentivize new businesses to locate in Colorado to create or retain jobs in order to address the contraction of rural economies. The EDC designates counties as eligible RJS Zones, and counties may choose to participate in the RJS Program. As of June 2024, there were 32 counties participating in the program. Approved businesses within the participating counties must meet certain requirements for the number of jobs created that pay at or above the county average wage depending on their location. In addition to the tax incentives for the businesses, employees of the business that qualify as a “New Hire” under the program and meet specified requirements, including that they work within the RJS Zone at least 80 percent of the time and receive an annual wage that meets or exceeds the county average where they work, are eligible for a RJS New Hire Income Tax Credit. However, because this benefit is provided to the employee, it is not included in this report.

Tax Expenditure	Description	Other Information
Rural Jump-Start New Business Tax Credit	Income tax credit for all income taxes owed by an approved business that employs a minimum number of “New Hire” employees. New Hires are defined as full-time employees who work in the Zone at least 80 percent of the time, are employed for a minimum of 6 months, and have annual wages that met or exceed the average wages for the county they work in. Section 39-30.5-105(1), C.R.S.	Additional Geographic Component: Yes Business in Zones that have a population that does not exceed 100,000 can qualify with fewer New Hires Years Available: 2016 to 2030 OSA Report: 2025-TE2
Rural Jump-Start New Business Sales and Use Tax Refund	Sales and use tax refund for approved businesses on purchases of tangible personal property that is used in the Zone. Section 39-30.5-105(3), C.R.S.	Additional Geographic Component: None Years Available: 2016 to 2030 OSA Report: 2025-TE2

What is the revenue impact to the State?

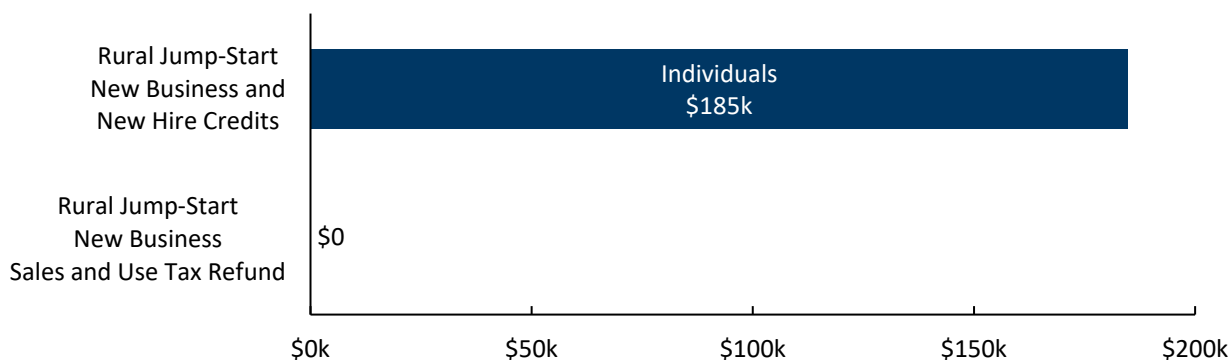
Department data on the RJS New Business Tax Credit are aggregated with the RJS New Hire Tax Credit that employees can claim. Therefore, it is not possible to know how much of the total revenue impact is from business owners of pass-through entities – who file taxes as Individuals – claiming the New Business Income Tax Credit and how much of the revenue impact is from employees claiming the New Hire Income Tax Credit. The Department reported that for Tax Year 2022, the most recent year with data available, the total revenue impact for both credits combined

was about \$185,000 for Individuals. Data for C-corporations was not releasable to protect taxpayer confidentiality. The Department reported that there were no claims for the RJS New Business Sales and Use Tax Refund for Tax Year 2021, the most recent year with data available.

Exhibit 9 shows the revenue impact for the RJS New Business and New Hire Tax Credits for Tax Year 2022 and the RJS New Business Sales and Use Tax Refund for Tax Year 2021.

Exhibit 9

State Revenue Impact of Rural Jump-Start New Business and New Hire Tax Credits¹ and the Rural Jump-Start New Business Sales and Use Tax Refund²



Source: Department of Revenue.

¹ Rural Jump-Start New Business and New Hire Tax Credits is for Tax Year 2022. Data for C-corporations is not releasable to protect taxpayer confidentiality and data for Fiduciaries is not itemized on tax returns.

² Rural Jump-Start New Business Sales and Use Tax Refund revenue impact is for Tax Year 2021.

What are other related state and local incentives?

As a condition of a distressed county becoming a RJS Zone, statute requires that counties, and any participating municipalities located within a participating county, also provide a business personal property tax exemption on all tangible personal property that the business uses in the Zone. Participating counties and municipalities may choose to offer additional incentives, such as local sales and use tax exemptions or grants.

In addition to the tax incentives, the RJS Program also offered grants to businesses to cover operating expenses and New Hire wages. However, these grants expired as of July 2025. While the RJS grant program expired as of July 2025, the Economic Development Commission approved a continuation of funding for operating grants through a re-allocation of Strategic Fund dollars. This re-allocation provides \$630,000 in grant funding, through June 30, 2028 or until all grant funds are awarded.

While OEDIT manages several other tax incentives, grants, technical assistance, and alternative financing programs, generally businesses cannot qualify for both the RJS tax expenditures and for

other programs, such as the Enterprise Zone New Employee Tax Credit or the Job Growth Incentive Tax Credit for new jobs created. Businesses may be able to qualify for other incentives such as the Preservation of Historic Structures Tax Credit - which we cover in the Infrastructure Development chapter of the report - if they separately engage in qualified rehabilitation activities of a historic structure, or for the Advanced Industry Accelerator grants, which provide businesses with grants for early-stage capital, infrastructure projects, and the development of advanced industry workforce.

What are the related federal incentives?

Similar to Enterprise Zones, there are related incentives at the federal level that are designed to stimulate investment in low- and moderate-income rural and urban communities including the New Markets Program and Qualified Opportunity Zones Program. While the State's RJS Program is not directly tied to these programs, the targeted communities and activities may overlap with the RJS Program. In addition to the federal tax expenditures, OEDIT also administers grants to provide technical assistance to businesses in Qualified Opportunity Zones to help attract investment from the Qualified Opportunity Zones Funds.

While the New Markets and Qualified Opportunity Zones tax incentives were originally set to expire in December 2025 and 2026, respectively, the federal OBBBA made these provisions permanent. The OBBBA changes may impact the designation of eligible geographic areas.

Industry Development

Colorado offers several tax expenditures intended to drive development by, and provide financial assistance to, businesses that operate specific industries in the state, such as aerospace and insurance carriers, and to certain types of businesses, such as smaller businesses and those that tend to invest more in capital assets. In general, these incentives are not statutorily restricted to certain areas of the state, such as low-income, economically distressed areas like the geographic based incentives; however, due to the nature of some industries, such as mining or oil and gas production, certain areas of the state are more likely to have businesses that benefit from the expenditures.

Additionally, while job creation and workforce training incentives are often complementary to industry development incentives, the tax expenditures included in this section focus mainly on reducing non-employee costs such as capital assets, equipment purchases, or investment in facilities.

Federal tax provisions related to how and when businesses can deduct costs for purchases of machinery, equipment, and property (i.e., expensing and depreciation) have undergone multiple changes in recent years. Specifically, the 2017 Tax Cuts and Jobs Act (TCJA) created several temporary provisions, including immediate expensing and accelerated or “bonus” depreciation schedules. These provisions were set to expire or phase out from 2023 to 2027, but the federal One Big Beautiful Bill Act (OBBBA), passed in 2025, made these provisions permanent. In general, the purposes of immediate expensing and “bonus depreciation” are to encourage investment in capital assets (e.g., equipment, machinery, facility development) by allowing businesses to deduct from taxable income the majority of the business’s expenses for a purchase, or the full cost of an asset in the year businesses make the purchase. In contrast, standard depreciation requires businesses to deduct the cost of the investment over multiple years, generally several decades, which—due to inflation and opportunity costs—reduces the value of the amount of the deduction, but aligns the businesses’ expenses associated with the asset purchase with profits from the asset’s operation. The accelerated depreciation provisions are specific to certain tangible property investments such as machinery and equipment [26 USC 168(k)], and to specific types of capital investments, such as factories [26 USC 168(n)]; businesses can deduct the full cost of an investment under the current accelerated depreciation laws (i.e., ‘100 percent bonus depreciation’) [26 USC 168]. Immediate expensing has similar benefits to full depreciation; however, is limited by businesses’ taxable income and monetary thresholds. In general, machinery, equipment, and computer software qualify for expensing, but real property such as buildings and their structural components do not qualify.

Because Colorado conforms to changes in the Internal Revenue Code and uses Federal Taxable Income as the starting point for state taxable income, these recent federal changes to expensing and depreciation will also impact Colorado taxable income. Because changes in federal tax provisions that affect specific investments in specific industries may impact business in Colorado, the concepts of expensing and depreciation are broadly discussed, when applicable, in each section of this chapter.

Aerospace

What are the State’s tax incentives?

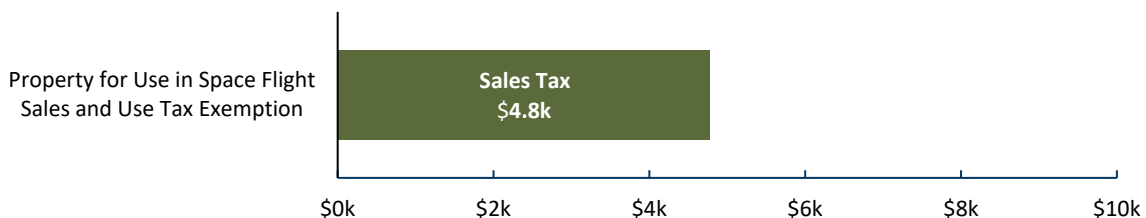
Colorado has a single tax expenditure that specifically targets development of the aerospace industry: the Property for Use in Space Flight Sales and Use Tax Exemption. The expenditure is intended to encourage investment in equipment, machinery, parts, and supplies used in aerospace manufacturing.

Tax Expenditure	Description	Other Information
Property for Use in Space Flight Sales and Use Tax Exemption	State sales and use tax exemption on the sale, storage, and use of “qualified property” for use in space flight. This can include, but is not limited to, any orbital space facility, space propulsion system, satellite, or space station designed for suborbital, orbital, or interplanetary travel, the component parts, tangible personal property placed on or used aboard, and fuel produced, sold, and used exclusively for space flight. Section 39-26-728, C.R.S.	Geographic Component: None Years Available: July 2014 and later (no expiration date) OSA Report: 2022-TE23

What is the revenue impact to the State?

The Department of Revenue (Department) reports that for Tax Year 2023, vendors reported less than \$5,000 in Property Used in Space Flight Sales and Use Tax exemptions. Exhibit 10 shows the total revenue impact of the exemption in Tax Year 2023.

Exhibit 10
State Revenue Impact of Property for Use in Space Flight Sales and Use Tax Exemption
Tax Year 2023



Source: Department of Revenue.

What are other related state and local incentives?

Colorado does not offer any other tax incentives specific to aerospace businesses. However, there are several broader “advanced industry” incentives that the Governor’s Office of Economic Development and International Trade (OEDIT) administers, such as the Job Growth Incentive Tax Credit and the Advanced Industries Investment Tax Credit. Additionally, OEDIT administers the Advanced Industries Grant Program, which provides grants to assist businesses with access to early-stage capital, funding for research, and funding for collaborative industry-wide infrastructure projects, which could be applicable to the aerospace industry.

Additionally, local governments, such as cities and counties, may choose to adopt ordinances to apply the Property for Use in Space Flight Sales and Use Tax Exemption to their local sales tax as well. However, according to our 2022 evaluation of the expenditure, very few local governments have adopted the Property for Use in Space Flight Sales and Use Tax Exemption.

What are the related federal incentives?

There are no federal tax expenditures specific to the purchase of property for use in space flight. However, broader federal incentives, such as the Research and Development Tax Credit [26 USC 41], intended to encourage development by offsetting qualifying research and development costs, are available for businesses in several industries, including aerospace. Alternatively, a business can choose to deduct the full amount of qualified research expenditures, except for the acquisition and improvement of land or depreciable tangible property, in the year they are paid, which was available prior to Tax Year 2022, and is now available beginning with purchases made in 2025 [26 USC 174].

Agriculture

What are the State's tax incentives?

Colorado provides two tax expenditures that are likely intended to provide financial assistance to the agricultural industry: one for reducing the cost of farm equipment purchased at close-out auctions and another for reducing capital gains taxes on the sale of agricultural property.

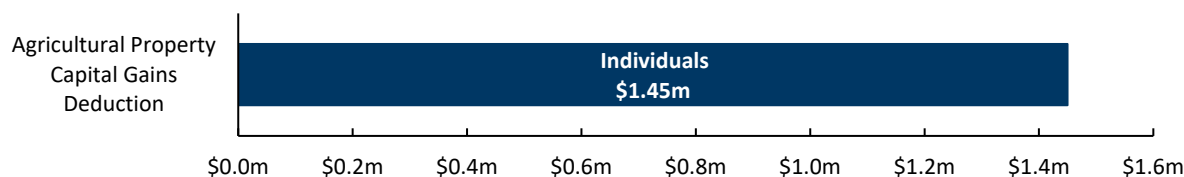
Tax Expenditure	Description	Other Information
Farm Close-Out Sales and Use Tax Exemption	State sales and use tax exemption on the purchase of property previously used in farming or ranching operations when the property is purchased at a farm close-out sale (i.e., when a farm or ranch is closing operations and disposing of all tangible personal property used in the operations). Section 39-26-716(4)(a), C.R.S.	Geographic Component: None Years Available: 1945 and later (no expiration date) OSA Report: 2023-TE9
Agricultural Property Capital Gains Tax Deduction	Income tax deduction for capital gains from the sale of agricultural land held for at least 5 years prior to the sale. The property must have been acquired between 1994 and 2009 to qualify. Section 39-22-518(2)(I.5) and (2)(b)(I)(B.7), C.R.S.	Geographic Component: None Years Available: 2022* and later (no expiration date) *A capital gains deduction on certain property for a broader group of taxpayers was originally enacted in 1994. Starting in 2022, the broader deduction was replaced with a deduction specifically for agricultural land. The years within which the property had to have been acquired did not change. OSA Report: Not Yet Evaluated* *2021-TE18 evaluated previous deduction prior to 2022 changes.

What is the revenue to the State?

Sellers are not required to report the Farm Close-Out Sales and Use Tax exemption on a specific line of their sales tax returns, so Department data on this tax expenditure is not itemized; therefore, we could not determine the Farm Close-Out Sales and Use Tax Exemption's revenue impact. For the Agricultural Property Capital Gains Tax Deduction, the Department reported that for Tax Year 2022, Individuals, which could represent either natural persons or individuals with "pass-through"

income claimed approximately \$1.45 million in deductions, as shown in Exhibit 11. Data for other taxpayer types, such as C-corporations, is not itemized on taxpayer forms, and is therefore unavailable.

Exhibit 11
State Revenue Impact of Agricultural Property Capital Gains Tax Deduction¹
Tax Year 2022



Source: Department of Revenue.

¹The deduction is not itemized for C-corporations, Fiduciaries, and Nonresident composite returns.

What are other related state and local incentives?

In addition to the state sales and use tax exemption, local governments that have State-collected sales and use taxes are required to also exempt property purchased at a farm close-out sale from any local sales and use taxes.

While not considered a business incentive, Colorado has a structural sales and use tax exemption on several other types of agricultural sales, such as agricultural production inputs like feed and bedding for livestock and farm and dairy equipment, such as tractors, plows, and combines. This exemption is similar to the State's Wholesales Sales and Use Tax Exemption and general equipment exemptions available for other industries that are intended to prevent sales taxes on inputs necessary for agricultural production from being passed on to final consumers; therefore, we did not consider agricultural input sales and use tax exemptions a business incentive. While both the agricultural inputs sales and use tax exemptions and the Farm Close-Out Sales and Use Tax Exemption reduce the cost of equipment, the Farm Close-Out Sales and Use Tax Exemption's purpose is likely intended to encourage the purchase of used agricultural equipment and some supplies and property, such as vehicles, mowers, or general tools that would not be covered under the broader agricultural inputs sales and use tax exemption.

What are the related federal incentives?

There are no federal tax expenditures specific to the purchase of agricultural equipment sold at auction or for the sale of agricultural land. However, there are broader federal incentives for the agricultural industry in general. Specifically, most farm businesses, excluding corporations and partnerships, may deduct certain agricultural costs from income when the cost occurs (immediate expensing), as opposed to deducting portions of the costs as income attributed to the property and equipment is realized (depreciation costs). Specifically, the costs of raising and breeding livestock,

and input costs such as fertilizer and other materials to enrich, neutralize, or condition land for use in farming can be deducted as soon as they are incurred [26 USC 180, 448, 461, and 464].

Additionally, the U.S. Department of Agriculture has multiple programs that provide agricultural subsidies to farmers and agribusiness to promote specific farming practices, aid in research and development, provide disaster aid, and assist with risk mitigation. For example, the Farm Service Agency provides loans for farm operations and ownership to support farmers and ranchers in purchasing, developing or expanding agricultural operations, which can assist with the purchase of livestock, equipment, feed, and supplies.

Aviation

What are the State’s tax incentives?

Colorado provides two tax expenditures that are likely intended to incentivize activity in the aviation industry, providing sales and use tax exemptions on aircraft sales and maintenance to encourage aircraft sales, manufacturing, and maintenance in the State.

Tax Expenditure	Description	Other Information
Aircraft Parts Sales and Use Tax Exemption	State sales and use tax exemption for the purchase, storage, or use of components and parts that are permanently affixed to an aircraft, including, but not limited to, fuselage parts, parts for the engine, seats, and paint for the aircraft. Section 39-26-711(1)(b) and (2)(b), C.R.S.	Geographic Component: None Years Available: 1992 and later (no expiration date) OSA Report: 2022-TE12
Non-Resident Aircraft Sales and Use Tax Exemption	State sales and use tax exemption for non-residents that purchase an aircraft in Colorado that will be removed from the state within a certain time following the sale or after the completion of maintenance or refurbishment. Section 39-26-711.5(1), C.R.S.	Geographic Component: None Years Available: 2008 and later (no expiration date) OSA Report: 2022-TE12

What is the revenue impact to the State?

Vendors are not required to report the either the Aircraft Parts or the Non-Resident Aircraft Sales and Use Tax Exemptions on a specific line of their sales tax returns, and the Department does not have data related to these exemptions; therefore, we could not determine their revenue impact to the State.

What are other related state and local incentives?

Colorado does not offer any other tax incentives specific to aircraft manufacturing. However, there are several broader “advanced industry” incentives that OEDIT administers, such as the Job Growth Incentive Tax Credit and Advanced Industries Investment Tax Credit, that the aviation industry may use. Additionally, OEDIT administers the Advanced Industries Grant Program, which provides grants to assist businesses with access to early-stage capital, funding for research, and funding for collaborative industry-wide infrastructure projects, which could be applicable to the aviation industry.

In addition to the state Aircraft Parts and Non-Resident Aircraft Sales and Use Tax Exemptions, statute requires local governments that have the State collect their sales and use taxes to also exempt aircraft parts and non-resident aircraft sales from local sales and use taxes.

What are the related federal incentives?

There are no federal tax expenditures specific to manufacturing in the aviation industry. However, broader federal incentives, such as the Research and Development tax credit [26 USC 41], which is intended to encourage development by offsetting qualifying research and development costs, are available for businesses in several industries, including the aviation industry. Alternatively, business can choose to deduct the full amount of qualified research expenditures, except for the acquisition and improvement of land or depreciable tangible property, in the year they are paid, which was available prior to Tax Year 2022 and is now available beginning with purchases in 2025 [26 USC 174]. Finally, to the extent that an aviation business is engaged in manufacturing, they may be able to deduct the cost of their investment in equipment or production facilities, up to \$2.5 million for expensing machinery or computers [26 USC 179], or the full cost under accelerated depreciation [26 USC 168].

Entertainment

What are the State’s tax incentives?

Colorado has two tax expenditures specifically intended to encourage development of the entertainment industry, such as film and television production and film festivals. Both tax credits are administered by OEDIT’s Office of Film, Television, and Media (OFTM).

Tax Expenditure	Description	Other Information
Film, TV, and Media Tax Credit	Income tax credit for a percentage of local expenditures for a film production company that is a Colorado company, and employs a workforce of at least 50 percent Colorado residents for in-state production activities. “Film production” can include, but is not limited to, television shows, film, television commercials, or video games. Section 39-22-559, C.R.S.	Geographic Component: Yes Program guidance allows OEDIT to approve a higher percentage tax credit for production activities in rural or marginalized urban areas. Years Available: 2024* to 2031 *Prior to 2024, OFTM managed a cash rebate program for a percentage of a production company’s in-state expenditures OSA Memo: 2023 TE21
Film Festival Tax Credit	Income tax credit for a percentage of expenditures associated with the cost of operating a large global film festival, or small Colorado film festival, including salaries and benefits for employees of the festival operator, contractor costs, costs for the rental of venues and offices, and travel expenses for contractors and talent for the festival. Section 39-22-571, C.R.S.	Geographic Component: None Years Available: 2027 to 2036 OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

The Film, TV, and Media Tax Credit did not become available until 2024; therefore, there is not data on the amount of credits claimed. Additionally, the Film Festival Tax Credit will not become available until 2027, so there is no current revenue impact to the State.

What are other related state and local incentives?

Prior to the creation of the Film, TV, and Media Tax Credit, the OFTM administered a cash rebate program for film, television, and video game production in Colorado. The Film, TV, and Media Tax Credit was developed in 2024 to replace the cash rebate program. Local governments, such as cities

and counties, may also provide incentives for film production such as grants, and many have local or regional film commissions that assist filmmakers with identifying locations, applying for permits, and finding local talent and vendors.

In addition to the Film Festival Tax Credit, the OFTM also provides some grant funding to small film festivals, and the Boulder Chamber of Commerce and other organizations have committed to additional contributions, including marketing support, permitting reimbursements, and rebates, to incentivize a global film festival to locate in Boulder, Colorado.

What are the related federal incentives?

Businesses may immediately expense up to \$15 million, or \$20 million in certain distressed areas, in non-capital expenditures related to producing a qualified film, television, or live theatrical production [26 USC 181]. This allows businesses to deduct expenses paid in the year they occur, rather than over time after the production has been released. However, this provision expires in Tax Year 2025. While the OBBBA did not extend this provision, certain property that is often purchased in the industry, such as production equipment, may be eligible for the OBBBA's accelerated depreciation provision [26 USC 168(k)].

Fixed Capital

What are the State’s tax incentives?

Businesses must pay local property taxes on the value of personal property used in a business, such as equipment, machinery, security systems, and furnishings. While the business personal property taxes provide revenue to local governments, the State imposes the requirement to pay property tax. Colorado provides a tax credit and an exemption that are intended to reduce the impact of the business personal property tax on businesses. The State reimburses local governments for revenue lost due to the exemption, and business owners claim the credit directly. In 2025, the General Assembly passed House Bill 25-1296, which repeals the Business Personal Property Tax Credit at the end of 2025.

Tax Expenditure	Description	Other Information
Business Personal Property Tax Credit	Income tax credit for a portion of business personal property taxes paid to local governments, for businesses with values of personal property that exceed a set exemption limit. Section 39-22-537.5, C.R.S.	Geographic Component: None Years Available: 2019* to 2025 *Prior to 2019, a similar tax credit was available from 2015 to 2018. OSA Report: 2024-TE5

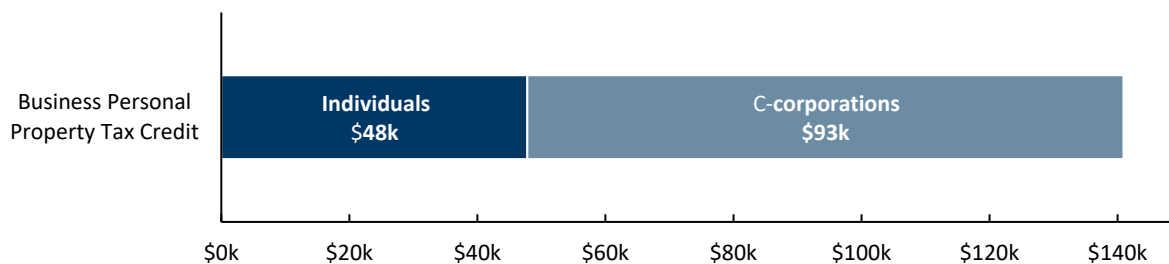
What is the revenue impact to the State?

The Department reports that for Tax Year 2022, approximately \$160,000 in Business Personal Property Tax Credits were claimed, with Individuals claiming about \$48,000 and C-corporations claiming about \$93,000 as shown in Exhibit 12. For clarity, the exhibit does not display values for taxpayer returns that are too small to be accurately represented visually alongside larger revenue impacts. Instead, we have included these amounts in the footnotes below the table.

Exhibit 12

State Revenue Impact of the Business Personal Property Tax Credit¹

Tax Year 2022



Source: Department of Revenue.

¹Fiduciaries claimed approximately \$12,000 in credits and Nonresident composite returns claimed approximately \$6,000 in credits.

What are other related state and local incentives?

The State also provides an exemption, which is applied to local tax collections, from filing and paying business personal property taxes when the value of the property is below a certain amount. Most recently, the exemption threshold was set at \$52,000, meaning that if a business's total value of business personal property is under \$52,000, then the business is exempt from the local business personal property tax. Because these taxes fund local governments, the State reimburses local governments for the amounts exempted. If the business has more than \$52,000 in business personal property value, then they are not exempt from the tax, but can claim the Business Personal Property Tax Credit on a portion of the business personal property taxes paid.

The Rural Jump-Start Program requires participating local governments to exempt approved businesses from local business personal property taxes. However, this is only applicable in Rural Jump-Start Zones and is intended to help incentivize new businesses to locate in economically distressed areas of the state.

What are the related federal incentives?

While there is no specific federal assistance for businesses to reduce property taxes on tangible personal property, businesses can deduct property taxes paid as "ordinary and necessary" business expenses from their federal income taxes.

More broadly, federal law allows for expensing and accelerated, or bonus, depreciation, on certain capital asset purchases. Specifically, under the OBBBA, small businesses can expense (i.e., deduct) up to \$2.5 million in qualifying property, such as new or used machinery and equipment, or software, in the year it is purchased; this does not include real property such as buildings or structural components [26 USC 179]. Businesses may also be able to deduct the entire value of the investment under accelerated depreciation rules [26 USC 168].

Insurance Carriers

What are the State's tax incentives?

Insurers in Colorado are required to be members of the Colorado Life & Health Insurance Protection Association, which assesses member insurers an amount to cover the claims of policyholders who previously purchased policies from another member insurer that becomes insolvent. Colorado provides member insurers with a premium tax credit to help offset the cost of the assessment.

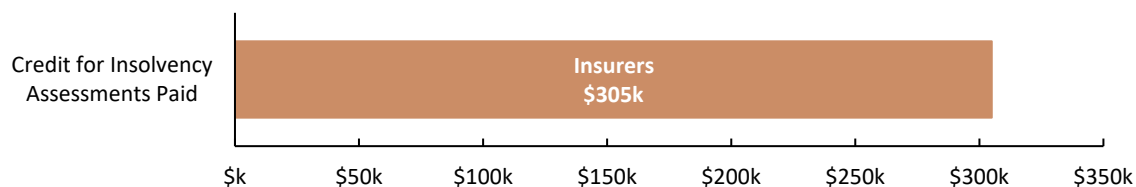
Tax Expenditure	Description	Other Information
Insolvency Assessments Paid Insurance Premium Tax Credit	Premium tax credit for life and annuity insurers to reimburse insurers for the amount of insolvency assessments paid when another insurer becomes insolvent. The tax credit is claimed as 20 percent of the total assessment over a 5-year period. Section 10-20-113(1)(a), C.R.S.	Geographic Component: None Years Available: 1991 and later (no expiration date) OSA Report: 2023-TE12

What is the revenue impact to the State?

The Division of Insurance reports that from Tax Year 2018 through Tax Year 2022, insurers claimed approximately \$305,000 in Insolvency Assessments Paid Insurance Premium Tax Credits, as shown in Exhibit 13.

Exhibit 13

State Revenue Impact of Insurance Premium Tax Credit for Insolvency Assessments Paid Tax Years 2018 through 2022



Source: Office of the State Auditor analysis of Division of Insurance data.

What are other related state and local incentives?

Colorado does not offer any other tax incentives specific to assisting with the stability of the insurance industry by allowing insurers to recoup their assessments through a premium tax credit.

What are the related federal incentives?

Insurers are not subject to a premium tax at the federal level, and there are no similar tax credits for reimbursing insurers for their insolvency assessments paid since the assessments occur at the state level.

Manufacturing

What are the State’s tax incentives?

Colorado provides one tax expenditure designed to reduce the cost of machinery used in manufacturing: the Machinery Used in Manufacturing (Machinery) Sales and Use Tax Exemption, which was likely intended to promote the purchase of machinery for manufacturing in the State.

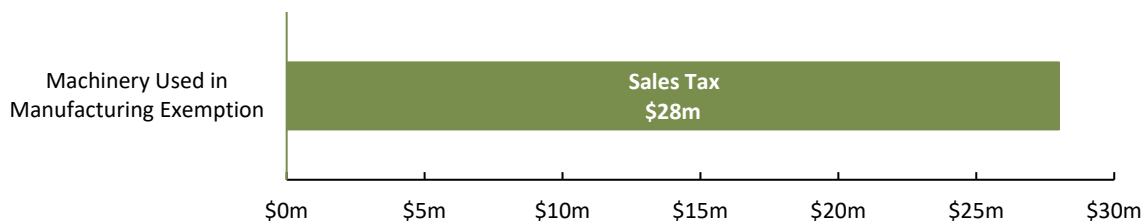
Tax Expenditure	Description	Other Information
Machinery Used in Manufacturing Sales and Use Tax Exemption	Sales and use tax exemption on purchases of machinery over \$500, such as machine tools, machine parts, and machinery used in manufacturing that meets requirements of the pre-1986 Internal Revenue Code Section 38 Investment Tax Credit. Section 39-26-709, C.R.S.	Geographic Component: None Years Available: 1979 and later (no expiration date) OSA Report: 2024-TE8

What is the revenue impact to the State?

According to the Department, in Tax Year 2023 vendors reported approximately \$5.43 million in sales tax exemptions for the Machinery Used in Manufacturing Sales and Use Tax Exemption. However, it is possible that some vendors incorrectly reported this exemption on other lines of the sales tax return, such as the Wholesales Sales line or “Other” line and aggregated the Machinery Used in Manufacturing Sales and Use Tax Exemption with other sales and use tax exemptions, so this amount may be underreported. In our December 2024 review of the Machinery Used in Manufacturing Sales and Use Tax Exemption, we used U.S. Census Bureau Annual Survey of Manufactures data on machinery sales to estimate that the Machinery Used in Manufacturing Sales and Use Tax Exemption could have had a revenue impact of up to \$28 million in Tax Year 2021. Exhibit 14 shows the potential revenue impact of the exemption for Tax Year 2021.

Exhibit 14

State Revenue Impact of the Machinery Used in Manufacturing Sales and Use Tax Exemption Tax Year 2021



Source: Colorado Office of the State Auditor analysis of data from the Department of Revenue and the U.S. Census Bureau Annual Survey of Manufactures.

What are other related state and local incentives?

While not considered a business incentive, Colorado has a structural sales and use tax exemption on component parts (i.e., raw materials) for manufactured goods such as wood, fiberglass, metal, and aluminum, as well as containers, labels, and shipping cases. This exemption on component parts is intended to prevent taxes on businesses' purchases of inputs necessary for manufacturing and shipping products and ensure that the sales tax is only applied to a product once, when it is purchased by the final consumer, instead of at each step of its supply and manufacturing process, and is not considered a business incentive. While both the Component Parts and the Machinery Used in Manufacturing Sales and Use Tax Exemptions reduce the cost of manufacturing and avoid taxing business inputs, based on our review of its legislative history, the Machinery Used in Manufacturing Sales and Use Tax Exemption was likely intended to encourage the purchase of machinery and machine parts.

In addition to the State's Machinery Used in Manufacturing Sales and Use Tax Exemption, local governments may optionally adopt the exemption, allowing businesses to be exempt from local taxes on the purchase of machinery used in manufacturing.

What are the related federal incentives?

The Machinery Used in Manufacturing Sales and Use Tax Exemption is only available for machinery purchases that would have qualified for the federal investment tax credit in Section 38 of the Internal Revenue Code of 1954 as it existed just prior to the Tax Reform Act of 1986. In 1979, when the General Assembly established the exemption, it appears that it was intended to act in concert with a federal investment credit, established in the 1960s, to provide an additional incentive for investment. However, the federal investment credit was repealed in 1986 under the Tax Reform Act. According to the Department, "[t]he statute's reliance on a federal law repealed more than 30 years ago is problematic. Copies of the federal law from that time are not readily available and, even if taxpayers and tax practitioners can find them, the text is voluminous and complex," which has led to vendor misinterpretations of machinery purchases that qualify for the Machinery Used in Manufacturing Sales and Use Tax Exemption.

There are several federal incentives for business investment in certain machinery and equipment used in manufacturing. These incentives include accelerated depreciation methods that allow larger, or full deductions, when an asset is purchased, rather than deductions of costs over a longer period of time (typically the asset's estimated useful life) [26 USC 168]. Also, the 2017 TCJA created a temporary provision to allow accelerated depreciation for the cost of equipment placed in service for Tax Years 2018 through 2023. Accelerated depreciation eligibility was dependent on whether the property had a short or long useful life. Under the TCJA, accelerated depreciation started at 100 percent of the cost of the equipment purchased in 2018, with the amount of depreciation reduced each year, and with accelerated depreciation set to phase out in Tax Years 2026 and 2027. However, 100 percent depreciation (i.e., "bonus depreciation") has since been renewed with the passage of the federal OBBBA. Unlike expensing for small businesses [26 USC 179], bonus depreciation has no cap and businesses can deduct the full cost of an investment in the year the investment occurs.

Mining

What are the State's tax incentives?

Colorado has several tax expenditures that provide support to the mining industry by reducing severance tax liabilities. These expenditures were likely intended to support the mining industry generally by reducing the severance taxes owed and offsetting a portion of local property taxes. Additionally, because the State's mining severance taxes are levied on a per ton extracted basis, which may cause mining operations with smaller profit margins to face a comparatively higher severance tax burden relative to their profits, some of these expenditures, such as the Underground Coal Tax Credit and Lignitic Coal Tax Credit, also may have been intended to equalize the relative tax burden. While statute does not provide specific incentives for mining in certain areas of the State, due to natural deposits of coal, metallic minerals, and molybdenum, these businesses are concentrated in certain geographic regions. Under House Bill 21-1312, which phased out the tax credits and exemptions for coal, the tax incentives related to coal mining will expire after Tax Year 2025.

Tax Expenditure	Description	Other Information
Underground Coal Tax Credit	Severance tax credit for a percentage of taxes paid on coal that was mined underground and, therefore, may have been extracted at greater cost. Section 39-29-106(3), C.R.S..	Geographic Component: None Years Available: 1978 to 2025 OSA Report: 2020-TE30
Lignitic Coal Tax Credit	Severance tax credit for a percentage of taxes paid on mined lignitic coal (i.e., coal that generates less energy than other types of coal and, therefore, is sold at a lower price) Section 39-29-106(4), C.R.S.	Geographic Component: None Years Available: 1978 to 2025 OSA Report: 2020-TE30
Coal Tonnage Tax Exemption	Severance tax exemption on the first statutorily defined amount of tons of coal produced in each quarter. For Tax Year 2025, the first 60,000 tons of coal produced in each quarter are exempt. Section 39-29-106(2)(b), C.R.S.	Geographic Component: None Years Available: 1978 to 2025 OSA Report: 2020-TE30
Metallic Minerals Tax Credit	Severance tax credit for the amount of real property taxes assessed or paid to a local government on metals produced, limited to 50 percent of the severance taxes owed. Section 39-29-103(2), C.R.S.	Geographic Component: None Years Available: 1978 and later (no expiration date) OSA Report: 2021-TE2

Tax Expenditure	Description	Other Information
Metallic Minerals Threshold Tax Exemption	Severance tax exemption on the first \$19 million in gross income earned at each metal mining operation. Section 39-29-103(1), C.R.S.	Geographic Component: None Years Available: 1978 and later (no expiration date). OSA Report: 2021-TE1
Molybdenum Ore Tonnage Tax Exemption	Severance tax exemption on the first 625,000 tons of molybdenum ore produced in each quarter. Section 39-29-104(1), C.R.S.	Geographic Component: None Years Available: 1999 and later (no expiration date) OSA Report: 2021-TE3

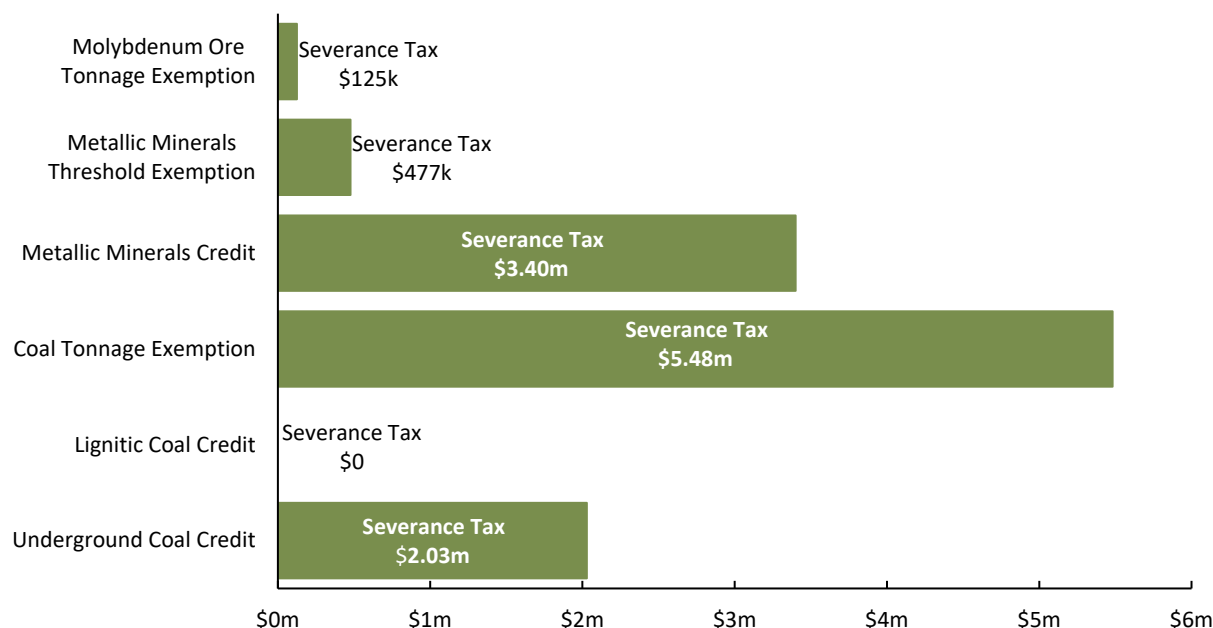
What is the revenue impact to the State?

The Department reports that for Tax Year 2022, the State revenue impact for the Underground Coal Production Tax Credit was approximately \$2 million, there was no revenue impact for the Lignitic Coal Production Tax Credit, and the Coal Tonnage Tax Exemption was approximately \$5.5 million.

For the Metallic Minerals Tax Credit, Metallic Minerals Threshold Tax Exemption, and Molybdenum Ore Tonnage Tax Exemption, the Department reported that data is not releasable due to too few taxpayers claiming the expenditures. However, in our 2021 reviews of these expenditures, we used publicly available property tax data from the Division of Local Affairs and business income filings to estimate the revenue impacts in Tax Year 2017. Exhibit 15 shows the estimated revenue impact of the molybdenum and metallic minerals mining expenditures for Tax Year 2017 and the coal tax expenditures for Tax Year 2022.

Exhibit 15

Estimated State Revenue Impact of the Molybdenum and Metallic Minerals Mining Tax Credit and Exemptions¹, and the Revenue Impact of the Coal Mining Credits and Exemption²



Source: Office of the State Auditor analysis of public property tax data and business financial filings, and Department of Revenue data.

¹ Molybdenum Ore Tonnage Exemption and Metallic Minerals Tax Credit and Tonnage Exemption revenue impacts are for Tax Year 2017.

² Coal Tonnage Exemption and Coal Mining Tax Credits revenue impacts are for Tax Year 2022.

What are other related state and local incentives?

We did not identify any other similar state or local incentives intended to reduce the severance tax burden on certain types of coal mining operations, metallic mineral mining, or molybdenum ore mining.

What are the related federal incentives?

While severance taxes are levied at the State level and there is not a similar federal tax, federal law allows for specific deductions that reduce income taxes for certain mining businesses compared to other industries to provide incentives to increase investment, exploration, and output of fuel and non-fuel minerals. Fuel and non-fuel mining businesses may deduct certain non-equipment costs for exploration and development of mining and wells, such as constructing shafts and tunnels, labor, materials, and drilling and testing for planning operations [26 USC 616 and 617]. This is similar to the treatment of immediate expensing of costs rather than depreciation, but is specific to exploration and development costs for mining businesses.

Additionally, federal law also allows businesses that extract minerals, ores, and metals the option of two types of “depletions” (i.e., deductions) that reduce the effective tax rates in the mineral industry [26 USC 611]. “Cost depletion” allows mining businesses to deduct their capital investment costs for discovering, purchasing, and developing a mineral reserve over time, up to the amount of the original capital investment [26 USC 612]. Alternatively, “percentage depletion” allows mining businesses to deduct a fixed percentage of the revenue from the sale of the mineral. Percentage depletion can continue to be claimed on revenue from the production of minerals, beyond the amount of the original capital investment [26 USC 613]. Non-fuel mining businesses may deduct exploration and development costs and use percentage depletion.

Additionally, lignitic coal mining is exempt from a federal excise tax on coal sales [26 USC 4121].

Oil and Gas

What are the State's tax incentives?

Colorado has two tax expenditures that support the oil and gas industry by exempting oil and gas produced from low-producing wells from severance taxes and providing a State severance tax credit to offset the tax burden of local property taxes. While statute does not provide specific incentives for oil and gas production in certain areas of the State, these businesses are concentrated in geographic regions with natural deposits of oil and gas.

Tax Expenditure	Description	Other Information
Oil and Gas Stripper Well Tax Exemption	Severance tax exemption on oil and gas produced from wells that produce 15 barrels per day or less of oil, or from wells that produce 90 thousand cubic feet or less of gas per day, averaged across the year. Section 39-29-105(1)(b), C.R.S.	Geographic Component: None Years Available: 1978 and later (no expiration date) OSA Report: 2020-TE22
Oil and Gas Ad Valorem Tax Credit	Severance tax credit based on a percentage of real property taxes (ad valorem taxes) assessed or paid to a local government on oil and gas produced. Section 39-29-105(2)(b), C.R.S.	Geographic Component: None Years Available: 1978 and later (no expiration date) OSA Report: 2020-TE24

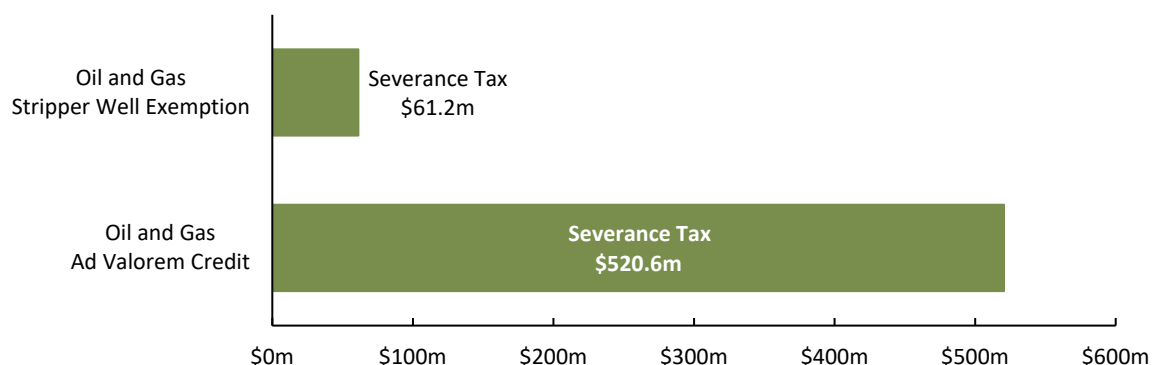
What is the revenue impact to the State?

For the Oil and Gas Stripper Well Tax Exemption, data is not retrievable from the State's tax system because it is not stored in an extractable field in the system. Additionally, not all taxpayers are required to report this information to the Department. However, using production data from the Colorado Oil and Gas Conservation Commission (COGCC), now renamed the Colorado Energy and Carbon Management Commission (ECMC), and the Rocky Mountain Oil Journal oil and gas wellhead prices, we estimated that the exemption may have had a revenue impact of about \$61.2 million in Calendar Year 2018.

The Department reported that the Oil and Gas Ad Valorem Tax Credit had a revenue impact of about \$520.6 million in Tax Year 2022. Exhibit 16 shows the estimated revenue impact for the Oil and Gas Stripper Well Tax Exemption for Tax Year 2018 and the revenue impact of the Oil and Gas Ad Valorem Tax Credit for Tax Year 2022.

Exhibit 16

Estimated State Revenue Impact of the Oil and Gas Stripper Well Tax Exemption¹ and the Revenue Impact of the Ad Valorem Tax Credit²



Source: Office of the State Auditor analysis of Colorado Oil and Gas Conservation Commission (COGCC) production data and Rocky Mountain Oil Journal data, and Department of Revenue data.

¹ Oil and Gas Stripper Well Tax Exemption revenue impact is for Tax Year 2018.

² Oil and Gas Ad Valorem Tax Credit revenue impact is for Tax Year 2022.

What are other related state and local incentives?

We did not identify any other similar State or local incentives intended to reduce the severance tax burden on certain types of oil and gas operations. However, equipment such as submersible pumps and sucker rods used in stripper well operations are assessed at a lower value for local property tax purposes, providing reduced property tax liability.

What are the related federal incentives?

While severance taxes are levied at the state level and there is not a similar federal tax, federal law allows for specific deductions that reduce income taxes for certain oil and gas businesses compared to other industries to provide incentives to increase investment, exploration, and output of oil and gas. Oil and gas businesses may deduct certain non-equipment costs for exploration and development of wells, such as labor, materials, and costs for drilling and materials used to construct wells [26 USC 616 and 617]. This is similar to the treatment of immediate expensing of costs rather than depreciation, but is specific to exploration and development costs for oil and gas businesses. Additionally, federal law also allows oil and gas producers to “deplete” (i.e., deduct) expenses for developing and acquiring wells, which reduces the effective tax rates in the oil and gas industry [26 USC 611]. Unlike mineral producers, which may use either “cost depletion” or “percentage depletion” only independent oil and gas producers and royalty owners may use percentage depletion and only on limited quantities of oil and gas production. Percentage depletion can continue to be claimed on revenue from the production of oil and gas after the investment costs of acquiring and developing the property have been recovered.

Federal law also allows for the following income tax credits similar to Colorado's Oil and Gas Stripper Well Tax Exemption:

Tax Expenditure	Description
Marginal Wells Credit	Income tax credit for crude oil and natural gas produced from marginal wells (i.e., wells that produce less than a specified amount of oil or natural gas) when pricing is below certain thresholds. 26 USC 45I
Enhanced Oil Recovery Credit	Income tax credit for a percentage of the business' costs for enhanced oil recovery (i.e., oil extraction beyond the reservoir's initial typical extraction amounts) when pricing is below certain thresholds. 26 USC 43

Research and Experimental Activities

What are the State’s tax incentives?

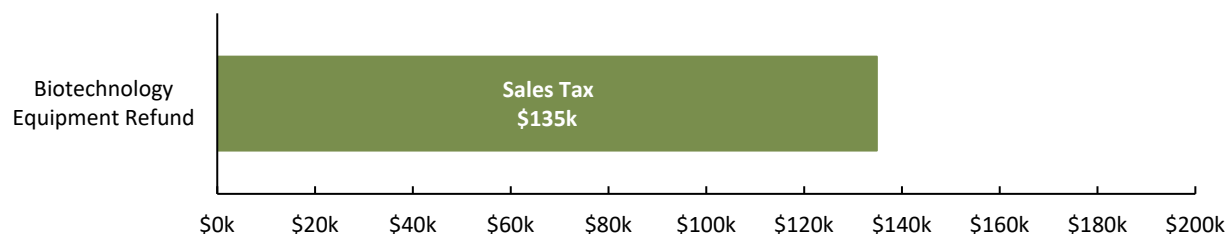
Colorado has a single tax expenditure to provide financial incentives for the development of biotechnological activity in the State. Under Senate Bill 25-026, the Biotechnology Equipment Sales and Use Tax Refund was extended through Tax Year 2026. For purposes of the tax expenditure, statute [Section 39-26-401(1), C.R.S.] defines biotechnology as technology “to produce or modify products, to develop microorganisms for specific uses, to identify targets for small pharmaceutical development, or to transform biological systems into useful processes or products.” The resulting products and processes are to improve human or animal health-care outcomes, and do not include manufacturing chemicals, developing and producing sustainable fuels and materials, or improving crop yields and resiliency.

Tax Expenditure	Description	Other Information
Biotechnology Equipment Sales and Use Tax Refund	State sales and use tax refund on taxes paid on the sale, storage, use, or consumption of tangible personal property that is directly or predominantly used in research and development of certain biotechnology applications. Section 39-26-402(1), C.R.S..	Geographic Component: None Years Available: 1999 to 2026 OSA Report: 2022-TE9

What is the revenue impact to the State?

The Department reported that businesses claimed about \$135,000 in Biotechnology Equipment Sales and Use Tax Refund for Tax Year 2019, the most recent year with data available, as shown in Exhibit 17. Although the Department also reported that some taxpayers claimed refunds in 2021 as well, this data was not releasable because too few taxpayers claimed the refund for the Department to report.

Exhibit 17
State Revenue Impact of the Biotechnology Equipment Sales and Use Tax Refund
Tax Year 2019



Source: Department of Revenue.

What are other related state and local incentives?

Colorado does not offer other incentives specific to biotechnology; however, broader based incentives such as the Advanced Industry Tax Credit and Grant Program, as well as the Enterprise Zone Research and Experimental Activities Tax Credit may provide financial incentives for biotechnology development. These other incentives are administered through OEDIT.

What are the related federal incentives?

There are two federal tax credits that are intended to provide financial incentives for research and experimental activities that may include the biotechnology industry. Businesses may have expenses that qualify under either tax credit, but cannot claim both credits for the same expenses. Additionally, businesses cannot deduct the same expenses used to calculate the credits from gross income.

Alternatively, business can choose to deduct the full amount of qualified research expenditures, except for the acquisition and improvement of land or depreciable tangible property, in the year they are paid. This option was originally available prior to Tax Year 2022 and is once again available beginning with purchases in 2025 [26 USC 174].

Tax Expenditure	Description
Credit for Orphan Drug Research	Income tax credit for a percentage of research expenses paid to determine if a new investigative drug is safe and effective in treating targeted diseases and conditions. Expenses can include supplies and salaries of employees, but not equipment. 26 USC 45C
Credit for Increasing Research Activities	Income tax credit for a percentage of a business' Qualified Research Expenditures (QREs) above a certain base amount. Qualified research activities must be experimental and intended to discover new information to develop a new or improved product, process, formula, or invention. QRE's may include wages and salaries of employees directly involved in performing the research, materials and supplies used in performing the research, and, if the research is performed under a contract, a percentage of the contract payments. 26 USC 41

Small Business

What are the State's tax incentives?

Colorado provides a tax expenditure, the Advanced Industry Investment Tax Credit, that is intended to incentivize investment in qualified small businesses to provide them with access to additional capital. Additionally, the General Assembly allowed the Colorado Department of Treasury to sell tax credits, the Small Business Recovery Tax Credit, to insurers to fund a loan program to assist small businesses with recovering from the COVID-19 pandemic and resulting economic downturn. While insurers can no longer purchase credits, previously purchased tax credits may be claimed through Tax Year 2029 or 2031, depending on the year of purchase. OEDIT administers the loan program funded by the Small Business Recovery Tax Credit, and approves applications for small businesses to qualify, and certifies investors for the Advanced Industry Investment Tax Credit.

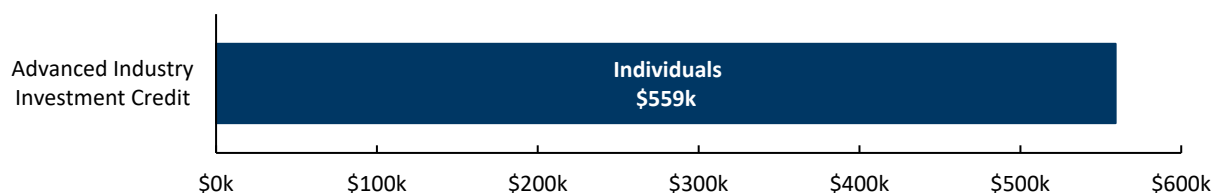
Tax Expenditure	Description	Other Information
Advanced Industry Investment Tax Credit	Income tax credit for a percentage of an investor's (e.g., individuals, S-Corporations, partnerships, trusts) investment in qualified small advanced industry businesses. Advanced industry businesses may include advanced manufacturing; aerospace; bioscience; electronics; energy and natural resources; infrastructure engineering; and information technology. Sections 39-22-532 and 24-48.5-112, C.R.S.	Geographic Component: Yes The credit percentage is higher for investments in businesses located in rural or economically distressed areas, as determined by OEDIT. Years Available: 2014* to 2031 *Prior to 2014, the Colorado Innovation Investment Tax Credit served a similar purpose OSA Report: 2021-TE15
Small Business Recovery Tax Credit	Insurance premium tax credits sold to insurers to fund the Colorado Loans for Increasing Main Street Business Economic Resiliency Act fund (CLIMBER Loan Fund). The CLIMBER Loan Fund was established to support small business recovery from the economic crisis caused by COVID-19, and provides temporary deferment of principal and interest payments as well as lower interest rates on loans to qualified small businesses. Section 24-48.5-606, C.R.S.	Geographic Component: None Years Available: 2020* to 2031 *Qualifying investments had to occur prior to July 2023, but insurers may claim credits from Tax Year 2023 through Tax Year 2031. OSA Report: Temporary Provision Not Evaluated

What is the revenue impact to the State?

The Department reports that for Tax Year 2022, the Advanced Industry Investment Tax Credit had a revenue impact of \$559,000. Data for the tax credit are only available for Individual tax filings, which may represent taxpayers filing in their personal capacity or claiming credits received through

ownership in pass-through entities, such as partnerships and S-corporations. C-corporations may not claim the Advanced Industry Investment Tax Credit. The Department of Treasury sold about \$65 million in Small Business Recovery Tax Credits between December 2020 and June 2022. Data on the claims of the Small Business Recovery Tax Credit is not available because insurers claim the credits against their insurance premium taxes, which are reported to the Division of Insurance and the Division does not report this information. Exhibit 18 shows the revenue impact of the Advanced Industry Investment Tax Credit for Tax Year 2022.

Exhibit 18
State Revenue Impact of the Advanced Industry Investment Tax Credit¹
Tax Year 2022



Source: Department of Revenue.

¹ Data on Fiduciary claims are not itemized on taxpayer returns.

What are other related state and local incentives?

In addition to the tax credits, OEDIT administers multiple grant programs that provide capital to businesses in the same advanced industries as the Advanced Industry Investment Tax Credit. Specifically, the Advanced Industries Acceleration Grant Program provides businesses with grants for early-stage capital, infrastructure projects, the development of advanced industry workforce, and reimbursements for export development. While the tax credits for funding for the CLIMBER Loan Fund will expire, the CLIMBER Loan Fund itself has multiple funding sources, and will continue to provide loans to small businesses. Funding from the CLIMBER Loan Fund has also been used to conduct outreach and provide technical assistance to provide support to underserved borrowers so that these potential borrowers are prepared to apply for loans.

In addition to state programs, some local governments and regional economic and community development organizations administer small business loan and grant programs.

What are the related federal incentives?

We did not identify any similar federal tax expenditures to drive investment in small businesses through tax credits for investors. However, several federal agencies provide grant and loan assistance to small businesses, as well as to local governments that may use federal funding for small business grants. For example, the State Small Business Credit Initiative (SSBCI), passed under the American Rescue Plan Act (ARPA), provides funding to states to provide loans, collateral support for loans,

and venture capital investments. OEDIT and the Colorado Housing and Finance Authority (CHFA) manage several programs that use SSBCI funds, including the Venture Capital Authority Fund, the CLIMBER Loan Fund, and Cash Collateral Support to support Colorado businesses, and in particular, those led by socially and economically disadvantaged individuals and very small businesses.

Additionally, the U.S. Small Business Administration funds OEDIT's Colorado Small Business Development Center Network which partners with the State, institutions of higher education, and local economic development organizations and local chambers of commerce to provide consulting, training, and networking for small business development.

Quantum Technology

What are the State's tax incentives?

Colorado has two tax expenditures specifically targeted towards the development of the quantum industry in the state, including quantum computing, sensing, networking, and enabling hardware, which can apply to a broad variety of industries and applications, including scientific and technological research, medical imaging, environmental monitoring, and cybersecurity. Both tax credits are administered by OEDIT and were created to leverage federal investment in regional technology hubs (i.e., Regional Technology and Innovation Hubs Program) under the federal government's 2022 CHIPS and Science Act, otherwise known as the Creating Helpful Incentives to Produce Semiconductors and Science Act. According to OEDIT, the federal quantum facility investments are intended to develop research and experimentation; low-volume manufacturing, fabrication and prototyping in a laboratory environment; and provide workforce development to support the development of quantum businesses and the quantum ecosystem in the state.

Tax Expenditure	Description	Other Information
Investments in Fixed Capital Assets for a Shared Quantum Facility Credit	Income tax credit for investment in fixed capital assets (e.g., land, buildings, tangible personal property, and computer software) to create a shared quantum facility that provides space and resources for quantum industry businesses. Section 39-22-567, C.R.S.	Geographic Component: None Years Available: 2025 to 2032 OSA Report: Not Yet Evaluated
Quantum Business Loan Loss Reserve Credit	Income tax credit for lenders that provide a loan to a quantum company, register the loan with OEDIT, and incur losses associated with the registered loan. Section 39-22-568, C.R.S.	Geographic Component: None Years Available: 2026 to 2045 OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

The tax credits for the Investments in Fixed Capital Assets for Shared Quantum Facilities and Quantum Business Loan Loss Reserves are not available until Tax Year 2025 and 2026, respectively, and, therefore, there is not a revenue impact to the State yet.

What are other related state and local incentives?

Colorado does not offer any other tax incentives specific to the quantum industry. However, investors may be able to use other tax expenditures such as the Advanced Industry Investment Tax Credit for investments in small businesses. Quantum businesses may be able to use other tax expenditure programs, such as the Job Growth Incentive Tax Credit, or Advanced Industry

Program grants, such as the Advanced Industries Accelerator Program grant, which provides businesses with grants for early-stage capital, infrastructure projects, and the development of advanced industry workforce.

What are the related federal incentives?

Colorado's quantum industry tax expenditures were created to leverage federal funding from the U.S. Economic Development Administration (EDA)'s Tech Hubs Program, enacted as part of the CHIPS and Science Act of 2022. In 2024, the EDA selected Elevate Quantum, covering Colorado and New Mexico, as a Regional Technology and Innovation Hub (Tech Hub), providing funding for construction of quantum labs and workforce development programs.

There are no federal tax expenditures specific to quantum businesses; however, to the extent that a quantum business engages in activities that also qualify for more general tax expenditures, such as qualified research expenditures, the business may be able to claim federal income tax credits.

Sales Tax Exemptions to Support Product Sales

What are the State's tax incentives?

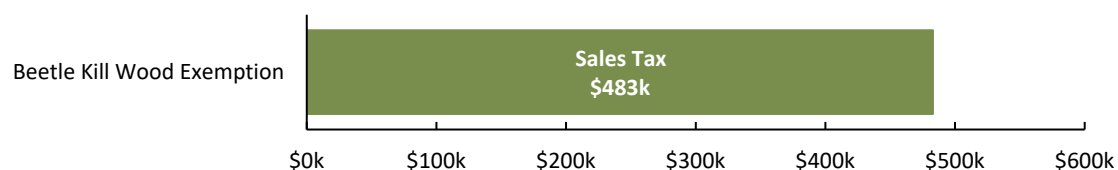
Colorado provides two sales and use tax exemptions that are likely intended to reduce the cost of transactions to support the sale of certain products; these expenditures are for precious metal bullion and coins and for beetle kill wood. In 2021, the General Assembly added an expiration date to the Beetle Kill Wood Sales and Use Tax Exemption under House Bill 21-1261, which is now set to expire June 30, 2026.

Tax Expenditure	Description	Other Information
Precious Metal Bullion and Coin Sales and Use Tax Exemption	Sales and use tax exemption for the storage, use, or consumption of precious metal bullion and coins. Section 39-26-706(4), C.R.S.	Geographic Component: None Years Available: 1990 and onward (no expiration date) OSA Report: 2021-TE22
Beetle Kill Wood Sales and Use Tax Exemption	Sales and use tax exemption on products made from Colorado-harvested wood killed or infested by mountain pine or spruce beetles. Section 39-26-723(1), C.R.S.	Geographic Component: None Years Available: July 2008 to June 2026 OSA Report 2020-TE4

What is the revenue impact to the State?

Vendors do not specifically report the Precious Metal Bullion and Coins and Beetle Kill Wood Sales and Use Tax Exemptions on the Department's sales and use tax returns. Therefore, the Department does not have data available on the revenue impact of these expenditures. In our evaluations of the expenditures in 2020 and 2021, using industry data, we estimated the potential revenue impact of the Beetle Kill Wood Sales and Use Tax Exemption to be approximately \$483,000 for Tax Year 2018; however, we did not have data to estimate the revenue impact for the Precious Metal Bullion and Coin Sales and Use Tax Exemption. Exhibit 19 shows the estimated revenue impact of the Beetle Kill Wood Sales and Use Tax Exemption for Tax Year 2018.

Exhibit 19
Estimated State Revenue Impact of the Beetle Kill Wood Sales and Use Tax Exemption
Tax Year 2018



Source: Office of the State Auditor analysis of Colorado timber market data and University of Montana's Forest Industry Research Program adjusted for assumptions in sale volume and sale value.

What are other related state and local incentives?

The State does not offer any other tax incentives related to these industries.

Local governments that have state-collected sales and use tax are required to also adopt the Precious Metal Bullion and Coins Sales and Use Tax Exemption, exempting items from local sales and use taxes; however, local governments may optionally adopt the Beetle Kill Wood Sales and Use Tax Exemption and they are not required to apply the exemption.

Although there are also state sales tax exemptions for sales of other products, these are generally not intended to support sales of the products, but instead avoid applying the sales tax to sales of products that are essential to consumers, such as food for home consumption and medical equipment. We considered these tax expenditures to be structural and did not include them in this report.

What are the related federal incentives?

There are no federal incentives for these specific industries.

Sustainable Development

Colorado offers several tax expenditures that are intended to incentivize sustainable development in the State. These expenditures encourage industry development and consumer use of technology and practices that promote conservation of natural resources, improve the health of communities and the natural environment, and reduce pollution and carbon emissions. In general, tax expenditures for sustainable development encourage investment in specific industries where the societal benefits of reduced pollution and greenhouse gas emissions provide a positive benefit to society, but investment in the industry may be too costly for businesses and individuals without an incentive.

The General Assembly enacted several of these tax expenditures in recent years with the intention of reducing the effects of climate change, improving the health of communities and the natural environment in the State, and achieving the State's statutory greenhouse gas reduction targets. For example, Senate Bill 22-051 (Policies to Reduce Emissions from the Built Environment) enacted multiple tax expenditures to incentivize the purchase, installation, and use of technology that emits less greenhouse gases and contributes to Colorado's effort to achieve its climate goals. Additionally, House Bill 23-1272 (Tax Policy that Advances Decarbonization) created multiple tax incentives to "build on that momentum" of federal tax incentives that were expanded or created under the 2022 Inflation Reduction Act (IRA) to incentivize the production and use of renewable or clean energy and the purchase or lease and use of electric vehicles. While many of the State's sustainable development tax expenditures have only recently gone into effect, the 2025 passage of the federal One Big Beautiful Bill Act (OBBBA) significantly changed the availability of many federal clean energy tax expenditures by reducing the incentive amounts, or ending them, in 2025 while Colorado's tax incentives are scheduled to continue for several years.

Environmental Protection and Clean Up

What are the State's tax incentives?

Colorado has four tax credits that are intended to promote environmental protection and clean up. These tax expenditures are not restricted to specific geographic locations, but do target defined types of land that tend to be concentrated in more rural regions of the state. These credits are administered by separate state departments, including the Department of Agriculture (CDA), the Department of Regulatory Agencies (DORA), and the Department of Public Health and Environment (CDPHE).

As discussed in the following table, while the Agricultural Stewardship Tax Credit and the Aircraft Conversion Tax Credit can only be used by the land/aircraft owner, the Conservation Easement Tax Credit and the Contaminated Land Redevelopment Tax Credit are transferable so that organizations that are not typically subject to income tax, such as nonprofits, and landowners who may not have a large enough income tax liability to use a credit can sell the tax credits to offset conservation and redevelopment expenses.

Tax Expenditure	Description	Other Information
Agricultural Stewardship Tax Credit	Income tax credit based on a set dollar amount per acre of land when qualified stewardship practice(s) are adopted. These practices include improving water efficiency, increasing soil health, and creating a more diverse and beneficial ecosystem on a farm or ranch. Section 39-22-561, C.R.S.	Geographic Component: None Years Available: 2026 to 2030 OSA Report: Not Yet Evaluated
Conservation Easement Tax Credit	Income tax credit on a percent of land value for landowners that create a perpetual conservation easement by donating land to a certified governmental entity or charitable organization in order to maintain open land for environmental quality, or ecological diversity, wildlife habitat preservation, and/or preservation of historic or culturally relevant sites. Credits may be sold or transferred, and if sold to an insurance company, can be applied against insurance premium taxes. Section 39-22-522, C.R.S.	Geographic Component: None Years Available: 2000 to 2031 OSA Report: 2022-TE24

Tax Expenditure	Description	Other Information
Contaminated Land Redevelopment Tax Credit	Income tax credit for a percentage of qualified expenses incurred for remediation of contaminated land (i.e., cleanup of abandoned, idled, or under-utilized properties where redevelopment is complicated by the presence of hazardous substances, pollutants, or contaminants). Credits may be sold or transferred. Section 39-22-526, C.R.S.	Geographic Component: Yes Credit percentage is higher for sites located in rural communities. Years Available: 2014 to 2029 OSA Report: 2023-TE15
Aircraft Conversion Tax Credit	Income tax credit for a percentage of expenses incurred to modify an aircraft so that it is powered by unleaded aviation gas instead of leaded aviation gas, the use of which emits lead into the air and can have harmful health and environmental impacts. Section 39-22-560, C.R.S.	Geographic Component: None Years Available: 2025 to 2029 OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

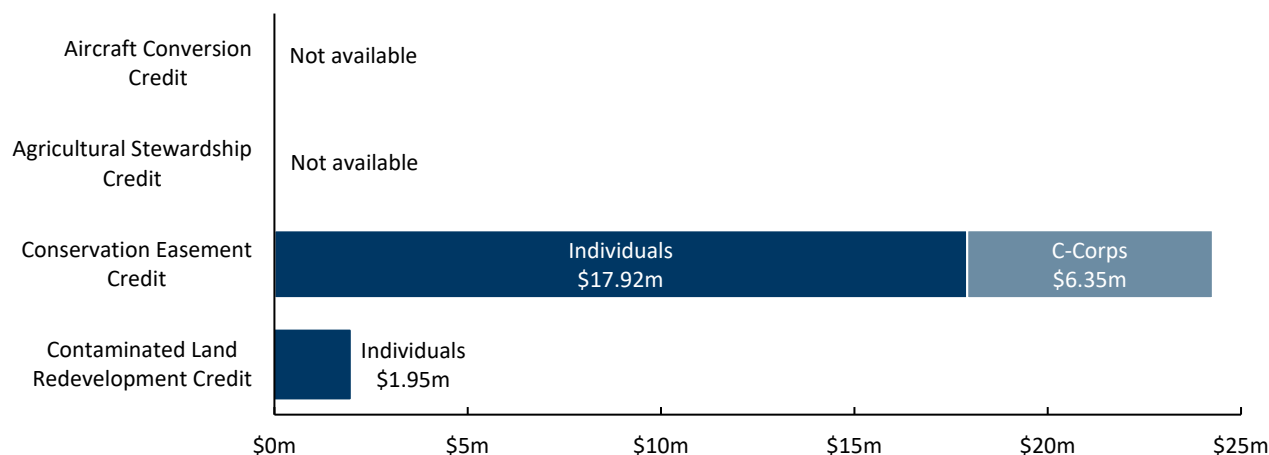
The Aircraft Conversion Tax Credit and the Agricultural Stewardship Tax Credit do not become available until Tax Years 2025 and 2026, respectively; therefore, there is not a revenue impact to the State at this time.

For Tax Year 2022 for the Conservation Easement Tax Credit, the Department reported that Individual returns, which could represent either natural persons or a business with “pass-through” income, claimed \$17.92 million in credits, and C-corporations claimed \$6.35 million for a total Tax Year 2022 revenue impact of \$24.4 million. For the Contaminated Land Redevelopment Tax Credit, the Department reported that for Tax Year 2022, Individual returns, which could represent either natural persons or a business with “pass-through” income claimed about \$1.95 million in credits. Data for C-corporations claiming the Contaminated Land Redevelopment Tax Credit is not releasable to protect taxpayer confidentiality.

Revenue impact amounts for the Conservation Easement Tax Credit and Contaminated Land Redevelopment Tax Credit do not include any tax credits that were sold to insurance companies and claimed as insurance premium tax credits because the Division of Insurance, not the Department, oversees insurance premium taxes and does not report on these credits.

Exhibit 20 shows the total revenue impact of the tax credits for Tax Year 2022. For clarity, the exhibit does not display values for taxpayer returns that are too small to be accurately represented visually alongside larger revenue impacts. Instead, these amounts will be footnoted below the table.

Exhibit 20
State Revenue Impact of Environmental Protection Tax Credits^{1,2}
Tax Year 2022



Source: Department of Revenue.

¹ Fiduciaries claimed approximately \$136,000 in Conservation Easement Tax Credits.

² C-corporation data for the Contaminated Land Redevelopment Tax Credit is not releasable to protect taxpayer confidentiality.

What are other related state and local incentives?

According to CDA, there are several grant programs intended to promote conservation and stewardship practices in agriculture. Two of these programs are the Colorado Soil Health Program and the Noxious Weed Program. These programs provide farmers and ranchers with financial and technical assistance to implement practices that improve soil quality to reduce erosion and improve soil nutrients, and reduce noxious weeds to limit environmental harm. These programs are funded through a mixture of state funding, federal grants, and private foundation funding. The Colorado Soil Health Program provides about \$300,000 annually and the Noxious Weed program provides about \$450,000 annually in incentives and assistance to farmers and ranchers. Statute prohibits taxpayers from claiming the Agricultural Stewardship Tax Credit for practices if another tax credit, deduction, or grant related to the same land and stewardship practices is claimed. In addition to State-level grant programs, the CDA reports that many counties, conservation districts, conservation entities, and nonprofit organizations provide incentives for agricultural producers implementing conservation-related practices.

Colorado provides multiple grant programs to assist with land conservation efforts, including the Great Outdoors Colorado Trust Fund, which provides funding to government or nonprofit organizations to help acquire land for conservation purposes, and the Colorado Parks and Wildlife Habitat Program, which provides funding directly to landowners seeking to establish a conservation easement or sell their property directly to Colorado Parks and Wildlife.

What are the related federal incentives?

There are multiple federal tax expenditures and other incentive programs that are intended to promote environmental protection and sustainable development. The state tax credits are similar, and, in some instances, based on federal tax expenditures, and many of the state grant and loan programs are funded through federal grants.

Specifically, federal law allows farmers and ranchers to exclude income from certain grants for agricultural stewardship practices and allows farmers and ranchers to deduct expenditures for conservation practices, rather than depreciating the expenses, providing a larger upfront tax benefit. Additionally, the U.S. Department of Agriculture's Natural Resources Conservation Service and Farm Service Agency have funded CDA-administered conservation grants.

To qualify for the State's Conservation Easement Tax Credit, conservation easement donations must meet the requirements of a qualified conservation contribution under Section 170(h) of the Internal Revenue Code. Taxpayers may deduct a portion of the value of the contribution from their federal income taxes as a charitable contribution, but must addback the deduction when calculating their state income taxes if they claim the state tax credit. In addition, the U.S. Natural Resources Conservation Service provides grant funding for state and local governments and conservation organizations to fund conservation easements on agricultural land and to landowners for the restoration of wetlands. Finally, the U.S. Forest Service provides funding for landowners to sell their land to, or establish a conservation easement with, a state conservation agency.

There are no federal tax expenditures for contaminated land redevelopment; however, the Infrastructure Investment and Jobs Act funded multiple grant programs for contaminated land remediation. The Environmental Protection Agency (EPA) provides grants to assist nonprofits, government entities, including CDPHE and local governments, and conservation organizations with environmental cleanup and redevelopment of sites for public use. Additionally, the EPA provides funding for flexible financing and reduced interest rate loans to finance environmental cleanup activities; these loans are administered through a partnership between CDPHE and the Colorado Housing and Financing Authority. The EPA also provides grants to non-profit organizations or remediation businesses to recruit and train local workforces to perform assessment, cleanup, or preparation of contaminated sites for reuse.

Tax Expenditure	Description
Expensing of Soil and Water Conservation Expenditures	Income tax deduction for a percentage of expenses related to soil and water conservation to prevent land erosion or promote endangered species recovery on land used in farming. 26 USC 175
Exclusion of Cost-Sharing Payments	Income tax exclusion of certain grants from a taxpayer's gross income when the grants are used to fund soil and water conservation, environmental protection, forest improvement, or efforts to provide habitats for wildlife. 26 USC 126
Conservation Easement (Charitable Contribution) Deduction	Income tax deduction for conservation easement donations or donations of land for conservation purposes that are considered to be charitable contributions. 26 USC 170(h)

Clean Energy Production and Distribution

What are the State’s tax incentives?

“Clean energy production” generally refers to energy sources that do not produce, or produce very little, greenhouse gas emissions, such as carbon dioxide. “Renewable energy” is energy that is produced from natural sources that are regenerative and cannot be depleted, such as wind or sunlight. Generally renewable energy production is considered a subset of clean energy production. The production of clean energy is intended to reduce overall greenhouse gas emissions by providing sources of energy that have lower greenhouse gas emissions than traditional fossil fuel energy sources.

Colorado provides multiple tax credits and a sales and use tax exemption that are intended to provide a financial incentive for the production of clean energy, such as hydrogen energy production and geothermal energy production. Expenditures also include incentivizing investment in infrastructure that allows for the distribution of clean energy to consumers (e.g., individuals and businesses) through investments in property such as clean energy distribution networks.

Colorado’s Public Utilities Commission, within DORA, is charged with creating rules and regulations for the clean hydrogen energy production projects to be able to qualify for the Clean Hydrogen Tax Credit. The Colorado Energy Office (CEO) is charged with creating rules and regulations for the other tax credits, and administering the State’s clean energy production and distribution tax expenditures by reviewing applications and providing tax credit certificates for qualifying projects.

Tax Expenditure	Description	Other Information
Clean Hydrogen Tax Credit	Income tax credit based on a monetary rate per kilogram of clean hydrogen used for “qualified use” that results in greenhouse gas emissions rates below federally defined levels. “Qualified use” includes the use of clean hydrogen (i.e., hydrogen derived from renewable sources such as electrolysis of water) in industries that are hard-to-decarbonize, such as heavy-duty transportation, industrials, and aviation. Section 39-22-557, C.R.S.	Geographic Component: None Years Available: 2024 to 2032 OSA Report: Not Yet Evaluated

Tax Expenditure	Description	Other Information
Geothermal Energy Project Tax Credit	Income tax credit for a percentage of expenditures for a geothermal energy project that is intended to evaluate and develop a geothermal resource for electricity production (e.g., geothermal electricity project, thermal energy network, or thermal energy network study). Expenditures can include, but are not limited to, drilling injection wells, power generation equipment, geothermal energy storage, heat extracted in oil and gas operations that is used to reduce emissions of the operation, and studies and costs to identify and explore resources suitable for geothermal electricity generation. Section 39-22-552, C.R.S.	Geographic Component: Yes Applications for the credit include a review of factors such as whether the project serves rural communities, communities transitioning away from coal production (i.e., Just-Transition Communities), or communities with higher air pollution levels. Years Available: 2024 to 2032 OSA Report: Not Yet Evaluated
Geothermal Electricity Generation Production Tax Credit	Income tax credit based on a monetary rate per kilowatt hour of geothermal electricity produced. Section 39-22-553, C.R.S.	Geographic Component: None Years Available: 2024 to 2032 OSA Report: Not Yet Evaluated
Components Used to Produce Renewable Energy Sales and Use Tax Exemption	Sales and use tax exemption on all sales, storage, and use of components used in the production of electricity from a renewable source, such as wind and solar energy sources. Components can include, but are not limited to, wind turbines, solar modules, inverters, and wiring and control systems; but cannot include components such as energy storage devices and remote monitoring that do not directly produce renewable energy. Section 39-26-724, C.R.S.	Geographic Component: None Years Available: July 2006 and later (no expiration) OSA Report: 2022-TE13
Sustainable Aviation Fuel Tax Credit	Income tax credit for a percentage of costs for constructing, reconstructing, or erecting a sustainable aviation fuel production facility (i.e., a facility that enables the production or distribution of sustainable aviation fuel). Sustainable aviation fuel is produced from biomass resources such as oils, greases and crops and emits less greenhouse gas emissions compared to conventional petroleum-based jet fuel. Sustainable aviation fuel must be blended with conventional jet fuel to be used in commercial aircraft. Section 39-22-556, C.R.S.	Geographic Component: None Years Available: 2024 to 2032 OSA Memo: 2025-TE7

What is the revenue impact to the State?

The Geothermal Tax Credits and the Clean Hydrogen Tax Credit did not become available until Tax Year 2024; therefore, there is not data currently available on the revenue impact of these credits to the State.

For the Sustainable Aviation Fuel Tax Credit, our 2025 memo found that no applications for facility production have been submitted to CEO. Therefore, there has been no revenue impact for this credit as of Tax Year 2024.

Finally, Department data for the Components Used to Produce Renewable Energy Sales and Use Tax Exemption showed that in 2023, approximately \$3.45 million in exemptions from state sales tax were claimed. Exhibit 21 shows the total revenue impact of the tax expenditures for the most recent years where data is available, Tax Years 2023 for the Components Used to Produce Renewable Energy Sales and Use Tax Exemption, and Tax Year 2024 for the Sustainable Aviation Fuel Tax Credit.

Exhibit 21

State Revenue Impact of Components Used to Produce Renewable Energy Sales and Use Tax Exemption¹ and the Sustainable Aviation Fuel Tax Credit²



Source: Department of Revenue and Colorado Energy Office.

¹ Components Used to Produce Renewable Energy Sales and Use Tax Exemption revenue impact is for Tax Year 2023.

² Sustainable Aviation Fuel Tax Credit revenue impact is for Tax Year 2024.

What are other related state and local incentives?

According to CEO, Colorado has multiple incentive programs, including grant funding and tax expenditures, that businesses may leverage to reduce investment costs for clean energy production and distribution. These incentives may be combined with other state and federal incentives. For example, if a business uses clean hydrogen to produce sustainable aviation fuel, the business may be eligible for both the Clean Hydrogen and Sustainable Aviation Fuel Tax Credits. Or, if a business constructs a sustainable aviation fuel production facility in an Enterprise Zone, and is an approved Enterprise Zone business, the business could qualify for the Enterprise Zone Investment Tax Credit, which is based on a percentage of investment in property used solely in an Enterprise Zone.

Additionally, businesses may qualify for grant programs for geothermal energy projects, in addition to a Geothermal Energy Project Tax Credit. For example, the State also funds the Geothermal Energy Grant Program, which according to CEO, is intended to be stacked with other state and federal incentives to reduce expenses to build geothermal energy facilities and networks to produce geothermal energy. CEO encourages businesses that apply for the Geothermal Energy Project Tax Credit to apply for additional financing opportunities and include them in the businesses' tax credit application. According to CEO, these overlaps allow CEO to better support businesses in emerging markets by providing a variety of incentives.

Finally, local governments that have their sales and use taxes collected by the State have the option of also applying the Components Used to Produce Renewable Energy Sales and Use Tax Exemption, which would exempt qualified products from local sales tax. In our 2022 report, we found that most local governments did not apply the exemption.

What are the related federal incentives?

There are many federal tax expenditures that were established in the late 1970s and early 1990s to reduce consumption of oil and natural gas and to encourage the commercialization of renewable energy technologies by reducing the cost of investment in energy production from renewable sources compared to coal and natural gas sources. Generally, businesses are limited to using either investment or production tax credits, and may not claim multiple federal credits for the same activities (i.e., a hydrogen production facility cannot claim both the Clean Hydrogen Production Credit and the Clean Fuel Production Credit).

In addition to claiming the tax expenditures for deductions and credits, businesses may use an accelerated depreciation method for expenditures on renewable energy property, smart electric distribution, and electric transmission property. Accelerated depreciation allows businesses to reduce their taxable income by expensing the costs for investments in solar, wind, geothermal, and other renewable energy generation property in the first few years after the property is purchased.

These federal tax expenditures have been modified and renewed multiple times, most recently under the 2022 Inflation Reduction Act (IRA) which also provided grant funding, programs, and technology neutral tax incentives (i.e., are not based on the specific technology used and instead are based on greenhouse gas emissions rates) to accelerate business transition to clean energy, including tax credits for investment in clean energy systems and for clean energy production. However, the 2025 passage of the federal OBBBA significantly changes the availability of many federal clean energy tax expenditures, reducing the incentive amounts or ending them altogether in 2025. Because many of the State’s tax expenditures were enacted to align with federal tax expenditures, IRA specific provisions that were recently modified under the OBBBA have been noted in the table below. While repeals of these federal incentives do not directly impact the availability of Colorado’s tax expenditures, it is possible that reduced federal incentives will significantly reduce the financial feasibility of many clean energy projects, and reduce the overall use of Colorado’s expenditures.

Tax Expenditure	Description
Energy Investment Credit	Income tax credit for a percentage of investments in qualifying property, such as solar energy, solar lighting, small wind, microturbine, geothermal, ground and ground water thermal, combined heat and power, waste energy recovery property, and energy storage. The amount of the credit and whether the investment qualifies depends on the type of property, the year construction begins, and the year the property is placed in service. Credit amounts are larger for projects that meet wage and workforce requirements in “energy communities” (i.e., brownfield sites; areas with a certain level of direct employment or local tax revenue in the oil, gas, or coal industry with a high unemployment rate; or areas where coal mines or coal-fired electric power plants have closed), projects that are located in low-income communities or benefit low-income residential buildings, or projects that meet registered apprenticeship requirements. 26 USC 48 This credit was generally available for projects starting construction prior to 2025, except for geothermal projects, and was set to be replaced with the Clean Energy Investment Credit. The OBBBA phases out the credit for geothermal projects starting in 2030 and it will not be available for after 2031.

Tax Expenditure	Description
Clean Energy Investment Credit	Income tax credit for a percentage of investments in zero-emissions electricity generation facilities or energy storage technology; this credit is considered “technology neutral” (i.e., credit amount is based on emissions reductions—not the type of technology and property) in contrast to the Energy Investment Credit, which is limited to certain types of technology and property. The production facility must be placed in service after December 31, 2024, and the amount of the credit depends on the year construction begins for the facility. Credit amounts are larger for projects that meet wage and workforce requirements in “energy communities” (i.e., brownfield sites; areas with a certain level of direct employment or local tax revenue in the oil, gas, or coal industry with a high unemployment rate; or areas where coal mines or coal-fired electric power plants have closed), projects that are located in low-income communities or benefit low-income residential buildings, or projects that meet registered apprenticeship requirements. 26 USC 48E The IRA created the credit, which the OBBBA starts phasing out in 2028 so that it will not be available after 2031.
Energy Production Credit	Income tax credit based on the kilowatts of electricity produced from renewable energy resources. The amount of the credit and whether the investment qualifies depends on the type of technology (e.g., solar, geothermal, biomass), the year construction begins (construction must begin before December 31, 2025), and the year the property is placed in service. Qualified energy production includes wind, biomass, geothermal energy, small irrigation power, municipal solid waste, landfill gas, hydropower production, and marine and hydrokinetic renewable energy source. Credit amounts are larger for projects that meet wage and workforce requirements in “energy communities” (i.e., brownfield sites; areas with a certain level of direct employment or local tax revenue in the oil, gas, or coal industry with a high unemployment rate; or areas where coal mines or coal-fired electric power plants have closed), projects that are located in low-income communities or benefit low-income residential buildings, or projects that meet registered apprenticeship requirements. 26 USC 45

Tax Expenditure	Description
Clean Electricity Production Credit	Income tax credit based on the kilowatts of electricity produced from a process with no greenhouse gas emissions; this credit is considered “technology neutral” as opposed to the Energy Production Credit. The production facility must be placed in service after December 31, 2024, and the amount of the credit depends on the year construction begins for the facility. Credit amounts are larger for projects that meet wage and workforce requirements in “energy communities” (i.e., brownfield sites; areas with a certain level of direct employment or local tax revenue in the oil, gas, or coal industry with a high unemployment rate; or areas where coal mines or coal-fired electric power plants have closed), projects that are located in low-income communities or benefit low-income residential buildings, or projects that meet registered apprenticeship requirements. 26 USC 45Y The IRA created this credit, which the OBBBA modified to phase out starting in 2028; this credit will no longer be available after 2031.
Clean Hydrogen Production Credit	Tax credit for per kilogram of Qualified Clean Hydrogen (QCH) produced. Clean hydrogen is considered hydrogen that does not exceed certain greenhouse gas emissions rates per kilogram of hydrogen produced. The amount of the credit and whether the production qualifies is based on the greenhouse gas emissions rate of the production and the year the clean hydrogen facility is placed in service. Credit amounts are larger for projects that meet wage and workforce requirements. 26 USC 45V The IRA created this credit, which the OBBBA modified to repeal after 2025.
Advanced Manufacturing Production Credit	Income tax credit for a percentage of the sales price for the production and sale of solar and wind components. The credit amount depends on the specific component produced and sold. 26 USC 45X The IRA created this credit, which the OBBBA modified to phase out and no longer be available for wind components after 2027 and all other components after 2031.

Tax Expenditure	Description
Advanced Energy Property Credit	Income tax credit for investments in approved advanced energy property. Credit amounts are larger for projects that meet wage and workforce requirements. Additionally, a certain amount of credits must be allocated to projects in “energy communities” (i.e., brownfield sites; areas with a certain level of direct employment or local tax revenue in the oil, gas, or coal industry with a high unemployment rate; or areas where coal mines or coal-fired electric power plants have closed), or communities that have not previously received this credit. 26 USC 48C
Clean Fuel Production Credit	Income tax credit at per gallon of clean fuel produced, or sold to other producers that use the clean fuel in a fuel mixture. The amount of the credit depends on the greenhouse gas emissions rate of the type of fuel (both nonaviation and sustainable aviation fuel), and are larger for zero-emission fuels. Credit amounts are larger for projects that meet wage and workforce requirements. 26 USC 45Z The IRA created this credit, which began in 2025.
Alternative Fuel Vehicle Refueling Property Credit	Income tax credit for a percentage of the cost of electric vehicle charging equipment or clean fuel (e.g., fuel with a certain percentage of ethanol, natural gas, hydrogen, or mixture of biodiesel and diesel fuel), storage facilities, and dispensing pumps installed in low-income or rural areas. Credit amounts may be larger if the installation of qualified property meets certain wage and registered apprenticeship requirements. 26 USC 30C The OBBBA repeals this credit after 2025.

Building Emissions Reductions

What are the State's tax incentives?

Colorado provides seven tax expenditures that are intended to encourage the reduction of greenhouse gases associated with buildings. These expenditures apply to materials and equipment used in both commercial and residential buildings. Several of these tax expenditures were passed in Senate Bill 22-051 to incentivize the use of energy efficient products that reduce the amount of energy required for buildings, processes, or tasks or incentivize products that use raw materials that produce less greenhouse gas emissions during extraction, transportation, and manufacturing.

Unlike many of the other expenditures in this report, these expenditures also provide incentives to individual and business consumers to encourage the purchase and installation of equipment that lowers greenhouse gas emissions. Several of the incentives are provided as discounts to the purchaser on the sale price of the equipment, which indirectly supports the growth of energy efficient product manufacturers and installers.

Tax Expenditure	Description	Other Information
Heat Pump Installation Tax Credit	Income tax credit for the installation of heat pump technology (i.e., equipment that uses air, ground, variable refrigerant flow, and water sources to move thermal energy rather than generating energy through burning fuel), or development of a thermal energy network (i.e., infrastructure that provides thermal energy to multiple buildings). The credits are a flat amount based on the type of technology installed or developed, and the year it is installed. Credit amounts are reduced based on state revenue forecasts starting in 2025. Section 39-22-554, C.R.S.	Geographic Component: None Years Available: 2024* to 2032 *Prior to 2024, a heat pump tax credit was available for the purchaser of a heat pump technology system for a percentage of the purchase price of the system. This credit was only available for 2023. OSA Report: Not Yet Evaluated
Building Decarbonization Materials Sales and Use Tax Exemption	Sales and use tax exemption on purchases of building materials (e.g., asphalt, cement, glass, steel, wood) that comply with the Office of the State Architect's maximum acceptable global warming potential limits (i.e., the potential climate impact of a product determined through an independent life-cycle assessment.) Section 39-26-731, C.R.S.	Geographic Component: None Years Available: July 2024 to July 2034 OSA Report: Not Yet Evaluated

Tax Expenditure	Description	
Industrial Clean Energy Study Tax Credit	Income tax credit for a percentage of costs for completing an 'industrial study' to identify ways to reduce greenhouse gas emissions, such as an energy and emissions audit, a feasibility study, and/or an engineering design study. Section 39-22-551(3)(a)(I), C.R.S.	Geographic Component: Yes Applications for the credit are prioritized if the industrial facility is located in a community with higher air pollution levels. Years Available: 2024 to 2032 OSA Report: Not Yet Evaluated
Industrial Clean Energy Improvements Tax Credit	Income tax credit for a percentage of capital costs paid for improvements, retrofits, or investments that reduce industrial facilities' greenhouse gas emissions. These costs can include, but are not limited to, replacing fossil-fuel-powered and fired machines and equipment with electric powered or hydrogen fueled counterparts; installing electric vehicle charging stations, on-site energy storage, and carbon capture equipment; and substituting materials in the industrial process that have reduced emissions compared to current practices. Section 39-22-551(3)(a)(II), C.R.S.	Geographic Component: Yes Applications for the credit are prioritized if the industrial facility is located in a community with higher air pollution levels. Years Available: 2024 to 2032 OSA Report: Not Yet Evaluated
Residential Energy Storage Tax Credit	Income tax credit for a percentage of the purchase price of an energy storage system installed at a residence. Eligible storage systems must be commercially available and consist of batteries or batteries paired with on-site energy generation, such as solar panels or fuel-powered generators. The purchaser may claim the credit, or the seller may claim the credit if the seller discounts the purchase price by the credit amount. Section 39-22-546, C.R.S.	Geographic Component: None Years Available: 2023 to 2026 OSA Memo: 2023-TE22
Residential Energy Storage Sales and Use Tax Exemption	Sales and use tax exemption on the purchase of an energy storage system installed at a residence. Eligible storage systems must be commercially available and consist of batteries or batteries paired with on-site energy generation, such as solar panels or fuel-powered generators. Section 39-26-733, C.R.S.	Geographic Component: None Years Available: 2023 to 2032 OSA Report: Not Yet Evaluated

Tax Expenditure	Description	
Electric Lawn Equipment Tax Credit	Income tax credit for a percentage of the purchase price of new, electric-powered lawn equipment (i.e., lawn mower, leaf blower, trimmer, or snowblower). The seller provides a discount to the purchaser at the time of sale, and the seller claims the credit. Section 39-22-550, C.R.S.	Geographic Component: None. Years Available: 2024 to 2026 OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

The Residential Storage Energy Tax Credit and Sales and Use Tax Exemption became available in Tax Year 2023; therefore, the Department of Revenue (Department) does not yet have data available on the claims and revenue impacts of these expenditures. Similarly, the other buildings emissions reductions credits and sales and use tax exemption did not become available until Tax Year 2024; therefore, there is not data available on the revenue impact of these expenditures to the State at this point.

What are other related state and local incentives?

In addition to tax expenditures, Colorado also provides grant programs to assist businesses with retrofitting or purchasing and building new equipment and buildings that have reduced carbon emissions, as well as grants to assist with carbon recapture activities. For example, CEO also administers the Clean Air Program grants, which provides businesses with funding to purchase industrial air pollutant emission reduction equipment. This grant program covers many of the same types of equipment as the tax expenditures, including transitioning to lower carbon fuel sources, converting to electric fuel sources, and carbon capture, sequestration, or storage. According to statute, businesses cannot receive grant money for the same greenhouse gas emissions reduction improvements that they also are using to claim a tax expenditure.

There are some tax expenditures and incentives that businesses are specifically prohibited from combining or using the same expenses to qualify for. For example, statute prohibits businesses from claiming both the Industrial Clean Energy Improvements Tax Credit and the Enterprise Zone Investment Tax Credit for the same project, and businesses cannot receive Clean Air Program grant funds for the same greenhouse gas emissions reduction improvement expenses that they incur to qualify for the Industrial Clean Energy Improvements Tax credit.

For the sales and use tax exemptions (Building Decarbonization Materials and Residential Energy Storage), local governments may choose to adopt these exemptions which would provide additional sales and use tax expenditures for local taxes. However, according to the Department's local exemption information, most local governments have not adopted the Building Decarbonization Materials or Residential Energy Storage Sales and Use Tax Exemptions.

The Buy Clean Colorado Act requires the Office of the State Architect and Colorado Department of Transportation to administer a carbon emissions reduction program for any state public project that exceeds \$500,000, including projects to construct, alter, repair, demolish, or improve any land, building, structure, facility, road, or bridge that is intended to promote public upkeep. Materials purchased should meet Office of the State Architect-determined maximum Global Warming Potential limits. Global Warming Potential is the potential climate change impact of a product, as determined through an independent life cycle assessment, and reported on the product's environmental product declaration that publically discloses the products' environmental impacts.

What are the related federal incentives?

Many federal tax expenditures provide incentives for investments in reducing energy consumption, and reducing the use of energy that has high Global Warming Potential emissions. These incentives generally reduce the upfront costs of investment in energy efficient technology for use in buildings, including residential homes, with the intent of reducing negative impacts of energy consumption on society.

Several of the State's tax expenditures are tied to federal energy efficiency and carbon reduction standards. Generally, the U.S. Department of Energy sets the standards for the type of technology that meets carbon reduction or energy efficiency requirements. For example, heat pump systems installed in Colorado must meet certain federal energy efficiency criteria (e.g., the federal Energy Star Program).

Accelerated depreciation for renewable energy allows businesses to recover expenses for an asset faster than other types of property. Accelerated depreciation allows firms to increase their deductions in the early years of an asset's life, which reduces taxable income in those years. This may be especially helpful for certain energy industries, where there are substantial upfront costs associated with capital-intensive activities.

Tax Expenditure	Description
Energy-Efficient Commercial Building Property Deduction	Deduction of expenses for energy efficient capital goods that increase a commercial building's (e.g., office, hospitals, schools, factories, hotels) energy efficiency. The U.S. Department of Energy sets the energy efficiency standards for reducing the building's total power costs for lighting, heating, cooling, and ventilation. The deduction is a set dollar amount per square foot of the building, with increasing amounts for additional certified efficiency improvements and for projects that meet registered apprenticeship requirements. The deduction is claimed as an immediate business expense rather than expensed over the life of the property (depreciated or amortized). 26 USC 179D The IRA created the deduction, which the OBBBA eliminated for any property that begins construction after June 30, 2026.

Tax Expenditure	Description
Residential Clean Energy Credit	Income tax credit for a percentage of the purchase and installation price for qualifying property, such as residential solar electric property, solar water heating, geothermal heat pumps, small wind energy property, and fuel cell power plants as well as battery storage technology. 26 USC 25D The OBBBA repeals the credit after 2025.
Energy Efficient Home Improvement Credit	Income tax credit for a percentage of costs for energy efficiency improvements, including weatherization improvements, such as insulation or replacement windows and doors; heating, cooling, and water-heating equipment that meets efficiency criteria; heat pumps and air conditioners; and home energy audits. 26 USC 25C The OBBBA repeals this credit after 2025.
Construction of Energy-Efficient New Homes Credit	Income tax credit for a flat dollar amount for homes, including apartment units, that are built or sold and meet energy-efficiency criteria, including U.S. Department of Energy (DOE) Energy Star efficiency standards or Zero Energy Ready Home standards. The credit amount is increased if the contractor meets certain wage rates for laborers and mechanics in the local construction sector. 26 USC 45L The OBBBA repeals this credit after 2025.

Transportation Emissions Reductions

What are the State's tax incentives?

The State offers several expenditures to encourage consumers to purchase or lease vehicles powered by electric, hybrid electric, or other lower emissions producing fuels. Consumers include individuals as well as businesses and several of the incentives are provided as discounts to the purchaser on the sale price of the vehicle. The State also has an incentive for businesses that encourage employees to participate in commuting options that have reduced emissions, such as busing, van-sharing, or car-pooling.

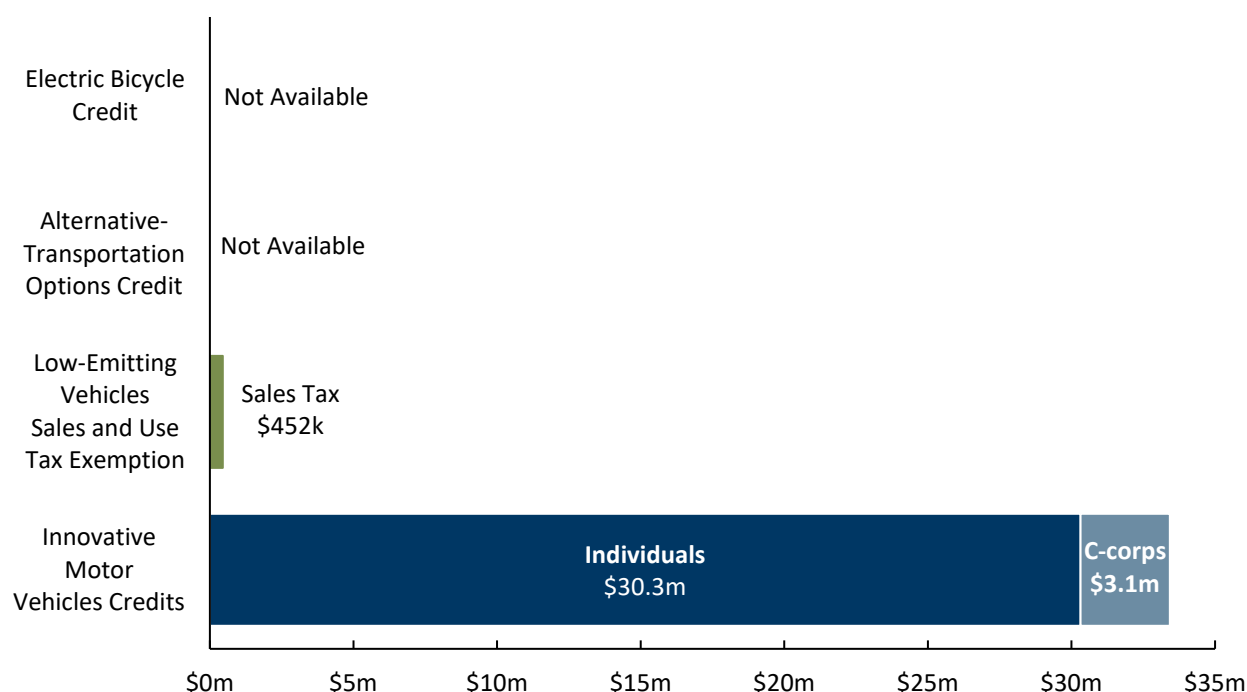
Tax Expenditure	Description	Other Information
Innovative Cars Tax Credit	Income tax credit for the purchase or lease of an eligible electric motor vehicle (i.e., fully electric powered or hybrid sedans, SUV's, and light duty trucks) that is less than \$80,000. The amount of the credit is a flat amount based on the year the vehicle is purchased or leased, and is larger for vehicles under \$35,000. Credit amounts are reduced based on state revenue forecasts starting in 2025. Section 39-22-516.7, C.R.S.	Geographic Component: None Years Available: 1992 to 2028 OSA Report: 2022-TE34
Innovative Trucks Tax Credit	Income tax credit for the purchase or lease of an eligible electric truck (i.e., fully electric powered or hybrid light-duty, medium-duty, or heavy-duty truck). The credit is a flat amount based on the year the truck is purchased or leased and the truck type (i.e., light, medium, or heavy-duty). Credit amounts are reduced based on state revenue forecasts starting in 2025. Section 39-22-516.8, C.R.S.	Geographic Component: None Years Available: 1992 to 2028 or 2032 depending on type of truck purchased. OSA Report: 2022-TE34
Low-Emitting Vehicles Sales and Use Tax Exemption	Sales and use tax exemption on the purchase, storage, or use of medium or heavy-duty motor vehicles, power sources for any motor vehicle, or parts used for converting the power source for any motor vehicle. Section 39-26-719(1) and (1.5), C.R.S.	Geographic Component: None Years Available: 1999 to 2028 OSA Report: 2022-TE29

Tax Expenditure	Description	Other Information
Alternative Transportation Options Tax Credit	Income tax credit for a percentage of the amount an employer spends to provide employees with alternative transportation options. Section 39-22-509, C.R.S.	Geographic Component: None Years Available: 2023* to 2027 *This credit replaced a corporate deduction for similar ride-sharing expenses enacted in 1979. OSA Memo: 2023-TE20
Electric Bicycle Tax Credit	Income tax credit for the lesser of a flat dollar amount or the total purchase price of an electric bicycle (i.e., a bicycle equipped with a motor that provides the rider with assistance while pedaling, and includes electric adaptive bicycles for individuals with disabilities). The seller provides a discount to the purchaser at the time of sale, and the seller claims the credit. Credit amounts are reduced based on state revenue forecasts starting in 2025. Section 39-22-555, C.R.S.	Geographic Component: None Years Available: April 2024 to 2032 OSA Report: Not Yet Evaluated

What is the revenue impact to the State?

The Alternative Transportation Options Tax Credit and the Electric Bicycle Tax Credit did not become available until Tax Years 2023 and 2024, respectively. Therefore, the Department does not yet have data on the revenue impacts for these credits. Additionally, Department data on the Innovative Cars and Trucks Tax Credits are for Tax Year 2022 when the credits applied to a broader set of eligible cars and trucks, as well as the conversion of high emissions cars and trucks into lower emissions cars and trucks; therefore, the revenue impact for Tax Year 2022 for the Innovative Cars and Trucks Tax Credits is likely larger than the revenue impact for the tax credits as they currently exist. The Department also combines the revenue impact for both the Innovative Cars and Innovative Trucks Tax Credits and reports the amount as the Innovative Motor Vehicles Tax Credits; therefore, it is not possible to distinguish the revenue impact of the Innovate Cars and Innovate Trucks Tax Credits. In Tax Year 2022, the Innovative Motor Vehicles Tax Credits had a combined revenue impact of about \$33.4 million with about \$30.3 million from Individual filers and \$3.1 million from C-corporations. Individual filers could represent either natural persons or individuals with “pass-through” income. The Low-Emitting Vehicles Sales and Use Tax Exemption in Tax Year 2023 had a revenue impact of about \$452,000. Exhibit 22 shows the revenue impacts of the Innovative Motor Vehicles Tax Credits for Tax Year 2022 and the Low-Emitting Vehicles Sales and Use Tax Exemption for Tax Year 2023.

Exhibit 22
State Revenue Impact of Innovative Motor Vehicle Tax Credits¹ and the Low-Emitting Vehicles Sales and Use Tax Exemption²



Source: Department of Revenue.

¹ Innovative Motor Vehicle credit revenue impact is for Tax Year 2022.

² Low-Emitting Vehicles sales and use tax exemption is for Tax Year 2023.

What are other related state and local incentives?

Colorado's Electric Vehicle Plan, first introduced in 2018, includes multiple programs to accelerate the adoption of electric and low-emissions transportation options in the State. In addition to tax incentives for clean transportation, there are multiple state grant programs intended to increase the adoption of electric vehicles including increasing sales of electric vehicles and charging infrastructure. CEO administers several of these grant programs including the Vehicle Exchange Colorado Program, which began in Fiscal Year 2024, and provides rebates for income-qualified Coloradoans to purchase an electric vehicle if they scrap an old, or high-emitting vehicle. Additionally, CEO administers multiple grant programs intended to increase electric vehicle charging stations throughout the State. For example, Charge Ahead Colorado provides grant funding to businesses, multifamily housing, and public entities to install community-based electric vehicle charging stations, while the Fleet-ZERO EV Charging Grant provides funding to support the transition of fleet vehicles and equipment to electric vehicles. Grants are available for private or shared public charging infrastructure and fleet-charging as-a-service. Both of these grant programs prioritize small, minority-owned, women-owned, and veteran-owned businesses, as well as low-income communities.

Additionally, statute allows local governments to apply the Low-Emitting Vehicles Sales and Use Tax Exemption to local taxes, and exempt from business personal property taxes any electric vehicle charging equipment.

Some local governments also offer grant and/or rebate programs to incentivize the purchase of electric vehicles or bikes. For example, several cities and counties such as Denver, Eagle, Durango, and Boulder provide an electric bike rebate program. Additionally, some local governments provide infrastructure, such as electric bike rental programs that may be funded through CEO grants.

What are the related federal incentives?

There are many federal tax expenditures that were established in the early 2000's and more recently in 2022 under the Inflation Reduction Act (IRA) to incentivize the adoption of clean vehicles and commercial heavy transportation, such as semi-trucks and flatbed trailers transporting goods, and stimulate demand for more fuel-efficient and environmentally clean vehicles. The adoption of "clean vehicles" is intended to reduce emissions and therefore, reduce transportation related pollution. Generally, taxpayers are limited to one credit per vehicle.

In addition to tax incentives, federal funding is available to states to build out electric vehicle infrastructure. For example, as part of the federal Infrastructure Investment and Jobs Act, the National Electric Vehicle Infrastructure Program awarded Colorado \$56.5 million to develop electric vehicle charging infrastructure in rural and disproportionately impacted communities along several highways, which the State plans to spend by 2030.

The federal expenditures as described in the following table, were generally available starting in 2023 and were set to expire in 2032; however, the 2025 passage of the federal OBBBA significantly changed the availability of many federal clean energy tax expenditures, reducing the incentive amounts or ending them altogether in 2025. Because many of Colorado's tax expenditures were enacted to align with federal tax expenditures, IRA-specific provisions that were recently modified under the OBBBA have been noted in the following table. While repeals of these federal incentives do not directly impact the availability of Colorado's tax expenditures, it is possible that reduced federal incentives will significantly reduce the financial feasibility of purchases of clean energy vehicles, and reduce the overall use of Colorado's expenditures.

Tax Expenditure	Description
Clean Vehicle Credit	Income tax credit for a set amount on the purchase of an electric vehicle. The credit is restricted to vehicles under a certain dollar value, and taxpayers below a specified income threshold. To qualify, the vehicle's battery components and manufacturing must meet specific requirements regarding the amount of critical minerals extracted and processed in the U.S. or other authorized countries, and manufacturing and assembly of the battery that takes place in North America. 26 USC 30D The OBBBA eliminates the credit after 2025, but maintains a limited credit for electric vehicles from new production lines starting in 2026.
Previously Owned Clean Vehicle Credit	Income tax credit for the purchase of a previously-owned (i.e., used) electric or fuel cell vehicle. The credit is a percentage of the vehicle's sales price and is restricted to vehicles under a certain dollar value, and taxpayers below a specified income threshold. The vehicle must be sold by a dealer to qualify, and the purchaser may transfer the tax credit to the dealer in exchange for a discount on the purchase of the vehicle. 26 USC 25E The IRA created the credit, which the OBBBA eliminates after 2025.
Commercial Clean Vehicle Credit	Income tax credit for businesses purchasing or leasing electric vehicles, hybrid vehicles, and fuel cell vehicles from qualified manufacturers. The credit is a percentage of the cost of the vehicle, or a percentage of the additional cost of the vehicle compared to a similar gas or diesel-fueled vehicle. 26 USC 45W The IRA created the credit, which the OBBBA eliminates after 2025.
Alternative Fuel Vehicle Refueling Property Credit	Income tax credit for a percentage of the costs for alternative fuel vehicle refueling equipment installed at a business or residence. Alternative fuel vehicle refueling equipment includes tangible property used to dispense fuel into a vehicle's tank, and includes fuel storage and dispensing units and electric vehicle and motorcycle recharging equipment. The percentage amount of the tax credit is higher for projects that meet certain wage and apprenticeship requirements. Starting in 2023, only property placed in service within a low-income or rural census tract is eligible for the credit. 26 USC 30C The OBBBA eliminates the credit after 2025.