

Tax Expenditures **Compilation Report 2026**



2026-TE



OFFICE OF THE STATE AUDITOR

C O L O R A D O

Working to improve government for the people of Colorado.

Office of the State Auditor

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OFFICE OF THE STATE AUDITOR
KERRI L. HUNTER, CPA, CFE • STATE AUDITOR

June 25, 2026

Members of the Legislative Oversight Committee Concerning Tax Policy, Joint Budget Committee,
and House and Senate Finance Committees,

This report contains the evaluations we conducted of the State's tax expenditures during State Fiscal
Year 2026—July 1, 2025 to June 30, 2026, as required by Section 39-21-305(1)(e), C.R.S.

Kerri L. Hunter



Contents

Overview	1
Tax Expenditures Reviewed	2
Homeless Contribution Income Tax Credit	3
Electric Lawn Equipment Income Tax Credit	23
Residential Energy Storage Income Tax Credit and Sales Tax Exemption	39
Alternative Transportation Options Income Tax Credit	61
Employer Assistance for Home Purchase Credit and Deduction	77
Declared Wildfire Disaster Rebuild Sales and Use Tax Refund	83
Wildfire Mitigation Measures Income Tax Credit	105



Tax Expenditure Compilation Report

Overview

Section 39-21-305(1)(e), C.R.S., requires the Office of the State Auditor (OSA) to publish a report of the evaluations we conducted of the State's tax expenditures by June 30 of each year. The report must be published on the General Assembly's website and we must provide copies of the report to the Joint Budget Committee and the Finance Committees of the Senate and the House of Representatives. This report compiles all of the tax expenditure reports the OSA issued during State Fiscal Year 2026—July 1, 2025 to June 30, 2026. This is the second compilation report issued under the requirements of House Bill 24-1053, which made several changes to the scope of the OSA's work on tax expenditures. Specifically, the bill gave:

1. Our office flexibility to consider when sufficient data is expected to be available when scheduling our reviews of new tax expenditures while endeavoring to review the oldest tax expenditures first and any expiring expenditure(s) in the year before they are set to expire, so evaluations are available during the legislative session before the expenditure(s) expire.
2. Our office discretion in deciding (1) whether to reevaluate a tax expenditure after it has been reviewed once and (2) the timing of the subsequent review.
3. The Legislative Oversight Committee Concerning Tax Policy (Committee) the option to select up to three additional expenditures for our office to review before June 30 of the following year.

Section 39-21-403(2)(c)(I), C.R.S., requires the Committee to consider our tax expenditure evaluation reports' policy considerations. However, Senate Bill 25-199 suspended the Legislature's interim committees—including the Committee—for 2025, and House Bill 26-1331 suspended the Legislature's interim committees for 2026. As a result, the Committee will not consider the policy considerations in the tax expenditure evaluations included in this compilation report until 2027 and will not be able to assign our office additional expenditures to review before June 30, 2027.

Below, we provide more information on the reports we completed during Fiscal Year 2026 under each of the requirements noted above.

Tax Expenditures Reviewed

Exhibit 1 provides a list of the tax expenditures and the reason we reviewed each tax expenditure this year.

Exhibit 1

Tax Expenditures Reviewed During Fiscal Year 2026

Tax Expenditure	Reason for Review
Homeless Contribution Income Tax Credit	The expenditure was scheduled to expire on January 1, 2027. We issued our report so it would be available during the 2026 Legislative Session.
Electric Lawn Equipment Income Tax Credit	The expenditure was scheduled to expire on January 1, 2027. We issued our report so it would be available during the 2026 Legislative Session.
Residential Energy Storage Income Tax Credit and Sales Tax Exemption	The credit was scheduled to expire on January 1, 2027. We issued our report so it would be available during the 2026 Legislative Session.
Alternative Transportation Options Income Tax Credit	The expenditures were scheduled to expire on January 1, 2027. We issued our report so it would be available during the 2026 Legislative Session.
Employer Assistance for Home Purchase Income Tax Credit and Deduction	The expenditure was scheduled to expire on January 1, 2027. We issued our report so it would be available during the 2026 Legislative Session.
Declared Wildfire Disaster Rebuild Sales and Use Tax Refund	The expenditure is scheduled to expire on July 1, 2028. We issued our report so it would be available during the 2027 Legislative Session.
Wildfire Mitigation Measures Income Tax Credit	The expenditure was scheduled to expire on January 1, 2028. We issued our report so it would be available during the 2027 Legislative Session.



Office of the State Auditor

Kerri L. Hunter, CPA, CFE
State Auditor

Homeless Contribution Tax Credit Tax Expenditure Evaluation Update

In November 2025, our office released its evaluation of the Homeless Contribution Tax Credit [Section 39-22-548, C.R.S.]. At that time, the Department of Revenue (Department) was not able to provide data on the credit's revenue impact to the State or the number of claims. In January 2026, the Department released data on the credit for claims made by individuals and C corporations for Tax Year 2023, which was the first year this credit was available. This memo's purpose is to provide an update on the revenue impact and usage of the Homeless Contribution Tax Credit based on the information that was published by the Department after the release of our report.

Taxpayers did not claim the full amount in credits that were certified for Tax Year 2023.

According to Department data, in Tax Year 2023, the Homeless Contribution Tax Credit was claimed by 3,981 individuals for a total revenue impact to the State of \$3,582,701 (an average credit of \$900 per taxpayer). Ten corporations claimed the credit for a total revenue impact to the State of \$11,848 (an average credit of \$1,185 per taxpayer). Between individual and corporate taxpayers, the Homeless Contribution Tax Credit had a total revenue impact to the State of \$3,594,549 in Tax Year 2023.

In Exhibit 6 on page 16 of the report issued by our office on this credit in November 2025, we presented an estimate of the credit's maximum revenue impact for Tax Years 2023 and 2024. This estimate was based on data provided by the Division of Housing on contributions that were certified for the credit. We estimated a maximum revenue impact of \$5,274,385 for Tax Year 2023 and \$6,455,478 for Tax Year 2024. There are several possible reasons why the revenue impact shown in the Department data is less than the maximum estimated maximum revenue impact we provided in our report. First, the Department data may not show the entire actual revenue impact of the credit because it does not include credit claims by all taxpayer types. The Department's 2023 Tax Credit Reports that were published in January 2026 only show credits claimed by individuals and C corporations. To the extent that the credit was claimed on another type of tax return, such as an estate, trust, or composite nonresident partnership or S corporation return, those credit claims would not be captured in the Department's data but would still have a revenue impact to the State in Tax Year 2023. Second, some taxpayers may not have claimed the credit either because they forgot or were confused about how to obtain their credit certificate or attach it to their return. Below Exhibit 6 on page 16 of the report, we discussed that when we surveyed donors who had made contributions that were eligible for the credit, some reported having difficulty either receiving their credit certificate or not knowing how to submit their certificate to claim the credit on their tax

return. Third, some taxpayers may not have had enough tax liability to claim the entire credit they were eligible for in Tax Year 2023. These taxpayers may carry the credit forward for up to 5 years and, therefore, some credits that were certified in Tax Year 2023 may have a revenue impact in future tax years.

Taxpayers with higher incomes claimed more credits for larger amounts than lower income taxpayers. The Department also released Homeless Contribution Tax Credit individual claims data showing usage by taxpayers grouped by the size of their federal adjusted gross income (AGI), which we present below in Exhibit 1.

Exhibit 1

Number of Claims, Revenue Impact, and Average Credit for Individual Taxpayers Who Claimed the Homeless Contribution Tax Credit in Tax Year 2023 by Size of Federal Adjusted Gross Income

Size of Federal Adjusted Gross Income	Number of Claims	Total Revenue Impact	Average Credit
Negative Income	0	\$0	\$0
\$0 to under \$10,000	3	Not Releasable	Not Releasable
\$10,000 to under \$20,000	15	Not Releasable	Not Releasable
\$20,000 to under \$30,000	39	\$7,159	\$184
\$30,000 to under \$40,000	58	\$14,546	\$251
\$40,000 to under \$50,000	81	\$25,121	\$310
\$50,000 to under \$60,000	85	\$30,547	\$359
\$60,000 to under \$75,000	166	\$69,511	\$419
\$75,000 to under \$100,000	303	\$99,166	\$327
\$100,000 to under \$200,000	1,368	\$688,105	\$503
\$200,000 to under \$500,000	1,254	\$993,384	\$792
\$500,000 to under \$1,000,000	360	\$620,692	\$1,724
\$1,000,000 and over	249	\$1,032,582	\$4,147
Total	3,981	\$3,582,701	\$900

Source: Office of the State Auditor analysis of Department of Revenue individual credit data for the Homeless Contribution Tax Credit.

The Department data are consistent with the expectation we discussed on pages 16 and 17 of the report that high and middle-income taxpayers who make relatively large charitable donations are more likely to claim the credit. According to our analysis of the Department's data, individuals with \$100,000 or more in federal AGI accounted for 81 percent of the credits claimed by individuals and 93 percent of the total revenue impact of credits claimed by individuals, whereas taxpayers with under \$50,000 in federal AGI accounted for less than 5 percent of credits claimed and accounted for less than 1.5 percent of the total revenue impact of credits claimed by individuals. In addition, as shown in the table above, individuals with higher incomes generally claimed higher average credits than those with lower incomes.

Homeless Contribution Income Tax Credit



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Tax Expenditure Evaluation • November 2025 • 2025-TE13

Tax Type:	Corporate/Individual Income
Expenditure Type:	Credit
Statutory Citation:	Section 39-22-548 C.R.S.
Year Enacted:	2022
Repeal/Expiration Date:	January 1, 2027
Revenue Impact (2024):	Estimated maximum is \$6.5 million in 2024

Purpose given in statute or enacting legislation? **Yes**

The Colorado Homeless Contribution Income Tax Credit (HCTC) allows Colorado taxpayers who contribute to eligible homelessness-related projects within the state to claim a credit equivalent to 25 percent (30 percent for projects in qualifying rural areas) of their total contribution, up to \$100,000. The tax credit is administered by the Division of Housing (Division), within the Department of Local Affairs, and is available for Tax Years 2023 to 2026.

According to statute, the purpose of the credit is to encourage taxpayers to contribute to approved nonprofit organizations that provide housing and other qualifying services to assist individuals and families at risk of, or currently experiencing, homelessness, and catalyze statewide efforts to address the effects of homelessness.

The HCTC likely encourages donors to contribute more than they would in the absence of the credit and shift their giving towards organizations that participate in the HCTC Program.

- Nonprofit organizations report that that tax credit is helpful in encouraging donors to provide additional financial support.
- The creation of the standalone HCTC, which first became available in Tax Year 2023, has not yet led to a significant increase in the overall amount contributed to homeless organizations compared to when homeless service projects were eligible for the Enterprise Zone Contribution Credit, but did increase the number of organizations receiving donations substantially.
- The number of donations to projects in rural areas is significantly less than to projects in non-rural areas, despite the larger credit percentage for contributions to rural projects.
- The tax credit primarily benefits high and middle-income earners who make relatively larger charitable donations.

Policy Considerations

We did not have any policy considerations for this evaluation.



Homeless Contribution Income Tax Credit

Background

The Colorado Homeless Contribution Income Tax Credit (HCTC) allows Colorado taxpayers who contribute to eligible homelessness-related projects within the state to claim a credit for a percentage of their total contribution. The credit was established in 2022 by House Bill 22-1083 and is available for Tax Years 2023 to 2026. **According to statute, the credit's purpose is to “encourage taxpayers to make contributions to approved nonprofit organizations providing certain qualifying activities to leverage financial contributions from Colorado residents and businesses to support providing appropriate housing and services to assist individuals and families experiencing homelessness. The [credit] will 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” [Section 39-22-548(1)(a), C.R.S.].**

The Division of Housing (Division) in the Department of Local Affairs (DOLA) administers the Homeless Contribution Tax Credit Program (HCTC Program). Nonprofit organizations must meet eligibility requirements, designate homeless service activities as projects that will receive contributions, and apply to the Division for approval to participate in the program before they can receive contributions for which the credit is allowed. Organizations can create more than one eligible homeless service project. The Division is required to review nonprofit organizations and projects that apply to receive contributions and must post a list on its website of all the approved nonprofit organizations and projects. The Division must update this list by November 1 of each year. Approved organizations must apply for reapproval every 4 years.

Technical Note: The application is statutorily required to include information on the activities the nonprofit provides or will implement as part of the approved project, a letter of approval from the nonprofit's board of directors, evidence that the nonprofit is in good standing with the Secretary of State, and a recent audit or financial report. Additionally, organizations must be listed as exempt organizations under section 501(c)(3) of the Internal Revenue Code and have a history or track record of success in delivering services and demonstrated financial viability.

Projects approved to receive contributions that are eligible for the credit can be either capital campaigns, operational services, or both. Capital campaigns are campaigns focused on raising funds for a specific capital project, including supportive housing for individuals or families experiencing homelessness, shelters and facilities used to provide housing or services, and facilities needed to provide administrative support for approved projects. Operational services are services with the

primary focus on assisting individuals or families experiencing homelessness or preventing individuals or families who are facing imminent risk of homelessness from becoming homeless.

Technical Note: Capital projects approved by the Division must involve construction and implementation that begins within 3 years of the project's approval.

Operational services include outreach efforts to engage or provide services to sheltered individuals or families experiencing homelessness; safe emergency, temporary, or transitional shelters, such as day shelters, that may include supportive services; prevention services that target individuals or families facing imminent risk of homelessness; supportive housing for individuals or families experiencing homelessness or who would otherwise be homeless; services designed to assist individuals or families experiencing homelessness to obtain employment (e.g., job placement services or services that help individuals become workforce ready); case management and coordination of referrals to assist health or mental health benefit procurement and procurement of other essential services; shelters and services for survivors of domestic violence who are fleeing an abusive household; or the implementation and operation of successor projects or other services for individuals or families experiencing homelessness that are identified by the division as emerging, promising, and providing best practices [Section 39-22-548(2)(h), C.R.S.].

Approved nonprofit organizations are required to track contributions received from taxpayers and issue a tax credit certificate to each taxpayer who makes an allowable contribution through Salesforce, the Division's tracking and communication system for the program. According to the HCTC taxpayer handbook, "the nonprofit must issue the tax credit certificate to the donor...The nonprofit sends the certificate link to the donor's email via the Salesforce portal...For donors without an email address, the nonprofit must access the certificate via Salesforce, print the certificate, and distribute it to the taxpayer." Statute allows each organization with one approved project to issue up to \$750,000 in tax credits per tax year and each organization with two or more approved projects to issue up to \$1.5 million in tax credits per year. Of the 80 HCTC organizations that received contributions through 2024, 63 had one HCTC-eligible project, 11 organizations had two eligible projects, five organizations had three eligible projects, and one had five.

Taxpayers (individuals or businesses) who make a monetary or in-kind contribution (e.g., vehicles, stock) to an approved nonprofit organization—or to an approved project administered by the nonprofit organization—are allowed a state income tax credit equal to:

- 25 percent of their donation as a state income tax credit if contributed to a qualified project located in a non-rural community.
- 30 percent of their donation as a state income tax credit if contributed to a qualified project located in an underserved, rural community.

Technical Note: According to the Division, for purposes of the increased credit percentage, a rural area is determined using the U.S. Department of Agriculture definition of rural as "nonmetro", which takes into account open countryside, rural towns and urban areas with populations ranging

from 2,500–48,000 that are not part of a larger labor market, or metropolitan, area. Typically, a county is considered rural when it has a population of 50,000 or less.

To be eligible for the credit, in-kind contributions must be valued over \$5,000 and monetary contributions must be at least \$100. Organizations may choose to set a higher minimum donation threshold and about one-third of active HCTC organizations have done so, setting minimums of \$200, \$250, \$500, and, in a few cases, \$1,000. Higher minimum donation amounts likely help organizations offset the costs of administering the credit certificate process and could encourage larger gifts.

Taxpayers may receive a credit of up to \$100,000 per year. If the credit amount exceeds a taxpayer's tax liability for a tax year, they cannot receive a refund for the excess amount, but may carry forward and apply the excess amount against their tax liability in future years for up to 5 years.

Prior to the creation of the HCTC, certain projects related to addressing aspects of homelessness in economically distressed areas of the state, known as enterprise zones, could be approved as Enterprise Zone Contribution Credit (EZC Credit) eligible projects. The EZC Credit, which is administered by the Office of Economic Development and International Trade (OEDIT), provides an income tax credit for monetary and in-kind contributions to qualified enterprise zone contribution projects that support the economic development plan for the enterprise zone. In our 2021 evaluation of the EZC Credit, we had a policy consideration that the General Assembly could consider establishing a standalone credit for contributions made to organizations/projects serving the homeless population. This was based on OEDIT and enterprise zone administrators noting that having homelessness experts administer such a program could be more effective and could allow for broader eligibility standards that would allow credits for a more comprehensive range of projects. Under the EZC Credit, eligible homelessness-related projects were focused just on economic development aspects of homeless assistance, like job training and emergency housing. Further, many organizations providing housing generally operate in residential areas, outside of urban enterprise zones. In 2022, the General Assembly passed House Bill 22-1083, which removed homelessness-related projects from the EZC Credit and, in its place, established the HCTC, which is available throughout the state for a broader range of homelessness response related activities.

Since the HCTC was established, there have been two changes to the credit, which were both made by Senate Bill 24-016 in 2024:

1. Contributions through qualified intermediary organizations are eligible for the HCTC, starting in Tax Year 2024. Qualified intermediary organizations are tax exempt 501(c)(3) organizations that disperse contributions received from a taxpayer to qualified recipient organizations, as desired by the taxpayer. Examples include organizations such as Colorado Gives 365, Mile High United Way, and Community Shares of Colorado. Previously, EZC Credits could be granted to taxpayers who made contributions through a qualified intermediary organization – including those contributions to homeless projects – but when the homelessness projects were removed from the EZC Credit and became part of the HCTC, statute did not explicitly state that HCTC-eligible organizations could receive tax-credit-eligible contributions through qualified

intermediary organizations. As a result, some taxpayers still donated through intermediary organizations in Tax Year 2023, but had their HCTC credits denied by DOLA based on advice from the Department of Revenue. Beginning in October 2023, DOLA announced it would approve credit certifications for contributions made to HCTC-eligible organizations through qualified intermediaries since there were plans for legislation during the 2024 Legislative Session to allow contributions to be made through qualified intermediaries and there was precedent for doing so (initially, contributions made through intermediaries to EZC projects were denied, but later legislation made it clear these contributions were eligible for the credit). The fiscal note for Senate Bill 24-016 estimated that 405 donors would be once again eligible to claim the HCTC under this change for an increased cost of \$478,000 to the State in Tax Year 2024.

2. When the HCTC was created in 2022, statute required that the tax credit certificate issued to the taxpayer by the nonprofit organization include the taxpayer's full Social Security Number. According to the Division, when they surveyed nonprofits, they said that some of their donors were resistant to providing their full Social Security Number in order to receive the credit. According to committee testimony, at that time, this was the only contribution credit for which full Social Security Numbers were required to be given to a non-State entity in order to be certified. Senate Bill 24-016 changed this requirement so that only the last four digits of a taxpayer's Social Security Number are required to be included on the tax credit certificate.

Homelessness is a serious and growing issue in Colorado. An OSA analysis of U.S. Department of Housing and Urban Development (HUD) data shows that the number of people experiencing homelessness in Colorado increased by 88 percent between 2015 and 2024, based on annual Point-in-Time (PIT) Count data, an unduplicated, one-night snapshot of homelessness that provides helpful but limited insight into year-round trends. In 2024, the PIT count identified 18,715 Coloradans experiencing homelessness on a single night in January; representing a 30 percent increase from the previous year.

In addition to PIT count data, the Colorado Homeless Management Information System (COHMIS) provides a more comprehensive, year-round view of individuals and households accessing housing and homelessness-related services statewide. According to COHMIS's annual State of Homelessness report, 52,806 people sought assistance through COHMIS partner agencies in 2024. These services include emergency shelter, temporary and permanent housing, supportive services, street outreach, and prevention programs. Among those served, 30 percent met the definition of experiencing chronic homelessness.

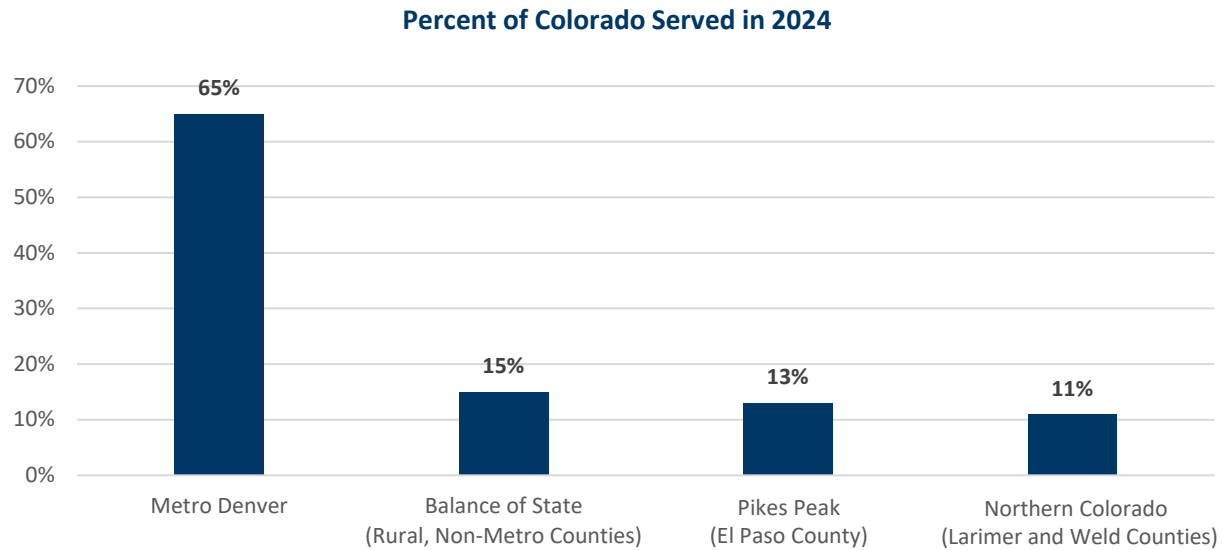
The rising rate of homelessness is not a problem unique to Colorado. According to HUD, "the number of people experiencing homelessness [in America] on a single night in 2024 was the highest ever recorded." Nationwide, from 2023 to 2024, children under the age of 18 saw the largest increase in homelessness (32 percent increase) of any age group, followed by young adults aged 25 to 34 (24 percent increase). HUD noted that several factors contributed to this historically high number, including a national affordable housing crisis, rising inflation, stagnating wages, and the lasting impacts of discriminatory policies. Challenges in addressing homelessness can be compounded in rural areas, which have more limited housing supply, fewer resources, and weaker

tenant protections. Relative to other geographic areas, families with children were most likely to be experiencing unsheltered homelessness in rural communities.

As shown in Exhibit 1, most of the people seeking housing and services related to homelessness are located in metro areas, specifically Metro Denver and Larimer, Weld, and El Paso counties, with only about 15 percent receiving services in other areas of the state.

Exhibit 1

Where People Accessing Homelessness Services in Colorado Were Served



Source: Office of the State Auditor analysis of COHMIS State of Homelessness 2024 report.

According to the COHMIS State of Homelessness 2024 report, “While the number of permanent housing options has grown, it has not kept pace with the demand, leaving thousands of people without a clear path to stability.” As noted in HUD’s 2024 Housing Inventory Count, Colorado had 14,559 permanent housing beds as of January 2024, which, according to COHMIS, is not enough to serve all individuals experiencing homelessness. Division staff and nonprofit organizations surveyed by the OSA reported that adequate funding for addressing homelessness is a perpetual challenge, and may be exacerbated in the coming years. Specifically, federal funding through the 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act and the 2021 American Rescue Plan Act (ARPA) legislation provided an influx of financial support that has now dropped off, and proposed federal cuts to homeless assistance grants and more constrained state budget conditions may present additional challenges.

The HCTC is one of several tools that Colorado uses to address homelessness. More than 60 percent of surveyed HCTC nonprofits report receiving federal and/or local funding as well, in addition to funding from private foundations and corporate sponsors. Other programs in the state to increase charitable contributions or target funding towards homeless services include:

The **Federal Charitable Contribution Deduction** under 26 USC 170 allows an individual who contributes to qualified organizations to deduct the amount of money or value of property they donate from their taxable income. The deduction for charitable contributions is generally capped at 60 percent of the taxpayer's federal adjusted gross income (AGI). Contributions exceeding the 60 percent limit can be carried forward for up to five years. Starting in 2026, several changes to the federal charitable deduction will go into effect:

- Taxpayers who itemize their deductions can only deduct charitable contributions to the extent that the amount contributed exceeds 0.5 percent of their AGI.
- There is a limitation on the deduction value for taxpayers in the highest tax bracket.
- Taxpayers who take the standard deduction can still receive a deduction (\$1,000 for individuals, \$2,000 for joint filers) for cash gifts to public charities.

Notably, federal regulations limit the deduction allowed for charitable contributions that result in state income tax credits. In 2019, the Internal Revenue Service issued regulations [26 CFR 1.170A-1(h)(3)] that require taxpayers taking the Federal Charitable Contribution Deduction to reduce that deduction by the amount of any state tax credits they expect to receive if the credit is over 15 percent of the value of the contribution. Therefore, taxpayers who claim HCTC and the Federal Charitable Contribution Deduction will need to adjust their Federal Charitable Contribution Deduction amount.

Similarly, Colorado offers a **State Charitable Contribution Deduction** under section 39-22-104(4)(m), C.R.S. that allows individuals to deduct the amount of any charitable contributions over \$500 from their state income if the individual claimed the standard deduction, instead of itemized deductions, on their federal tax return. According to the Department of Revenue staff, taxpayers are able to claim both the HCTC and the Colorado Charitable Contribution Deduction for the same contribution.

Under the **Homeless Prevention Activities Program** (HPAP), DOLA awards grants to nonprofits and local governments to prevent at-risk households from experiencing homelessness. All funding comes from a Colorado Income Tax Checkoff Program, which goes directly to the HPAP. The program received \$268,500 in voluntary tax checkoff contributions in 2023, and \$311,700 in 2024, according to Department of Revenue data.

The **Homelessness Resolution Program** (previously named the Emergency Solutions Grant) provides funding to local governments, homeless service providers, and other nonprofit organizations annually through a competitive application process. According to DOLA, it is the first step in a continuum of assistance to prevent homelessness and enable individuals and families experiencing or at risk of homelessness to find stable housing.

The **Transformational Homelessness Response** (THR) Grant Program aims to ensure everyone in Colorado has a safe and stable place to live. In 2023, DOLA, through the Division, awarded over \$86 million in THR funding to projects across Colorado. The Program is funded by transferred state

relief/one-time recovery funds. Eligible applicants included local governments and community partners like nonprofit organizations. These grants will run through September 2026. The main objective of all THR funded programs is to prevent or end individuals' homelessness as efficiently and effectively as possible.

While we were unable to identify another state with a tax credit directly comparable to Colorado's HCTC, other states have credits available for contributions to organizations that serve people experiencing homelessness. Missouri offers a 50 percent income tax credit for taxpayers who donate cash or food to any local food pantry, soup kitchen, or homeless shelter. The credit is capped at \$2,500 per taxpayer and the total amount credits approved cannot exceed \$1,750,000 in a year. Other states, like Arizona, Michigan, New York, and Vermont offer broader charitable contribution/donation tax credits for donations made to homeless organizations, homeless shelters, and/or soup kitchens. New Hampshire's Community Development Tax Credit Program offers a 75 percent tax credit for donations made by businesses that support various community development projects, including affordable/supportive housing for individuals exiting homelessness.

Statute does not provide an explicit performance measure for the HCTC. Therefore, we applied the following performance measure based on the statutorily stated expectation that the credit will strengthen statewide efforts to address the effects of homelessness through private investment in nonprofits that provide services to individuals and families: **To what extent has the Homeless Contribution Tax Credit encouraged taxpayers to contribute to Colorado-based nonprofit organizations that provide services to individuals and families experiencing, or at imminent risk of, homelessness?**

Evaluation Results

The HCTC likely encourages donors to contribute more than they would in the absence of the credit, and likely encourages charitable donors to shift their giving towards organizations that participate in the HCTC Program. However, most donors report that they would still contribute to eligible organizations regardless of the credit. As part of the evaluation of the HCTC, we surveyed both nonprofit organizations participating in the HCTC Program and donors who had made credit-eligible contributions; we received responses from 707 donors and 61 nonprofit organizations. As of October 2025, 81 organizations had received 22,529 contributions from 8,305 donors.

Survey respondents reported that the credit caused them to increase the amount they donated. On the survey, we asked, "Has the availability of the Homeless Contribution Tax Credit caused you to increase your annual charitable giving?" Of the 704 donors who responded to this question, 77 percent reported that the availability of the credit caused them to increase their annual charitable giving and 23 percent reported it did not cause them to increase their annual charitable giving. Survey respondents were given the option to provide additional comments on this question. Many respondents who reported that the credit caused them to increase their annual charitable giving said that they increased their contribution by the amount that they would get back from the credit when they file their taxes. Some respondents said that while the credit did not cause them to increase their

annual charitable giving, it allowed them to maintain the amount they gave rather than having to decrease it due to inflation and other financial constraints. Finally, some respondents commented that the credit is a “nice perk” or “added bonus” for giving, suggesting the credit might have had less of an impact on the amount that they chose to give.

Survey respondents reported that they shifted their giving to organizations that offered the credit. On the survey, we asked, “Has the availability of the Homeless Contribution Tax Credit encouraged you to shift your charitable donations towards organizations that participate in the program?” Of the 705 donors who responded to this question, 72 percent reported that the availability of the credit encouraged them to shift charitable donations towards organizations that participate in the program, with the remaining 28 percent reporting it did not. Some respondents stated that they would give to organizations not eligible for the credit or to other types of causes if the credit were not available. One respondent said that the credit allows them to increase their overall giving by using the tax savings from the credit to also donate to other causes that are important to them. Another respondent said that donating to organizations that address homelessness is one of their priorities and that they have donated to some of the eligible organizations for many years and have found others to donate to by looking at the list of eligible projects that is published by the Division.

Most donors reported that they would reduce their contributions if the credit was not available. On the survey, we asked, “To what extent would the amount you or your business contributed to the nonprofit organization/project differ if you did not receive a tax credit for the donation?” Of the 688 donors who responded to this question, 79 percent reported that they would donate less. However, about 95 percent of respondents indicated they would make a donation of some amount even if the credit was not available. Donors reported that the mission of the organization and a desire to help their local community were major factors in their decisions to donate to homeless organizations more than the HCTC. More than 80 percent of donors cited the organization’s mission and helping the local community as a major or the only factor in making their contribution, while a little more than 50 percent said the same for the credit. Therefore, it is likely that elimination of the credit would result in donors reducing their contributions to some extent, but would not entirely stop them from donating.

Academic literature on the effects of incentives for charitable giving suggests that incentives do positively influence giving, but the extent to which this occurs is difficult to quantify. The type of subsidy, the income of the donor, and the type of charitable organization and the work they do can all factor into the overall effectiveness of the incentive. For example, writing for the *National Tax Journal*, Bakija and Heim found that “...peoples’ decisions about how much to donate to charity are influenced significantly by tax incentives” and report that people give more when the after-tax cost of giving decreases. In a working paper published by the National Bureau of Economic Research, Han, Hungerman, and Ottoni-Wilhelm found that the elimination of federal charitable giving incentives for taxpayers under the Tax Cuts and Jobs Act (TCJA) decreased charitable giving by \$20 billion annually.

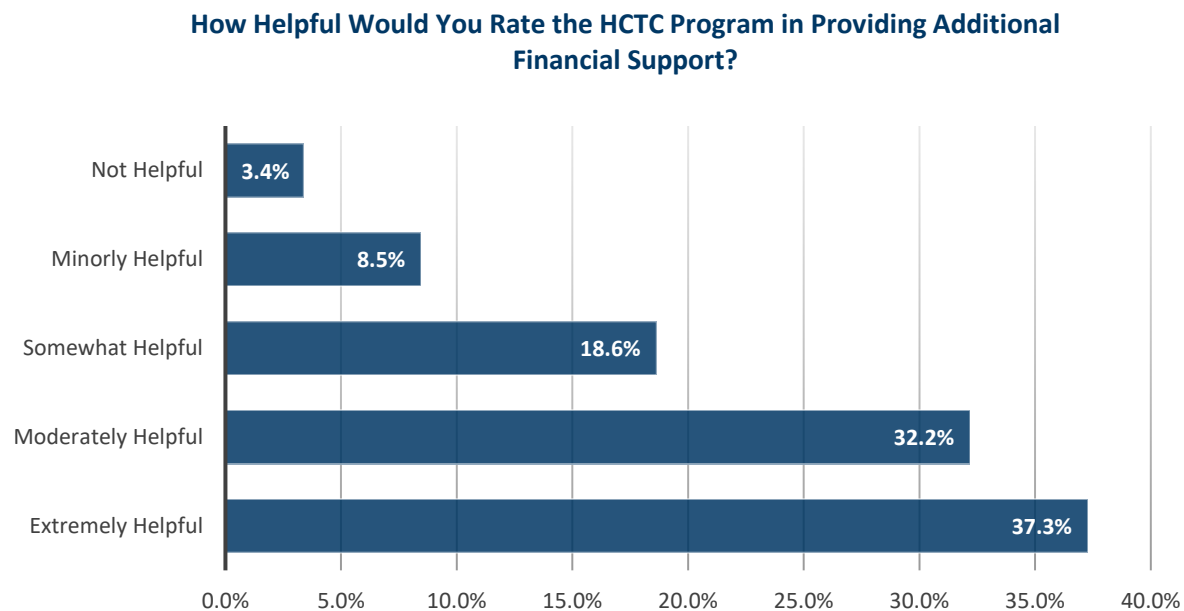
Nonprofit organizations report that the Homeless Contribution Tax Credit is helpful in providing additional financial support. Nonprofit organizations that participate in the HCTC

Program generally reported that the credit has positively impacted their ability to deliver services. In our survey of organizations that participate in the program, we asked, “Have you experienced an increase in charitable contributions since becoming involved with the Homeless Contribution Tax Credit Program?” Of the 57 organizations that responded to this question, two-thirds of organizations reported that they had experienced an increase in overall donations since becoming involved, while one-third reported that donations had remained about the same. The stagnation in donations to some organizations may be explained by broader economic trends, as there appears to have been a post-pandemic decline in charitable giving. Adjusted for inflation, giving nationwide declined by 10.5 percent from 2021-2022 and by 2.1 percent from 2022 to 2023, according to Giving USA. Giving rebounded in 2024, in the midst of a strong stock market and GDP growth, and outpaced inflation for the first time in 3 years.

In the survey, we also asked organizations, “How helpful would you rate the Homeless Contribution Tax Credit Program in providing additional financial support to your organization?” Exhibit 2 shows most organizations felt the program was at least moderately helpful.

Exhibit 2

Additional Financial Support from the Homeless Contribution Tax Credit Program



Source: Organization/project responses to Office of the State Auditor survey for organizations that, according to the Division of Housing, had at least one HCTC-eligible project between 2023 and 2025.

Survey respondents were given the option to provide additional comments regarding the helpfulness of the credit in terms of providing additional financial support. One respondent commented that the HCTC donations are helpful because they provide more flexibility than targeted or restricted grants. In a separate survey question on how homeless projects would be affected if the HCTC were no longer available, 72 percent of the 60 organizations that responded reported that there would be a

moderate to significant impact, with projects either completed at a slower rate or smaller scope, or struggling to continue/remain viable.

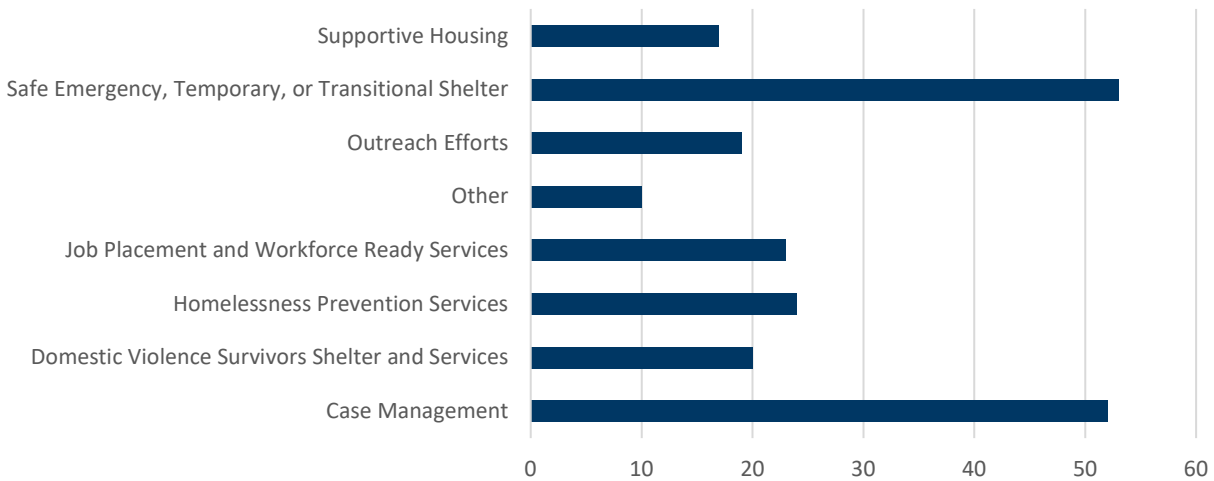
We found that a few organizations receive the majority of donations and a significant amount of contributions go to operational projects compared to capital campaigns. While many nonprofit organizations are benefitting from the HCTC program, five organizations received a majority of contributions. In Calendar Years 2023 and 2024, donors contributed a total of \$46.4 million to 80 organizations for an average amount of \$579,401 per organization over the 2-year period. However, donations were skewed towards a few nonprofits; the five nonprofit organizations that received the most contributions through the program accounted for more than half (52 percent) of total contributions. The organizations that received the most contributions also appear to be relatively large and likely have greater public recognition.

Operational service projects received almost all of the HCTC-eligible contributions in 2023 and 2024. About 96 percent of all contributions made to HCTC-eligible projects were directed towards operational service projects, with the remainder going towards capital campaign projects. In 2023 and 2024, operational service projects were also more common among the projects approved under the program—the credit supported 87 operational service projects sponsored by 77 organizations, but only 18 capital campaign projects sponsored by 17 organizations.

The projects that have received the most contributions tend to offer several different types of homelessness-related services. For example, several projects provide emergency, temporary, or transitional shelter, while also offering longer-term, individual case management and job placement and workforce ready services. Overall, safe emergency, temporary, or transitional shelter is the most commonly provided service with 53 projects (61 percent) supporting it as one of their activities. These sheltering activities receive a greater share of funding as well, including nine of the 10 projects with the most contributions. Exhibit 3 breaks down the activities supported by the 87 operational service projects that received contributions in 2023 and 2024.

Exhibit 3

Activities Supported by 2023-2024 HCTC Operational Service Projects



Source: Office of the State Auditor analysis of Division of Housing data on Homeless Contribution Tax Credit approved projects. Note: One project can account for multiple activities.

Total contributions to homelessness organizations did not increase significantly during the first 2 years that the standalone HCTC was available, as compared to contributions to homelessness organizations under the EZC Credit, which the HCTC replaced. However, twice as many organizations received donations under the HCTC. According to OEDIT data, homeless service projects received \$43.8 million in total contributions in 2021 and 2022 when they were part of the EZC Credit. The total amount of contributions to homeless service projects through the HCTC Program was \$46.4 million in 2023 and 2024. Therefore, establishing a standalone credit with a wider scope of eligible homeless service projects has not yet resulted in a significant increase in contributions or a larger fiscal impact to the State, despite expectations that it would do so when the HCTC was created. Additionally, the total number of donations decreased from 22,248 to 18,789 (about 16 percent) during the same period. However, the relatively flat amount of overall contributions and decrease in the number of donations could be due to broader economic trends that led to decreases in national giving, as noted above. Additionally, the denial of the credit for donations to intermediary organizations and HCTC's initial requirement that the tax credit certificates include donors' full Social Security Numbers could have reduced donations prior to Senate Bill 24-016, which addressed these issues. Further, since the HCTC credit is new, donations may also increase as more organizations and donors become aware of the program and credit. Notably, total HCTC Program contributions increased 23 percent from about \$20.8 million in 2023 to \$25.6 million in 2024, although it is not yet clear whether this increase represents a trend that will continue.

It also appears that the creation of the HCTC, which expanded the types of projects that can qualify for a credit, led to a substantial increase in the number of organizations and projects receiving donations as compared to the EZC Credit. OEDIT data show that the number of organizations and

projects receiving donations doubled in Tax Years 2023 and 2024, the first years that the HCTC replaced the EZC Credit. Additionally, most organizations participating under the EZC Credit continued under the HCTC. Specifically, of the 40 organizations receiving donations under the EZC Credit in Tax Years 2021 and 2022, 39 continued to receive donations in 2023 and 2024 under the HCTC. However, because the total amount donated remained relatively stable while the number of organizations receiving donations increased, the average donation amount received by organizations and projects also fell substantially because donations were spread across a larger group of recipient organizations and projects.

Exhibit 4 compares approved EZC contributions for homeless organizations in 2021 and 2022 with approved HCTC contributions in 2023 and 2024.

Exhibit 4

Comparison of the EZC and HCTC Contributions, Organizations, and Projects

	Enterprise Zone Contribution Credit (2021 2022)	Homeless Contribution Tax Credit (2023 2024)
Total Number of Individual Contributions	22,248	18,789
Total Amount Contributed to Homeless Service Organizations	\$43,848,087	\$46,352,072
Total Organizations Receiving Donations	40	80
Total Projects Receiving Donations	46	105
Average Amount Contributed per Organization	\$1,096,202	\$579,401
Average Amount Contributed per Project	\$953,219	\$441,448

Source: Office of the State Auditor analysis of data provided by Office of Economic Development and International Trade and the Division of Housing.

The number of donations to projects in rural areas is significantly less than to projects in non-rural areas, despite the larger credit percentage for contributions to rural projects. As mentioned above, donations to projects in rural areas are eligible for a 30 percent credit, whereas donations in non-rural areas are only eligible for a 25 percent credit. Ninety-four percent of total HCTC-eligible contributions were made to projects in non-rural areas.

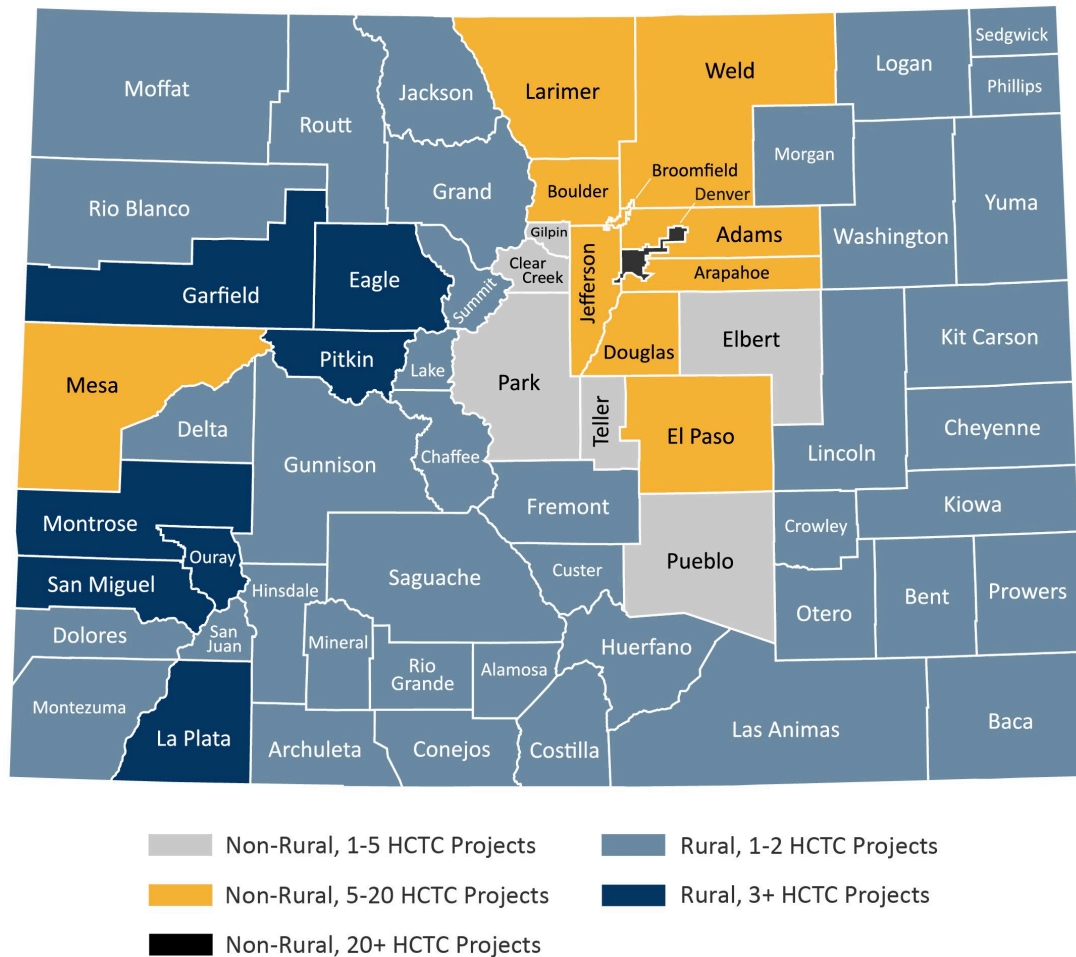
There are fewer HCTC-eligible projects in rural areas and, in general, rural areas are underserved when it comes to resources for those at risk of homelessness. While every county has at least one HCTC project serving it, for many rural counties, that support is limited to a 211 hotline (a free service that provides individuals with information on community resources, such as food or housing assistance) rather than an organization/project with a physical location that provides services. Of the 47 counties designated as rural in the state of Colorado, 31 do not have an HCTC-eligible project located in their area (except the 211 hotline). Of the 16 rural counties that have an HCTC-eligible

project, nine only have one project in addition to the 211 hotline. By contrast, Denver County is served by 42 HCTC-eligible projects.

Exhibit 5 shows the reach and concentration of HCTC projects across all Colorado counties.

Exhibit 5

Location of Nonprofit Service Projects from 2023-2024



Based on survey responses from nonprofit organizations serving rural areas, availability of resources is a particular challenge, as are the distances they have to cover, making it challenging to meet people who are unhoused where they are physically located. According to Division staff, for the most part, counties that do not have projects lack homeless response nonprofits providing services.

Smaller fundraising pools and staffing resources in rural areas may also present barriers for HCTC participation. In our survey of HCTC contributors, we asked, “Do you reside in/is your business located within the same county (or within close proximity to) the Homeless Contribution Tax Credit project(s) to which you/your business contributed?” Of the 699 donors who responded to this question, about 77 percent reported that they live in close proximity to the HCTC project to which they contributed. Further, when surveyed on their motivation for donating to rural project, half cited

familiarity with/support for the project and a desire to help their local community and only 11 of 98 donors who responded reported that the larger credit was the primary motivation for donating. It may be that, rather than incentivizing more people to give to rural homeless service projects, the increased credit percentage serves rural areas by rewarding the donors who already contribute a disproportionate share of private giving in these communities.

Data on the amount of Homeless Contribution Tax Credits claimed by taxpayers is not available yet. We estimate that the credit reduced state revenue by \$5.3 million in 2023 and \$6.5 million in 2024, at most, and higher-income individuals will claim many of the credits. Because the HCTC did not begin until 2023, the Department of Revenue will not have data available on the first year of tax credit claims data until 2026, after the publication of this report. We plan to add an addendum to our report with the revenue impact as reported by the Department of Revenue when it releases that data in early 2026. At this time, we can provide an estimate of the maximum cost to the State using the total contributions received by non-rural and rural projects and applying the applicable tax credit percentages (i.e., 30 percent for projects in rural areas and 25 percent for projects in non-rural areas). This estimate assumes that all approved contributions received tax credits for the full amount in the year they were issued; however, it is likely some taxpayers will not claim the credit or who do not have sufficient tax liability to claim the credit in the first year and will carry it forward to future years. When the HCTC Program was established, it was estimated by Legislative Council Staff to reduce revenue by \$2.6 million in Fiscal Year 2023, \$6.1 million in Fiscal Year 2024, and \$7.5 million in Fiscal Year 2025.

Exhibit 6
HCTC Revenue Impact Estimate for Tax Years 2023 and 2024

	Estimated 2023 Tax Credits	Estimated 2024 Tax Credits
Rural (30% Credit)	\$456,493	\$394,583
Non-rural (25% Credit)	\$4,817,892	\$6,060,896
Total Credits	\$5,274,385	\$6,455,478

Source: Office of the State Auditor estimate of the maximum revenue impact of the Homeless Contribution Tax Credit based on Division of Housing contribution data.

Some organizations and donors reported challenges with providing credit certificates and claiming the credit in their survey responses. For example, some entities found the Division’s reporting software difficult to use and some taxpayers reported not receiving or knowing how to submit their certificates to claim the credit. It is unclear how widespread these issues are and whether they will impact how many taxpayers claim the credits they are eligible for.

We expect that high and middle-income taxpayers who make relatively large charitable donations are more likely to claim the credit. Of the HCTC contributors who responded to an OSA survey, a majority (66 percent) reported annual incomes over \$100,000. A small portion (3 percent) reported having lower incomes (under \$50,000). This data is not definitive and it may be that high-income households were more inclined to respond to our survey and, specifically, to the survey question on

annual income. Based on contribution data collected by the Division, of the 7,873 individual contributors to the program who were eligible for the credit from 2023-2024, the 100 who contributed the most accounted for a little more than 30 percent of total contributions, with the average amount donated being about \$140,000. Furthermore, the top 10 percent of donors by dollars contributed account for two-thirds of total program donations, with an average total donation amount of about \$39,000. For all other donors (bottom 90 percent), the average amount donated was about \$2,200. Therefore, larger contributions from relatively few donors appear to have a significant impact on overall program contributions.

Policy Consideration

We did not identify any policy considerations for this tax credit.

Office of the State Auditor

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OFFICE OF THE STATE AUDITOR

C O L O R A D O

Working to improve government for the people of Colorado.



Office of the State Auditor

Kerri L. Hunter, CPA, CFE
State Auditor

Electric Lawn Equipment Credit Tax Expenditure Evaluation Update

The Electric Lawn Equipment Credit [Section 39-22-550, C.R.S.] allows retailers to claim a 33 percent refundable income tax credit on eligible sales of new, electric-powered lawn equipment—including lawn mowers, leaf blowers, trimmers, and snowblowers—on which the retailer has chosen to give a 30 percent discount to consumers. In December 2025, our office released its evaluation of the credit and, at that time, the Department of Revenue (Department) was not able to provide data on the use of the credit by retailers. After we published our evaluation, the Department provided our office data on retailers that reported sales eligible for the credit for Calendar Year 2024, which was the first year this credit was available. The purpose of this memo is to provide an update on the potential revenue impact and usage of the Electric Lawn Equipment Credit based on the information provided by the Department after the release of our evaluation.

Statute [Section 39-22-550(5), C.R.S.] requires the Department to “submit to the general assembly and the state auditor a report detailing the sales of new, electric-powered lawn equipment, as reported by a qualified retailer claiming the tax credit” by January 1 of each year through January 1, 2028. The Department reported that claims of the credit for Tax Year 2024 will not be available until January 2027. Instead, for its January 2026 report, the Department provided information on the number of businesses that reported sales eligible for the credit in Calendar Year 2024. Specifically, 58 retailers reported selling about 224,800 pieces of eligible lawn equipment for a total of about \$61,503,000 in eligible sales during the year. The Department multiplied the eligible sales by 33 percent to estimate that businesses will claim approximately \$20,296,000 in credits for Tax Year 2024. For context, the fiscal note for enacting legislation (Senate Bill 23-016) estimated that the credit would be claimed on 205,400 units in 2024 and 208,900 units in 2025. When the bill was enacted, the fiscal note estimated the credit would decrease General Fund revenue for credits claimed each year by an approximate \$12.3 million annually. The fiscal note estimate was prepared prior to the State’s Regulation 29 ban, which Colorado’s Air Quality Control Commission put in place in June 2025 to prohibit the use of gas-powered push and hand-held lawn equipment by state government agencies and landscaping contractors that service state land during the months of June, July, and August of each year. The ban also applies to local and federal agencies operating in certain areas along the Front Range. Regulation 29 could contribute to an uptick in eligible sales reported for more expensive commercial lawn equipment starting in 2025. When the Department provides data on Tax Year 2024 credits claimed and Calendar Year 2025 reported sales in January 2027, we will issue an addendum to provide the General Assembly with that information.

The Department reported that for Calendar Year 2024, the top five retailers in the state (by sales amounts) reported about \$52,572,000 (85 percent) of the \$61,503,000 in sales. One of the reasons that a few larger retailers might make up such a large portion of the sales is that the timeline to claim the credit can place a significant financial burden on some smaller retailers, which we discussed on pages 5, 6, 7, and 9 of our report. Specifically, some retailers—those that file as individuals, partnerships, S corporations, trusts, and estates—might have to wait up to 21 months to claim the credit from the time of the sale of the electric lawn equipment that they provided the discount on. Retailers filing as C corporations might have to wait up to 22 months. However, as discussed in the evaluation, larger or more profitable retailers are more likely to benefit from adjustments to their quarterly estimated income tax payments. For example, C corporations with a net income tax liability of more than \$5,000 are required to make quarterly payments and can reduce their quarterly payments to account for the credit. In contrast, retailers expecting to be in a refund position are not required to make quarterly estimated income tax payments, and thus, do not benefit from the credit until their refund is processed after claiming the credit on their income tax return. Therefore, larger or more profitable retailers can recoup the discount they provided to consumers more quickly. Smaller retailers might be less inclined or unable to provide the discount required by the credit to consumers, or opt to limit the number of items of equipment they offer the discount on. As consumers become more aware of the 30 percent discount associated with the credit, they may shift purchasing behavior in favor of larger or more profitable retailers that are able to offer the discount on a wider selection of equipment for consumers to choose from.



Electric Lawn Equipment Credit

Tax Expenditure Evaluation • December 2025 • 2025-TE14

Tax Type:	Income
Expenditure Type:	Credit
Statutory Citation:	Section 39-22-550, C.R.S.
Year Enacted:	2023
Repeal/Expiration Date:	December 31, 2026
Revenue Impact (2024):	Unable to determine
Purpose given in statute or enacting legislation? Yes	

The Electric Lawn Equipment Credit allows retailers to claim a 33 percent refundable income tax credit on eligible sales of new, electric-powered lawn equipment—including lawn mowers, leaf blowers, trimmers, and snowblowers—on which the retailer has chosen to give a 30 percent discount to consumers. Senate Bill 23-016 created the Electric Lawn Equipment Credit as part of a broader legislative goal to address climate change, air pollution, and greenhouse gas emissions in Colorado.

According to statute, the purpose of the Electric Lawn Equipment Credit is to “incentivize the voluntary transition from gasoline-powered to electric-powered lawn equipment” and “induce certain designated behaviors by taxpayers, specifically the purchase of electric-powered lawn equipment” [Sections 39-22-550(1)(a)(III) and (b)(I), C.R.S.]. Due to statutory requirements on the timing of our tax expenditure evaluation reports, we have published this report before Department data on the credit is available but will publish an addendum that summarizes the credit’s estimated use once the data is available.

We identified some issues with the Electric Lawn Equipment Credit’s operation that likely decrease its effectiveness:

- The extended timing difference between the date when retailers provide the discount to the purchaser and the date when they receive the credit places a financial burden on retailers, which appears to reduce the impact of the credit. Some retailers reported that they cannot afford to, or do not wish to, provide the 30 percent discount on all qualifying electric lawn equipment, and at least one retailer opted not to offer the discount or receive the credit due to this financial burden.
- Some retailers expressed confusion about whether the credit has to be applied to all eligible lawn equipment and whether they can choose which types of lawn equipment, makes, and models to apply it to.
- Smaller retailers generally reported that the credit imposes a significant administrative burden on their business, which may dissuade them from deciding to provide the discount and claim the credit.

- The credit's effectiveness at incentivizing consumers to buy electric lawn equipment likely depends on the type of equipment and the needs of the purchaser.

The Department does not collect data on gas-powered lawn equipment sales in Colorado, so the Department's data will not allow the OSA or the General Assembly to determine whether the credit has reduced the sale of gas-powered lawn equipment, as directed by statute. When the Department provides our office with data on the use of the credit, the data will not provide complete information on the use of the credit in Tax Year 2024 and will not be sufficient to determine the extent to which the credit is incentivizing the transition from gas-powered to electric-powered lawn equipment. We also identified several other factors that likely impact sales of gas or electric lawn equipment that should be taken into consideration when reviewing future data on the use of the credit:

- Preexisting market trends indicate that consumer purchases of electric lawn equipment were already increasing before the credit became available.
- Legal restrictions on the use of gas-powered lawn equipment in some areas of the state may cause some commercial landscapers to switch to electric lawn equipment.
- Other funding programs may be influencing some purchasers to buy and use electric lawn equipment.

Policy Considerations

If the General Assembly extends the Electric Lawn Equipment Credit past January 1, 2027, legislators could consider making the following changes to the credit:

- The General Assembly may want to consider modifying the credit to address some issues that might impact its effectiveness or consider alternative policy approaches to reduce the use of gas-powered lawn equipment, such as rebates or trade-in programs.
- The General Assembly may want to amend statute to ensure that the performance measure for the credit aligns with the available data.

Electric Lawn Equipment Credit

Background

The Electric Lawn Equipment Credit allows retailers to claim a 33 percent refundable income tax credit on eligible sales of new, electric-powered lawn equipment—including lawn mowers, leaf blowers, trimmers, and snowblowers—on which the retailer has chosen to give a 30 percent discount to consumers. The credit is calculated as 33 percent of the equipment’s price before the discount, and under statute, the 3 percent difference between the amount of the credit and the discount provided to consumers is an “administrative fee” that the retailer can retain. The credit is available for Tax Years 2024 through 2026. Exhibit 1 shows how the discount and administrative fee would be calculated on an electric lawn mower with an undiscounted price of \$500.

Exhibit 1
Example Calculation of Electric Lawn Equipment Credit



Source: Office of the State Auditor analysis of Section 39-22-550(3), C.R.S.

Eligible electric lawn equipment may be either corded or battery-powered, but some types of equipment, including chainsaws and snowplows, are not eligible for the credit. Additionally, the sale must occur during the retailer’s tax year, and neither wholesale sales nor online sales to out-of-state customers are eligible.

Statute requires retailers to meet all of the following requirements in order to qualify for the credit:

- Hold a sales tax license, have filed monthly sales tax returns on time and showing a tax liability for at least 12 months, and have paid monthly sales taxes due;
- Register for the credit with the Department of Revenue (Department), which has created an online registration and reporting system for this credit;
- Provide a 30 percent discount on eligible electric lawn equipment at the time it is sold and show the discount as a separate line on the customer's receipt or invoice; and
- Submit quarterly sales information on eligible sales to the Department.

Senate Bill 23-016 (“Concerning Measures to Promote Reductions in Greenhouse Gas Emissions in Colorado...”) created the **Electric Lawn Equipment Credit** as part of a broader legislative goal to address climate change, air pollution, and greenhouse gas emissions in Colorado. Colorado has a statutory goal to reduce greenhouse gas emissions by 100 percent (compared to 2005 levels) by 2050, with interim greenhouse gas reduction targets of 26 percent by 2025 and 50 percent by 2030. Although some data on lawn equipment emissions exists, we found that this data was not sufficient to quantify how much lawn equipment in Colorado contributes to greenhouse gas emissions. For example:

- Colorado's Air Pollution Control Division, housed within the Department of Public Health and Environment, collects emissions information from industries across Colorado, but lawn equipment is not subject to annual emissions reporting requirements.
- The U.S. Environmental Protection Agency's (EPA) Motor Vehicle Emissions Simulator (MOVES) provides non-road emissions estimates that include lawn equipment, but this model relies on data and algorithms from 1998 to generate its estimates and does not account for recent industry trends such as efficiency improvements in gas-powered engines and the increased adoption of electric-powered lawn equipment. MOVES also assumes that electric-powered lawn equipment does not produce any emissions, but the electricity used for electric-powered lawn equipment may have been generated using emissions-producing methods, and the disposal of batteries used in this equipment can also contribute to emissions.

According to statute, the purpose of the **Electric Lawn Equipment Credit** is to “incentivize the voluntary transition from gasoline-powered to electric-powered lawn equipment” and “induce certain designated behaviors by taxpayers, specifically the purchase of electric-powered lawn equipment” [Sections 39-22-550(1)(a)(III) and (b)(I), C.R.S.]. Although retailers that make eligible sales are the direct beneficiaries of this credit, most of the credit's monetary value is passed on to the purchasers of electric lawn equipment, so we considered the purchasers to be the credit's primary beneficiaries. Statute also prescribes a performance measure for this credit, stating that the credit “meets its purpose if sales of new, gasoline-powered lawn equipment are significantly reduced within five years after the tax credit becomes effective...” [Section 39-22-550(5), C.R.S.].

Due to statutory requirements on the timing of our tax expenditure evaluation reports, we have published this report before Department data on the credit is available. We will publish an addendum that summarizes the credit’s estimated use once the data is available.

Specifically, statute requires the Office of the State Auditor (OSA) to endeavor to issue an evaluation “so that the evaluation report...is available during the legislative session held in the calendar year before the tax expenditure is scheduled to repeal” [Section 39-21-305(1)(d)(I), C.R.S.]. Since this credit is scheduled to expire after Tax Year 2026, our office will publish this report in time for the 2026 Legislative Session. Additionally, although statute requires the Department to provide annual reports containing data on this credit to our office, Department staff reported that they will not be able to provide us with data before the statutory deadline of January 1, 2026, because they had not yet developed the report’s contents and did not anticipate having the resources to do so until the deadline. Finally, since the Department’s data is unlikely to allow us to come to a definitive conclusion on whether the credit is meeting its purpose (see “Evaluation Results,” below), we decided to publish this report without Department data so that legislators could access the report in advance of the 2026 Legislative Session.

Evaluation Results

We identified some issues with the Electric Lawn Equipment Credit’s operation that likely decrease its effectiveness. We spoke to a sample of 14 retailers that sell lawn equipment in Colorado in order to assess whether the credit appears to be impacting consumer purchasing decisions and to identify any potential issues with the credit, and we received responses from 4 large stores (representing 3 retailers operating nationwide) and 8 small retailers (operating exclusively in Colorado with less than 5 locations). Although we only spoke with a small sample of lawn equipment retailers in Colorado, multiple retailers identified each of the issues presented here, which suggests that some other retailers in the state may also be experiencing these issues.

- **First, the extended timing difference between the date when retailers provide the discount to the purchaser and the date when they receive the credit places a financial burden on retailers, which appears to reduce the impact of the credit. Some retailers reported that they cannot afford to, or do not wish to, provide the 30 percent discount on all qualifying electric lawn equipment, and at least one retailer opted not to offer the 30 percent discount or receive the credit due to this financial burden.** Overall, stakeholders indicated that it is costly to absorb the 30 percent point-of-sale discount for an entire year’s worth of qualifying sales until they can recoup the income lost due to the discounts by claiming the 33 percent credit on their income tax return. For example, S corporations filing on a calendar year basis that claim the credit in Tax Year 2024 will generally have to wait 3 to 10 months to claim the credit for sales made at the end of their income tax year and 14 to 21 months for sales made at the beginning of their income tax year. Exhibit 2 shows the shortest and longest amount of time an S corporation filing on a calendar year basis would need to wait to claim the credit for Tax Year 2024 depending on when the eligible sale occurred and when the retailer files their income tax return. The overall length of time any retailer will need to wait to claim the credit will

be similar to what is presented in Exhibit 2 but may vary by a couple of months depending on the taxpayer and the tax year.

Exhibit 2

Timeline to Claim the Credit for a Retailer Filing as an S Corporation on a Calendar Year Basis¹ Tax Year 2024



Source: Office of the State Auditor analysis of Department of Revenue income tax forms and other guidance documents.

¹The timeline shown here applies only to S corporations that are filing on a calendar year basis in Tax Year 2024.

A number of smaller retailers reported that the financial burden imposed by this timing difference has caused them to limit the discount's availability—generally, by offering the discount on only a portion of the electric lawn equipment that they sell, although retailers could also choose to offer the discount only during certain times of the year. One retailer reported that they are not offering the discount at all because they would not be able to sustain the financial burden while waiting to receive the credit.

We also found that this timing difference may be more burdensome for smaller retailers than larger retailers. Four smaller retailers expressed concern about the cash flow impact on their bottom line and liquidity, and it appears that this may limit retailers' interest in the credit to some extent. For example, one smaller retailer stated that their profit margin on electric lawn equipment is 20 percent, and absorbing the 30 percent discount may cause year-round negative cash flow. This retailer will receive a 3 percent benefit for administering the credit in exchange for absorbing a 10 percent loss for a considerable period of time—3 months, at a minimum, and well over a year if they offer the discount year-round.

Additionally, although the Department allows participating retailers to adjust their quarterly estimated state income tax payments to potentially mitigate the negative impact from the timing difference, some retailers may be less likely to benefit from relief in this form because they may not file quarterly estimated income taxes. C corporations with a net Colorado income tax liability

greater than \$5,000 must make quarterly estimated income tax payments to the Department, and the estimated income tax liabilities calculated on the quarterly payment forms allow taxpayers to account for income tax credits that they expect to receive. As a result, profitable retailers (i.e., those with a positive estimated income tax liability) can receive relief from the financial burden of providing the 30 percent discount in the form of adjustments to their quarterly estimated state income taxes, since the credit can reduce the amount of their estimated quarterly payments. In contrast, smaller retailers (which may not be required to make estimated quarterly payments, depending on their net income tax liability) or retailers that do not have a positive estimated quarterly income tax liability are not able to receive the same financial relief because they do not have any quarterly payments to make. Therefore, retailers that are larger and more profitable are likely to see financial relief from the credit much sooner than retailers that are smaller or not doing as well financially. Additionally, larger retailers may be less impacted by the timing difference overall because they likely have more capital on hand, and possibly more immediate cash flow available during the year, despite absorbing the 30 percent discount on electric lawn equipment. Bigger retailers typically have a wider product range, and thus, potential for more profitable income streams from other products. Larger retailers are also more likely to have stores outside of Colorado, and therefore, more likely to have customers outside of Colorado, which also helps offset the cash flow burden because the 30 percent discount is not available for sales outside of Colorado.

- Second, some retailers expressed confusion about whether the credit has to be applied to all eligible lawn equipment and whether they can choose which types of lawn equipment, makes, and models to apply it to.** Specifically, one retailer reported that they are unclear on whether they are required to provide the 30 percent discount on all qualifying lawn equipment or, alternatively, if they are allowed to choose just a portion of the qualifying equipment that they sell, such as only providing the discount on certain models or brands. Retailers we spoke with expressed concern that if they applied the discount incorrectly, this could potentially lead to issues claiming the credit later on, with no avenue to regain the income lost due to the 30 percent discount in the event that they are not able to claim the credit for those sales. Statute defines eligible electric lawn equipment as an electric “lawn mower, leaf blower, trimmer, or snowblower” but does not specify whether retailers must offer the discount on all eligible sales [Section 39-22-550(2)(a), C.R.S.]. We did identify several other retailers that appear to be applying the credit to some products, but not others. The Department provides some clarifying guidance in the form of taxpayer guidance documents and income tax return instructions, but these documents also do not specify the degree of flexibility that retailers are permitted to exercise in deciding which sales or eligible items should receive the discount.
- Third, smaller retailers generally reported that the credit imposes a significant administrative burden on their business, which may dissuade them from deciding to provide the discount and claim the credit.** For example, retailers using local point-of-sale systems must manually code each new qualifying electric lawn equipment item into their system in order to properly record sales for reporting purposes. Larger retailers have an advantage in using more automated sales systems with more resources to handle tagging new inventory properly.

- **Finally, the credit's effectiveness at incentivizing consumers to buy electric lawn equipment likely depends on the type of equipment and the needs of the purchaser.**

According to retailers who spoke with us about the credit, electric lawn equipment is best suited for residential purchasers maintaining a typical suburban or urban lot. In contrast, rural homeowners with larger lots and commercial landscapers are less likely to find electric lawn equipment that serves their needs because electric equipment is either corded, which limits the equipment's physical range based on the location of power outlets, or battery-operated, which limits the amount of time the equipment can be used before running out of power or needing to swap out the battery. Retailers explained that landscapers have concerns with the cost to build out proper charging infrastructures for their businesses if they were to switch to using electric lawn equipment instead of gas-powered lawn equipment. For example, landscapers would need additional batteries and chargers in order to ensure that their electric lawn equipment could operate for an entire workday without equipment downtime for charging. Since sales of batteries and chargers that are sold separately from lawn equipment are not eligible for the credit, landscapers seeking to switch from gas lawn equipment to electric lawn equipment must incur additional costs for these items—costs that will not be reduced by the credit's discount—in order to effectively make this transition.

Some retailers who spoke with us also specifically reported having trouble selling electric snowblowers. They generally attributed this to electric snowblowers not being efficient enough for consumers who want a battery that will last for their whole driveway, work quickly, and ultimately allow them to spend the least amount of time possible outside. Retailers reported that more brands and manufacturers are planning to offer electric snowblowers in the next year or two. However, in the meantime, it appears that the discount associated with the Electric Lawn Equipment Credit may not be sufficient incentive to overcome the drawbacks of current electric snowblowers for many consumers.

The Department does not collect data on gas-powered lawn equipment sales in Colorado, so the Department's data will not allow the OSA or the General Assembly to determine whether the Electric Lawn Equipment Credit has reduced the sale of gas-powered lawn equipment as directed by statute. As discussed, statute states that our office will determine whether the credit is meeting its purpose based on whether there is a significant reduction in sales of new gas-powered lawn equipment in Colorado. Although statute prescribes that the Department provide annual reports to our office to allow us to “measure the effectiveness of the tax credit”, these reports are only required to contain the sales of new, **electric**-powered lawn equipment, as reported by retailers that have registered for the credit [Section 39-22-550(5), C.R.S.]. Retailers are not required to and do not report information on sales of **gas**-powered lawn equipment to the Department. According to Department staff, “No information is available for gasoline-powered lawn equipment because it is not required to administer this tax credit.” Additionally, we have not identified any alternative sources of data on the sale of gas-powered lawn equipment in Colorado that could be used to assess the credit's effectiveness. In general, the data sources we found were either too broad (for example, containing regional data for multiple states) or too narrow (for example, containing data on just a small number of Colorado counties). We also identified a few companies that collect and sell market data on lawn equipment, but we were not able to determine whether this data would be sufficient

for purposes of assessing the credit's effectiveness, and obtaining this data might come with additional costs to the State.

When the Department provides our office with data on the use of the credit, we will add an addendum to this report; however, this data will not provide complete information on the use of the credit in Tax Year 2024 and will not be sufficient to determine the extent to which the credit is incentivizing the transition from gas-powered to electric-powered lawn equipment. Colorado income tax returns for C corporations are due on the 15th day of the fifth month after a corporation's income tax year ends, and the Department also grants corporate filers an automatic 6-month extension on the filing deadline, so some retailers may not file their income tax returns until 11 months after their income tax year ends. Therefore, fiscal year retailers may not claim Tax Year 2024 credits until after the Department's data will be provided to our office. For example, Home Depot's annual report to shareholders indicates that they are a fiscal year retailer with a 2024 income tax year starting on January 29, 2024 and ending on February 2, 2025. If Home Depot opts to utilize the extended deadline, their income tax return for Tax Year 2024 may not be filed until January 15, 2026.

Furthermore, the Department's data likely does not include all electric lawn equipment sales in Colorado. Retailers are not required to apply the credit to all electric lawn equipment that they sell, and the Department only requires sellers to report sales for which they are claiming the credit. Additionally, some retailers that sell electric lawn equipment may not claim the credit at all, either because they are not aware of the credit or because they have chosen not to offer a 30 percent discount in order to claim the credit. Lastly, since the Department will not have any data on sales of electric lawn equipment from the time period before the credit became available, we will not have a pre-credit base line that would allow us to determine how electric lawn equipment sales have changed since the credit was enacted. As a result of these factors, the Department's data on electric lawn equipment sales is a better indicator of the extent of retailers' uptake of the credit than the credit's effects on consumer purchasing decisions. Trends in consumer purchases of either gas- or electric-powered lawn equipment would only be identifiable with statewide data on all sales of such equipment.

We identified several other factors that likely impact sales of gas or electric lawn equipment that should be taken into consideration when reviewing future data on the use of the credit. Specifically:

- **Preexisting market trends indicate that consumer purchases of electric lawn equipment were already increasing before the credit became available.** Reports indicate that consumers increasingly favor electric lawn equipment in general, partially due to it being quieter and easier to maintain than gas-powered equipment. Additionally, some manufacturers are phasing out gas-powered equipment and offering more efficient electric models, possibly appealing to consumers with a wider array of equipment options tailored to various consumer needs, such as larger yard size, longer equipment run time, or overall ease of use.

- **Legal restrictions on the use of gas-powered lawn equipment in some areas of the state may cause some commercial landscapers to switch to electric lawn equipment.** Regulation 29, which was put in place by Colorado’s Air Quality Control Commission and went into effect in June 2025, prohibits the use of gas-powered push and hand-held lawn equipment by state government agencies and landscaping contractors that service state land during the months of June, July, and August of each year. The ban also applies to local and federal agencies operating in certain areas along the Front Range. Some lawn equipment retailers told us that this ban may be influencing commercial landscapers that contract with government agencies to purchase electric lawn equipment when they may have otherwise continued to use gas-powered equipment.
- **Other funding programs may be influencing some purchasers to buy and use electric lawn equipment.** We identified at least one local funding program that is intended to encourage Coloradans to switch from gas lawn equipment to electric lawn equipment—Mow Down Pollution. Mow Down Pollution, a trade-in voucher program, was launched by the Regional Air Quality Council (RAQC) in 2002 to reduce greenhouse gas emissions and ground-level ozone pollution in the Denver Metro and North Front Range area. Mow Down Pollution’s commercial program was previously scheduled to open back up in early 2026, but the RAQC’s budget plan, approved in December 2025, indicates that the program will not be offering any commercial grants in 2026 due to lack of funding. When the program was available in the past, small landscaping businesses that use outdoor power equipment in the Front Range could receive a matching grant of up to \$6,000 for battery-powered electric lawn equipment. Participating businesses were required to recycle their old gas-powered lawn equipment with the program and contribute a 50 percent match for the total purchase of new battery-powered electric equipment in order to receive the grant. Depending on the retailer, past grant recipients may also have qualified for the additional 30 percent discount associated with the Electric Lawn Equipment Credit. In the past, Mow Down Pollution also offered voucher incentives to public entities that recycled their gas-powered lawn equipment and replaced them with electric alternatives, but this program is also not currently available due to lack of funding. However, RAQC has allocated \$20,000 in 2026 “to match local government funding for several residential trade-in events” for electric lawn equipment.

Since we identified multiple factors that may be influencing consumer purchasing decisions with respect to lawn equipment, any trends in statewide sales of both gas- and electric-powered lawn equipment and the use of the credit could be the result of a combination of factors.

Policy Considerations

If the General Assembly extends the Electric Lawn Equipment Credit past January 1, 2027, legislators may want to consider making several changes to the credit. During the 2025 Legislative Session, legislators introduced Senate Bill 25-026 which, as introduced, would have extended the credit through Tax Year 2028. Although the bill passed and became law, the provision that would have extended the credit was removed from the bill before its final passage. If legislators

are interested in extending the credit during a future legislative session, they may want to consider making changes to the credit based on the issues we identified in this report.

First, the General Assembly might want to consider modifying the credit to address some issues that might impact its effectiveness or consider alternative policy approaches to reduce the use of gas-powered lawn equipment, such as rebates or trade-in programs. For example, legislators could amend statute to clarify whether retailers are required to offer the discount associated with the credit on all of the electric lawn equipment that they sell, or if they can choose which models and brands on which to offer the discount. As discussed above, some retailers expressed concerns about participating in the program due to a lack of clarity, and we also identified some retailers who reported offering the discount on some models that they sell, but not others.

Legislators could also consider allowing taxpayers to claim quarterly estimated refund payments for the credit in order to allow all retailers to receive the credit's benefits in a more timely manner. As discussed, smaller retailers and/or retailers that are not doing as well financially typically need to wait until they file their income tax returns to claim the credit—for some retailers, up to 21 months after they first start making sales that are eligible for the credit—which could be a significant financial burden when retailers are receiving 30 percent less income on electric lawn equipment sales. In contrast, larger retailers that are more profitable are likely to see financial relief from this income loss much earlier—no more than 4 months after the first eligible sale—via a reduction in their quarterly estimated income tax payments, which allows retailers to account for income tax credits when calculating the amount due. Colorado legislators have addressed this issue for some other income tax credits, such as the Electric Bicycle Credit, by allowing retailers to claim advanced payments of the credit on a quarterly basis via the Department's reporting system. Quarterly reports are already a statutory requirement for retailers to receive the Electric Lawn Equipment Credit.

If the General Assembly does not want to extend the credit and modify it to address the issues we identified, legislators could consider implementing approaches other than an income tax credit to incentivize the transition to electric lawn equipment. Several other states offer rebates to consumers that are capped based on the type of electric lawn equipment purchased and whether it is designed for commercial or residential use. For example, under Mass Save, which is a rebate program for battery-powered lawn equipment in Massachusetts, consumers purchasing commercial lawn equipment may be eligible for a \$3,500 rebate for a lawn mower and a \$100 rebate for each leaf blower, string trimmer, or chainsaw. Consumers purchasing residential lawn equipment may be eligible for a \$75 rebate for a lawn mower and a \$30 rebate for each leaf blower, string trimmer, or chainsaw.

Additionally, some states require eligible purchasers to recycle old gas-powered equipment in order to qualify for incentives or offer an increased incentive for consumers who opt to do so. For example, Utah's Charge Your Yard incentive program, which launched in 2023, offers landscaping businesses up to \$3,000 to exchange gas-powered handheld lawn equipment, such as trimmers, leaf blowers, and chainsaws, for electric versions. The program will also offer residents up to \$200 to exchange gas-powered handheld lawn equipment for electric equipment. Residents are not required

to recycle old gas-powered equipment; however, the incentive is limited to \$100 if not recycling equipment.

During the 2024 Legislative Session, Colorado legislators proposed Senate Bill 24-095, which would have repealed the Electric Lawn Equipment Credit and replaced it with a rebate program. As introduced, this bill would have allowed consumers a rebate up to \$150 for purchases of electric outdoor power equipment.

Second, the General Assembly might want to amend statute to ensure that the performance measure of the credit aligns with the available data. As discussed, statute directs the OSA and the General Assembly to measure the success of the credit based on whether there has been a significant decrease in sales of gas-powered lawn equipment sold within five years after the credit became available (i.e., by the beginning of Calendar Year 2029). However, the Department does not collect data on sales of gas-powered lawn equipment because this information is not required to administer the credit, and we were not able to identify any other data sources for this information that could be used to assess the credit's performance. If the General Assembly wants to continue to use sales of gas-powered lawn equipment to measure the effectiveness of the Electric Lawn Equipment Credit, it will need to direct the Department of Revenue or another state agency, such as the Department of Public Health and Environment, to collect this information from retailers. Legislators should give some consideration to the requirements of this data collection if they choose to pursue this route because the relative completeness of the data collected will have a significant impact on the data's usability for evaluation purposes. For example, if the only retailers required to report their sales of gas-powered lawn equipment are those that have claimed the credit, the data will not reflect statewide trends in gas lawn equipment purchases because some retailers that sell gas-powered lawn equipment may not be claiming the credit. Data that is incomplete in this way would not be an accurate indicator of Coloradans' purchasing decisions regarding gas lawn equipment. Additionally, any data collected as a result of changes to the performance measure would likely be provided to the General Assembly at least two years after the relevant sales occurred due to delays related to claiming and reporting on the use of the credit.

Alternatively, the General Assembly could modify the statutory performance measure to instruct our office to use sales of electric lawn equipment to measure the effectiveness of the Electric Lawn Equipment Credit. As discussed above, although the Department does collect data on some sales of electric-powered lawn equipment, which has not yet been released, this data is a better indicator of the extent of retailers' uptake of the credit than the credit's effects on consumer purchasing decisions (i.e., the extent to which the credit is meeting its purpose) because the data likely does not include all electric lawn equipment sales occurring in Colorado. Therefore, the General Assembly might want to consider directing the Department to require retailers who claim the credit to report on sales of all electric lawn equipment, not just the sales that they claim the credit for, in order to have more complete data on electric lawn equipment purchases.

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Office of the State Auditor

Kerri L. Hunter, CPA, CFE
State Auditor

Residential Energy Storage Systems Tax Expenditures Evaluation Update

In December 2025, our office released its evaluation of the Residential Energy Storage Income Tax Credit [Section 39-22-546, C.R.S.] and the Residential Energy Storage System Sales Tax Exemption [Section 39-26-733, C.R.S.]. At that time, the Department of Revenue (Department) was not able to provide data on the revenue impact to the State or the number of claims of either tax expenditure. In January 2026, the Department released Residential Energy Storage Credit individual and corporate claims data for Tax Year 2023, which was the first year this credit was available. The Department did not publish, nor does it plan to publish in the future, data on claims or the revenue impact of the Residential Energy Storage Exemption because the exemption is reported by sellers on the “other exempt sales” line of the sales tax return, which aggregates several sales tax exemptions. On page 14 of the report, we estimated the revenue impact of the sales tax exemption to be about \$690,000 in Tax Year 2023 and about \$750,000 in Tax Year 2024. The purpose of this memo is to provide updated information on the revenue impact and claims of the Residential Energy Storage Credit that was published by the Department after the release of our report.

According to Department data, in Tax Year 2023, the Residential Energy Storage Credit was claimed on 396 individual income tax returns for a total revenue impact to the State of \$832,400. The credit was not claimed by any corporations in Tax Year 2023. However, it is possible that the Department data does not capture the entire revenue impact of the credit. The Department data released in January 2026 only include credits claimed by individuals and C corporations. To the extent that the credit was claimed on an estate, trust, or composite nonresident partnership or S corporation return, those credits would not be captured in the Department’s data but would still have a revenue impact to the State in Tax Year 2023.

The credit’s total revenue impact to the State as reported in the Department data is less than the potential revenue impact we estimated in our report. A comparison of the data we used to generate our estimate to Department data on the number of claims made by taxpayers suggests that this credit may be underutilized. In Exhibit 2 on page 14 of our report, we estimated that the number of systems eligible for the credit in Tax Year 2023 was about 1,550 with a potential revenue impact to the State for Tax Year 2023 of about \$2,393,000 based on information we received from utilities operating in Colorado and U.S. Energy Information Administration data on the number of residential energy storage systems installed in Colorado. If we assume that each claim reported in the Department’s data represents one system installed, only about 26 percent of the potentially eligible systems installed in Tax Year 2023 had a credit claimed for their installation. It is unclear why

credit utilization may be low, but it is possible that some taxpayers are not aware of it or do not think they are eligible to claim it. It is also possible that some of the systems reported as being installed to the U.S. Energy Administration or to us by utilities were not eligible for the credit.

As discussed on pages 4 and 5 of our report, the credit can be claimed in two ways: (1) by the purchaser who had the system installed in a residential dwelling, in which case the credit is not refundable and cannot be carried forward to future years if the credit amount exceeds the taxpayer's tax liability, or (2) by the purchaser assigning the credit to the system seller (with the seller's permission), in which case the entire credit is refundable to the seller since the seller is required to compensate the purchaser for the full nominal value of the tax credit at the time of purchase through a discount on the purchase price of the system. The Department breaks down the individual credit claims of the Residential Energy Storage Credit by nonrefundable and refundable credits, which we present in Exhibit 1.

Exhibit 1

Number of Claims, Revenue Impact, and Average Credit for Individual Taxpayers Who Claimed the Residential Energy Storage Credit in Tax Year 2023, Broken Down by Nonrefundable and Refundable Credits

Credit	Claims	Revenue Impact	Average Credit
Residential Energy Storage Credit - Nonrefundable	365	\$738,475	\$2,023
Residential Energy Storage Credit - Refundable	31	\$93,925	\$3,030
Total Credits	396	\$832,400	\$2,102

Source: Office of the State Auditor analysis of Department of Revenue individual credit data for the Residential Energy Storage Credit.

The refundable credits represent credits that were assigned by the purchaser to the seller. On pages 9 and 10 of our report, we discussed that during our evaluation, we spoke with four energy storage system installers in Colorado and none of them accept assignments of the credit, and therefore, we thought it was not common for these credits to be assigned. On page 10 of our report, we also discussed that sellers do not have a financial incentive to accept assignment of the credit. Despite this, as shown in the Department data, some sellers have accepted assignments of the credit. However, as we expected, it is much more common for purchasers to claim the (nonrefundable) credit themselves rather than the seller taking assignment of the credit. Additionally, it is important to note that although the refundable/assigned credit was claimed on 31 income tax returns in Tax Year 2023, it is possible that this figure represents fewer than 31 businesses that sell and install residential energy storage systems. This is because the credits were claimed on individual returns that could represent several individuals that operate the same business (e.g., a partnership or S corporation that passed through credits to their owners to be claimed on the owners' individual tax returns).

On page 10 of our report, we discussed that some homeowners/purchasers, in particular those with lower incomes, may not have sufficient tax liability to be able to receive the full benefit of the credit,

which would reduce its effectiveness when the credit is not assigned. In January 2026, the Department also released data on the claims of the nonrefundable Residential Energy Storage Credit by individuals by the size of their federal adjusted gross income (AGI), which we present below in Exhibit 2.

Exhibit 2

Number of Claims, Revenue Impact, and Average Credit for Individuals Who Claimed the Nonrefundable Residential Energy Storage Credit in Tax Year 2023 by Size of Federal Adjusted Gross Income

Size of Federal Adjusted Gross Income	Claims	Revenue Impact	Average Credit
Negative Income	0	\$0	\$0
\$0 to Under \$10,000	0	\$0	\$0
\$10,000 to Under \$30,000 ¹	3	\$543	\$181
\$30,000 to Under \$40,000	8	\$4,385	\$548
\$40,000 to Under \$50,000	10	\$6,085	\$609
\$50,000 to Under \$60,000	9	\$4,791	\$532
\$60,000 to Under \$75,000	18	\$20,039	\$1,113
\$75,000 to Under \$100,000	32	\$47,512	\$1,485
\$100,000 to Under \$200,000	128	\$251,519	\$1,965
\$200,000 to Under \$500,000	115	\$282,276	\$2,455
\$500,000 to Under \$1,000,000	31	\$87,105	\$2,810
\$1,000,000 or More	11	\$34,220	\$3,111
Total	365	\$738,475	\$2,023

Source: Office of the State Auditor analysis of Department of Revenue individual credit data for the Residential Energy Storage Credit.

¹ In its data, the Department of Revenue has separate categories for \$10,000 to under \$20,000 and \$20,000 to under \$30,000. For the nonrefundable Residential Energy Storage Credit, these categories, separately, are not releasable in order to preserve taxpayer confidentiality. The Department of Revenue will generally not release aggregated taxpayer data when there are fewer than three taxpayers or one taxpayer claimed 80 percent or more of the total amount. Since these were the only two nonreleasable categories in the data, we combined them into one group (\$10,000 to under \$30,000) in order to present a total for this combined AGI group.

As shown in Exhibit 2, taxpayers with less than \$60,000 of AGI had average credits of less than \$700. Although it is possible that some of these taxpayers installed smaller and less expensive residential energy storage systems (which would generate smaller credits), if they installed a more common system with one battery costing about \$11,000, this data indicates that they might have lacked the tax liability to claim the full \$1,100 credit (calculated as 10 percent of the \$11,000 of eligible property) that they might have otherwise been able to claim. Therefore, because it appears that many sellers are not accepting assignments of credits, it is likely that many taxpayers with lower incomes are not able to fully utilize their credits since the nonrefundable credit claimed by purchasers cannot be carried forward to future tax years. This may also decrease the incentives for taxpayers with lower incomes to purchasing these systems since they will not get a significant amount back from the tax credit. In Tax Year 2023, most of the nonrefundable credits were claimed by taxpayers with at least \$100,000 in AGI; these taxpayers claimed 78 percent of the total nonrefundable credits and accounted for 89 percent of the total revenue impact to the State.



Residential Energy Storage System Tax Expenditures



OFFICE OF THE STATE AUDITOR

C O L O R A D O

Tax Expenditure Evaluation • December 2025 • 2025-TE15

Category	Residential Energy Storage Credit	Residential Energy Storage Exemption
Tax Type:	Income	Sales and use
Expenditure Type:	Credit	Exemption
Statutory Citation:	Section 39-22-546, C.R.S.	Section 39-26-733, C.R.S.
Year Enacted:	2022	2022
Repeal/Expiration Date:	January 1, 2027	January 1, 2033
Revenue Impact:	Could not determine	Could not determine
Purpose given in statute or enacting legislation? Yes		

This report covers our evaluation of two tax expenditures that are available for the purchase of residential energy storage systems—the Residential Energy Storage System Income Tax Credit and the Residential Energy Storage System Sales Tax Exemption.

The Residential Energy Storage Credit allows an energy storage system (ESS) purchaser to claim an income tax credit in an amount equal to 10 percent of the system’s purchase price as long as it is installed in a residential dwelling. The purchase price of the system includes the tangible personal property installed, any sales taxes charged, and freight, but does not include any charges for assembly, installation, other construction services, or permit fees. The credit may either be claimed by the taxpayer or assigned to the seller of the energy storage system. If it is claimed by the taxpayer, it is not refundable; if it is assigned to the seller, it is refundable.

The Residential Energy Storage Exemption exempts the purchase of ESSs that are used in residential dwellings from the state’s 2.9 percent sales and use tax.

According to statute, the purposes of the credit and exemption are to “[i]nduce certain designated behavior by taxpayers, specifically the purchase and installation of residential energy systems...” and “[c]ontribute to the state’s efforts to achieve its climate goals” [Sections 39-22-546(1)(a)(I) and (II) and 39-26-733(1)(a)(I) and (II), C.R.S.].

We found:

- It appears that residential ESS installations in Colorado have been increasing since 2019, including after the credit and exemption became available in 2023. However, it is likely that the increase is mostly attributable to other factors besides the credit and exemption.
- Department of Revenue data on the claims and revenue impact of the credit and exemption are not available, but the revenue impact could be more substantial than was anticipated when the credit and

exemption were created in 2022. The Department anticipates publishing Tax Year 2023 claims of the credit in early 2026, after the publication of this report. We plan to add an addendum to our report with the revenue impact as reported by the Department when it releases that data in early 2026.

- Installation of residential energy storage systems could play an important role in achieving the State's climate goals if they are more widely adopted. However, the credit and exemption on their own are likely not the primary factors that incentivize the purchase and installation of these systems, and therefore, their impact on achieving the State's climate goals is likely small unless paired with other, larger tax incentives and rebates.

Policy Considerations

We did not identify any policy considerations for the Residential Energy Storage Credit or Residential Energy Storage Exemption.

Residential Energy Storage System Tax Expenditures

Background

This report covers our evaluation of two tax expenditures that are available for the purchase of residential energy storage systems: the Residential Energy Storage System Income Tax Credit (Residential Energy Storage Credit) [Section 39-22-546, C.R.S.] and the Residential Energy Storage System Sales Tax Exemption (Residential Energy Storage Exemption) [Section 39-26-733, C.R.S.].

For purposes of these tax expenditures, an energy storage system—referred to as “ESS” or “system” throughout this report—is a commercially available battery system that is capable of storing and delivering energy that is installed in a residential building. The primary component of an ESS is a battery, but an ESS can be comprised of other components such as a protective enclosure, wiring, and an inverter. The size of a battery system is reported in two different ways. The most common is the energy capacity, which is measured in kilowatt-hours (kWh). Energy capacity denotes how much energy an ESS can store; the typical energy capacity of a single battery used in an ESS is 13.5 kWh, though the ESS can include multiple batteries to increase its capacity. The other way that the size of a battery system is reported is the continuous output or power capacity of the battery, which is measured in kilowatts (kW). The continuous output of an ESS was typically around 5 kW until early 2024. The introduction of the Tesla Powerwall 3 boosted continuous power supply by 130 percent from 5kW to 11.5 kW. Higher continuous power enables an ESS to run high electricity need appliances like air-conditioners and heat pumps without exceeding the system’s power limit.

Installing an ESS is a major home improvement project that takes months to bid, permit, and install. According to U.S. Energy Information Administration (EIA) data, 98.5 percent of ESSs installed in Colorado were paired with rooftop solar systems in 2024, although solar energy systems are not required in order to install an ESS. Similar to installing a solar panel system, ESS projects are done by certified installers who customize the bid based on the energy needs of the household. The amount of electricity usage the household desires to offset will determine the size and number of batteries needed, but the brand of battery, electrical updates needed, placement of the battery, and whether it is added in conjunction with solar can lead to large disparities in costs among households. ESS batteries typically last 10 to 15 years before they need to be replaced, though this can vary based on the type of battery, environmental conditions, and usage volume.

An ESS can reduce household energy costs and greenhouse gas emissions by maximizing the use of clean energy through storing excess residential-produced solar electricity and charging from the grid at times when the grid is producing excess renewables. As noted, residential ESSs are almost always paired with a rooftop solar panel system and EIA data from 2023 shows that there were 160,694

residences in Colorado with rooftop solar installed and the number rose to 179,751 in 2024. Installing an ESS allows a home with solar panels on its roof to capture excess electricity and store it for use at a later point in time, typically later in the day when electricity usage and prices increase (e.g., under utilities' Time of Use rate structures, or TOU for short) or once the sun goes down. In addition to providing cost savings on electricity bills, an ESS also provides energy security by providing backup power to a residence during a power outage.

Using stored energy during high load times contributes to a more sustainable and efficient grid and could help reduce the need for utilities to build out more costly electricity generating plants and transmission infrastructure, which reduces greenhouse gas emissions and saves money for all electric customers. Utilities also benefit when residents install an ESS because they can power homes during times of peak demand, thereby reducing the need for the utility to produce or purchase additional energy. Additionally, some systems can provide additional grid support, allowing utilities to pull electricity stored in the battery during times of peak electricity demand. ESS owners can enter into an agreement with their utility to allow the utility to have control over their storage system for a set amount of times per year. In exchange, system owners are typically provided with rebates on the purchase of the system and/or periodic payments from the utility (these rebate and payments are discussed in further detail in the evaluation results section of this report). In some cases, the utility will purchase the ESS and lease it back to the consumer for a set period of time (usually 10 years) before turning ownership of the ESS over to the homeowner.

The Residential Energy Storage Credit allows an energy storage system purchaser to claim an income tax credit in an amount equal to 10 percent of the system's purchase price as long as it is installed in a residential dwelling. The credit is available for Tax Years 2023 through 2026. For the purposes of determining the credit amount, the purchase price of the system includes the tangible personal property installed, any sales taxes charged, and freight, but does not include any charges for assembly, installation, other construction services, or permit fees. Renters who install systems are eligible for the credit as long as they have the owner's approval to install the system and the building is residential.

There are two ways that this credit may be claimed:

1. The purchaser of the system may claim the credit. If the purchaser claims the credit, they may only apply it to the tax year during which the purchase was made and, if the credit exceeds their tax liability for the year, they cannot receive a refund or carry forward the unused amount to any future years; or
2. The purchaser may assign the credit to the seller of the energy storage system. If the credit is assigned, it must be assigned at the time of purchase, the purchaser forfeits the right to claim the credit on their own tax return, and the seller must compensate the purchaser for the full nominal value of the tax credit at the time of purchase through a discount on the purchase price of the system. If the credit is assigned to the seller and exceeds the seller's tax liability for the tax year in which the sale occurred, the seller can receive a refund for the excess amount. The assignability of the credit to the seller was intended to help taxpayers with lower incomes in two ways. First,

assigning the credit to the seller reduces the initial cost of the battery, allowing the purchaser to pay less in upfront costs. Second, it allows taxpayers with a tax liability that is less than the credit amount to realize the full value of the credit.

Technical Note: To claim the credit, taxpayers must complete and file the DR 1307 form (Residential Energy Storage System Credit Eligibility Certification and Assignment Election) with the Department of Revenue. If the purchaser is claiming the credit themselves, they complete Part 1 of the DR 1307 form and attach it to their income tax return when they file their taxes. Part 1 requires that the taxpayer include information about the location where the system was installed, provide information about the system (i.e., purchase price, date of purchase, serial number, and system make and model), and certify that the system meets the requirements to qualify for the credit. If the purchaser instead assigns the credit to the seller, the purchaser completes Part 1 of the DR 1307 form, and the purchaser and seller must also complete Part 2, which is the election statement for assignment of the income tax credit. Part 2 includes information about the seller (i.e., name/business name, SSN/FEIN, address), date of assignment, and credit amount. The purchaser and seller both must sign the form indicating that the credit has been assigned to the seller by the purchaser. After the form has been completed, the seller must file the form electronically with the Department of Revenue within 30 days of the date of the purchase. The seller must also attach the form to their income tax return.

A few other states offered a credit similar to Colorado to help reduce the purchase price of an ESS. Oregon offered residents a \$300/kWh credit, up to 40 percent of the total cost or \$2,500, with larger credits available to residents with low and moderate incomes. Maryland had a residential energy storage credit from 2022 through 2024 and offered up to \$5,000. Many other states have programs administered through their Public Utilities Commission (PUC) or large Investor Owned Utilities (IOU). For example, California's PUC administers rebates through utilities of \$150/kWh for smaller systems and \$1,000/kWh for larger systems, and Hawaii Electric has offered rebates for many years and offers customers who own and enroll an ESS a one-time cash incentive and a monthly credit.

The Residential Energy Storage Exemption exempts the purchase of energy storage systems that are used in residential dwellings from the State's 2.9 percent sales and use tax.

The exemption is available for Calendar Years 2023 through 2032. Sellers apply the exemption at the time of the purchase, and report the exempt sales on their sales tax return. In general, statute [Section 29-2-105(1)(d)(I), C.R.S.] requires counties and municipalities with sales taxes that are collected by the State to adopt the same exemptions that apply to the state sales tax. However, the Residential Energy Storage Exemption is one of several exceptions to this rule; the exemption does not apply to state-collected local sales taxes unless the local jurisdiction expressly adopts the exemption via local ordinance. As of July 1, 2025, only three counties (Adams, Arapahoe, and Douglas) with state-collected sales taxes have followed the state exemption and created an exemption for residential energy storage and none of the 166 municipalities with state-collected city sales tax have adopted the exemption. Colorado's home rule jurisdictions can set their own sales tax policies if they collect their own sales taxes, so these jurisdictions can also choose whether to adopt an exemption for residential energy storage systems.

Of the 45 states that have a sales tax, at least 25 offer a sales tax exemption for solar energy systems, but fewer offer a sales tax exemption for storage. Florida exempts solar energy systems and ESSs from state sales taxes and Maine offered a refund of the sales and use tax paid on purchases of ESSs with a capacity of 50 megawatts (MW) or greater from January 1, 2023 to December 31, 2025. Another 36 states provide a property tax exemption for solar energy property.

The Residential Energy Storage Credit and Residential Energy Storage Exemption were created in 2022 by Senate Bill 22-051. The credit was originally available for Tax Years 2023 and 2024. In 2025, Senate Bill 25-026 extended the credit so it is also available for Tax Years 2025 and 2026. The exemption has not been changed since it was enacted.

According to statute, the purposes of the credit and exemption are to “... [i]nduce certain designated behavior by taxpayers, specifically the purchase and installation of residential energy systems...” and “[c]ontribute to the state’s efforts to achieve its climate goals” [Sections 39-22-546(1)(a)(I) and (II) and 39-26-733(1)(a)(I) and (II), C.R.S.]. Colorado’s climate goals seek to reduce the state’s greenhouse gas emissions by 26 percent (from 2005 levels) by 2025, by 50 percent by 2030, and by 100 percent by 2050. One way in which it plans to reach this is through its clean energy goal, which aims to achieve 100 percent clean energy in the state by 2040.

Statute provides one performance measure for the Residential Energy Storage Credit and Residential Energy Storage Exemption. Specifically, regarding the credit, statute [Section 39-22-546(1)(b), C.R.S.] says, “...the state auditor shall measure the effectiveness of the [Residential Energy Storage Credit]...based on the number of residential energy storage systems purchased and installed in the state. The Colorado energy office shall provide the state auditor with any available information that would assist the state auditor’s measurement.” Similarly, regarding the exemption, statute [Section 39-26-733(1)(b), C.R.S.] provides that “...the state auditor shall measure the effectiveness of the [Residential Energy Storage Exemption]... based on the number of residential energy storage systems sold and used in the state. The Colorado energy office shall provide the state auditor with any available information that would assist the state auditor’s measurement.”

We created two additional performance measures to determine whether the Residential Energy Storage Credit and Residential Energy Storage Exemption are meeting their purposes:

1. To what extent do the Residential Energy Storage Credit and Residential Energy Storage Exemption induce the purchase and installation of residential energy storage systems in the state?
2. To what extent do the Residential Energy Storage Credit and Residential Energy Storage Exemption contribute to the State’s efforts to achieve its climate goals?

Evaluation Results

Based on our review of available data, it appears that installations of residential ESSs in Colorado have been increasing since 2019, including after the credit and exemption became

available in 2023. However, it is likely the increase in residential ESSs installed in Colorado is mostly attributable to factors other than the credit and exemption. As discussed below, we could not identify a source for complete information on the number of ESSs installed in Colorado. However, as shown in Exhibit 1, our review of information provided to us by utilities and/or reported by the U.S. Energy Information Administration (EIA) indicates that the cumulative number of residential ESSs in the state as well as the annual number installed have increased each year since 2019. Additionally, since the credit and exemption have been available (starting in 2023), the number of residential ESSs has increased by over 1,600 per year. Although most of these systems were likely eligible for the credit, some of these systems were installed by nonprofit electric cooperatives that are not eligible.

Exhibit 1
Cumulative number of residential energy storage systems and number of systems installed each year 2019 through 2024, as identified by Colorado utilities providers and reported to the EIA and/or the OSA

Category	2019	2020	2021	2022	2023	2024
Cumulative Residential Energy Storage Systems Installed in Colorado	705	1,145	2,079	3,525	5,158	6,907
Residential Energy Storage Systems Installed Per Year in Colorado	309	440	934	1,446	1,633	1,749
Annual Growth in Residential Energy Storage Systems in Colorado	78%	62%	82%	70%	46%	34%

Source: Office of the State Auditor analysis of data provided by Colorado utilities to the Office of the State Auditor and U.S. Energy Information Administration EIA 861 M reports, Monthly Electric Power Industry Report, 2019-2024 filed by utilities serving customers in Colorado.

It is important to note that the Exhibit 1 data is incomplete and likely undercounts the number of ESSs installed in Colorado. The Colorado Energy Office (CEO) reported that it does not track the number of residential ESSs installed in the state and we could not identify a complete source for the information. Although we identified one publicly-available report on residential ESSs installed in Colorado from the EIA, it only includes data from eight utilities, serving about 20 percent of residential utility customers in Colorado. To provide a more comprehensive review, we contacted all 52 of the electric utilities CEO reported as operating in the state and asked them to provide us with the number of residential ESSs installed in their service territory. We received usable data from 17 utilities, some of which overlapped with data reported to the EIA. Between EIA data and utility responses, we compiled storage data (in Exhibit 1) from 19 utilities that provide service to more than 2.25 million customers—or 88 percent of the approximately 2.56 million residential energy customers in the state in 2024. However, it is likely that there have been ESSs installed in the areas served by the utilities that did not provide us with information and that are not counted in our analysis. Additionally, many of the utilities that reported to us cautioned that the data on residential ESSs they provided are unofficial numbers and only represent the systems of which they are aware. Also, it is likely that there are residential ESSs that are not connected to any utility’s grid

infrastructure (i.e., ESS installations that allow the residence to operate off-grid) and, therefore, are not known by any utilities and not captured in the data we used.

To assess the potential impact of the Residential Energy Storage Credit and Exemption on homeowners' decisions to install an ESS, we reviewed the factors that homeowners would likely consider, including the benefits of the system, costs, and available incentives, including the credit and exemption, that can reduce the overall cost. Overall, we found that the credit and exemption are likely too small on their own to incentivize most homeowners to install an ESS. However, ESSs have a high up front cost and collectively, incentives, such as those offered by federal, state and local governments and public utilities providers, are likely important for encouraging their adoption. Therefore, the credit and exemption combined with other incentives offered have likely been a significant factor behind the growth in ESSs.

According to several utilities, solar installers, and nonprofit organizations, there are several reasons why a homeowner would choose to install an ESS:

1. **Energy Security**—Similar to a generator, an ESS provides backup power to a house during a power outage. Many customers cite energy security as the most important reason for purchasing a system. Generally, Colorado has relatively fewer power outages than other states, with Colorado consumers experiencing an average of 99 minutes of total outage time in 2023. However, this can vary significantly based on the location of a home. Residents in areas of the state more prone to outages due to wildfires, high winds, blizzards, and floods likely find ESSs more valuable. A few stakeholders we spoke with mentioned a significant uptick in interest for an ESS after the September 2013 floods and the December 2021 Marshall fire. Additionally, Boulder County and parts of the Denver Metro area experienced the first “Public Safety Power Shut-off” on April 6, 2024. Due to high winds (over 25 MPH), low relative humidity (below 20 percent), and a high fire index risk, Xcel cut power to over 50,000 customers for several hours. Homeowners impacted by these outages may also consider an ESS more valuable.
2. **Cost Savings and Partial Energy Independence**—Electricity consumers that are subject to TOU rates, under which utilities charge higher rates during peak times, can reduce their bills by charging their ESS battery during low-cost periods and then discharging the ESS in the early evening when electricity prices are the highest. In particular, rooftop solar owners can minimize their reliance on utility-provided electricity and increase energy independence by storing excess solar production. An ESS allows homeowners to store their excess solar power during the day in order to use it during the evening hours, making them less reliant on utility provided electricity and increasing the value of their rooftop solar system.
3. **Interest in Reducing Environmental Impact**—As discussed, by using an ESS to store excess renewable electricity and discharging this electricity during high-demand periods, homeowners can help make the grid more stable and efficient and maximize the use of energy produced by clean sources, such as wind and solar. Therefore, some homeowners may choose to install ESSs as a way to reduce the environmental impact of their energy consumption.

4. **Off-Grid Housing and Local Requirements**—For residents living in remote areas or in off-grid communities, an ESS might be the most economical way or the only way permitted in the community covenants to provide reliable electricity for their houses. Additionally, communities and builders striving for net-zero ready homes (homes that are energy efficient and can run only from renewable energy produced onsite) may require batteries. For example, in April 2025, Pitkin County adopted a new building code that provides, “All Photovoltaic systems installed shall include an energy storage system with a minimum rated energy capacity of 5 kWh OR 25% of the PV system's daily output.” In Pitkin County and other local governments that might adopt similar building codes requiring storage systems, the credit and exemption will see more usage and would provide discounts to residents who are required to install these systems. However, these consumers will have purchased the system because of the requirement, not because of the credit or exemption.

Although ESSs may offer benefits that homeowners would find valuable, they currently have a high upfront cost that is difficult for most homeowners to recover in Colorado due to relatively low electricity costs. For example, an average 13.5 kWh residential energy storage system with one battery in Denver in 2025 could cost around \$18,000, including assembly, permitting, and installation costs. In comparison, the average consumer in the state paid about \$1,200 per year for electricity in 2024. As mentioned earlier, most ESSs installed in residences in Colorado are paired with rooftop solar systems, so the cost of an ESS is in addition to the cost of the solar system, which can also cost tens of thousands of dollars. While some homeowners may find that the benefits of an ESS outweigh the costs, many would need additional incentives that lower the cost to make installing an ESS an attractive option. Further, the installers who sell and install batteries that we contacted said that incentives, such as the State’s credit and exemption, are valuable marketing tools they can use to incentivize people to install batteries and show that the State values their investment in this technology.

Incentives have likely been an important factor driving the adoption of ESSs in Colorado, but the Residential Energy Storage Credit and Exemption are likely too small on their own to drive most homeowners’ decisions to install an ESS. Using the example above, for a typical ESS system costing about \$18,000, only \$12,000 of this cost is for tangible personal property (e.g., the battery, wiring, and inverter) that is eligible for the Residential Energy Storage Credit and Exemption. Therefore, the credit—equivalent to 10 percent of the qualifying cost—would offset \$1,200 of the total cost and the exemption from the State’s 2.9 percent sales tax would reduce the cost by another \$348 for a total benefit of \$1,548, or about 8.6 percent of the total cost of purchasing and installing the system. Although this difference could be enough to tip the decisions of a few homeowners, for most, it would be unlikely to make a significant enough impact to change their decision since the cost of an ESS would still be very high relative to their energy costs.

Additionally, although the credit is assignable to the seller, in which case the purchaser would get an upfront discount on the purchase price, not all ESS installers accept assignment of the credit. We did not have Department of Revenue (Department) data showing how many credits have been assigned, but we talked to four energy storage system installers in Colorado, and none of them accept assignments of the credit. Unlike other credits in Colorado for electric vehicles (EVs), electric

bikes, and electric lawn equipment that are assigned or assignable at the time of purchase and reduce the purchase price, the Residential Energy Storage Credit is not designed in a way to provide a financial incentive for installers to accept assignment of the credit in order to reduce the upfront cost to the consumer. For example, for the Innovative Motor Vehicle Credit [Section 39-22-516.7, C.R.S.] and the Electric Bicycle Tax Credit [Section 39-22-555, C.R.S.], retailers may elect to get an advance payment of the assigned credits quarterly. Retailers claiming those credits as well as the Electric Lawn Equipment Credit [Section 39-22-550, C.R.S.] may retain an administrative fee for taking assignment of the credit; for the Innovative Motor Vehicle Credit, the administrative fee is up to \$250, for the Electric Bicycle Credit, the administrative fee is \$50 (going down to \$25 in 2026), and for the Electric Lawn Equipment Credit, the fee is up to 3 percent of the purchase price of new electric lawn equipment sold. Additionally, if the Residential Energy Storage Credit is not assigned, it is not refundable and cannot be carried forward to future years. Therefore, homeowners without sufficient tax liability may not be able to receive the full benefit of the credit, which would reduce its effectiveness.

Despite having a limited impact when it is the only incentive available to homeowners, when paired with other incentives, the Residential Energy Storage Credit and Exemption may be more effective. Several other incentives are available that could induce a homeowner in Colorado to install an energy storage system, many of which provide a larger benefit than the credit and exemption. For some homeowners, being able to claim the state credit and exemption in addition to other incentives likely helps reduce the overall cost enough to incentivize them to purchase an ESS. However, the extent to which the credit and exemption can act in conjunction with other incentives depends on the individual taxpayer's financial situation; the availability of federal credits, which are set to expire after 2025; and whether the system is installed in a location where the utility company and/or local government offer incentives, such as rebates. We identified the following additional incentives that seek to induce a taxpayer to install an energy storage system in their residence and that appear to be helping to drive increased demand for ESSs in Colorado:

- **The Federal Residential Clean Energy Credit [26 USC 25D]** allows taxpayers who install an ESS to claim a credit for a percentage of the total price of the system. This credit is only available to homeowners and second homeowners who do not rent out their house and is not available to landlords. The Inflation Reduction Act of 2022 increased the amount that can be claimed from 26 percent in Tax Years 2020 and 2021 to 30 percent in Tax Years 2022 to 2032, and created a provision to allow stand-alone batteries that are not connected to a renewable energy source to qualify. This larger, expanded credit likely raised the interest of numerous taxpayers who were considering purchasing an ESS and helped drive the increase in ESS adoption in the state. However, the One Big Beautiful Bill Act in 2025 accelerated the expiration of this credit to the end of 2025, so it will no longer be available for residential ESSs purchased and installed after 2025. Until the end of 2025, this credit can be combined with the state credit, and the federal credit does not need to be reduced by the state credit amount. Based on the total installation cost of an energy storage system in 2025 (\$18,000), this credit would provide a benefit of about \$5,400. However, the credit is calculated based on the purchase price, less any rebates that the taxpayer receives from utilities.

- **Xcel Energy’s Renewable Battery Connect (RBC) Program** allows residential and small business customers with rooftop solar in Xcel’s service area—which covers 1.37 million of the 2.56 million (53 percent) residential electric customers in Colorado—to install an ESS and receive a rebate. When the program began in June 2023, customers installing an ESS could receive a rebate of \$500 for every kW of installed maximum continuous output capacity. An ESS with an 11.5 kW output capacity could get a \$5,750 rebate check within 60 days of installation and permission from Xcel to operate the system. In late 2024, Xcel reduced the rebate to \$350 per kW and capped the rebate at \$5,000. In return, for 5 years, customers must agree to allow Xcel to tap into their ESS up to 60 times per year and drain it to 40 percent of its capacity when it does so; customers discontinuing participation in the program early will owe the company a prorated portion of their rebate amount. Additionally, Xcel’s rebate amount is higher for customers who install an ESS and either have a qualifying low income or are located in a disproportionately impacted community; the rebate for these customers is \$800 per kW of continuous output capacity, up to 75 percent of the equipment cost. For example, in 2025, if a Denver homeowner that qualifies as having a low income (based on Area Median Income) or lives in census tract designated as a disproportionately impacted community installed a battery with 11.5 kW of continuous output, they could receive a rebate of up to \$9,200—or 75 percent of the total cost of the battery, whichever is less. As noted earlier, Xcel’s rebate must be subtracted from the total system cost before applying the 30 percent Federal Residential Clean Energy Credit, lowering its value, but it has no impact on the state credit.

From the program’s inception in June 2023 through October 2024, Xcel processed 1,462 rebates at a cost of about \$6.8 million and added 22.3 MW of capacity. Additionally, Xcel submitted a budget proposal to the PUC in November 2024, anticipating a total budget through 2025 of about \$12.9 million, projecting it would approve 2,820 batteries with a total capacity added of 45.7 MW through 2025. Xcel’s filings with the PUC indicate the company has spent about \$4,550 per customer that claimed a rebate through its RBC Program. Although we do not know the average amount claimed for the Residential Energy Storage Credit in 2023, it is likely the Xcel incentive was several times larger than the State’s credit and, therefore, may have been a more important factor driving the growth of ESS installations in recent years.

- **Black Hills Electric offers a battery rebate up to \$1,000.** The rebate provides \$100 per kWh of energy storage capacity installed, when paired with solar.
- **La Plata Electric Association offers a battery rebate up to \$3,000.** This program began in January 2025 and is available when purchasing one of seven different ESS brands. For an ESS with a storage capacity of between 10 and 19.9 kWh, the rebate is \$1,000, with customers living in designated areas eligible for a \$500 bonus. An ESS with at least 20 kWh in storage capacity gets double the rebate (\$2,000).
- **Holy Cross Energy Electric Cooperative’s Power+ and Power+FLEX Programs.** Under its Power+ Program, which was available from 2021 to 2025, Holy Cross Energy purchased and installed the ESS and charged the cooperative member a monthly fee, which started at \$65 a month, but was reduced by more than 60 percent after Holy Cross applied the federal credits it

received. Holy Cross Energy purchased and owns the ESSs, but after 10 years of program participation, Holy Cross Energy transfers ownership to the member. Like Xcel's program, to participate in this program, the member must allow Holy Cross Energy to tap into the battery 100 times per year and drain it to 20 percent. Unlike Xcel's program, Holy Cross allows for stand-alone batteries not connected to a rooftop solar system to enroll in this program and 19 customers had installed stand-alone batteries as of 2024. For the Power+ Program, the members are not eligible for the state credit since the battery is owned by Holy Cross Energy rather than the member. However, in 2025, Holy Cross introduced its Power+FLEX Program; this program replaced the Power+ program. Under the Power+FLEX Program, the member purchases the battery (which means they are also eligible for the state credit) and receives a rebate of \$500 per kW of enrolled battery capacity (up to \$12,500) as well as a monthly bill credit of \$10.30 per kW of enrolled battery capacity.

- **Fort Collins Utilities** offers a rebate of \$150 per kWh of storage capacity, with a 6-kWh minimum, up to a total of \$3,000. This rebate is available to utility customers who have solar as well as to those without rooftop solar panels (i.e., stand-alone storage systems).
- **Gunnison County Electric Association** has also offered a rebate of \$2,000, with an 8-kWh minimum storage capacity, but as of September 2025, none of its members have applied for it.
- Some local governments offer rebates. For example, the City and County of Denver offered a Climate Action Rebate (CARE) worth up to \$2,750 when an ESS is paired with a heat pump, heat pump water heater, or certain EV Chargers, and up to a \$500 rebate for those only installing an ESS. This program ran from 2022 to 2025. This rebate was paid directly to the contractor installing the system, reducing the out-of-pocket costs to the Denver homeowner who installed the ESS. However, the budget for this program was limited and it was offered in rounds that were fully subscribed within a few months. In 2022, Denver issued two ESS rebates, increasing to 21 in 2023, 34 in 2024, and 77 in 2025. About two-thirds of the Denver CARE rebates were for \$2,750 each, meaning the household also installed an EV charger or heat pump at the same time as the ESS.

Because homeowner incentives vary considerably, the Residential Energy Storage Credit and Exemption's potential to encourage the purchase of an ESS likely also varies considerably. For example, in 2025, a Denver homeowner that qualifies as being low income (based on Area Median Income) or living in a census tract designated as a disproportionately impacted community who participates in Xcel's RBC Program rebate and claims the federal and state credits could reduce the cost of an ESS by more than 70 percent (\$18,000 battery, reduced by \$9,200 from Xcel's RBC rebate and an additional \$2,640 federal tax credit and \$1,200 state credit would bring the total out of pocket cost of the system to less than \$5,000). Conversely, in 2026, if a customer is located in an area with no local or utility rebates and the federal credit has expired, the state credit and exemption may be the only reduction in cost the taxpayer can get.

At the time of our review, the Department lacked data showing the revenue impact of the credit and exemption to the State. However, we identified information showing that their

potential revenue impact may have exceeded \$3 million in each of the 2023 and 2024 Tax Years, which is significantly larger than what was anticipated when these tax expenditures were established. Because the Residential Energy Storage Credit did not begin until 2023, the Department will not have data available on the first year of tax credit claims until 2026, after the publication of this report. We plan to add an addendum to our report with the revenue impact as reported by the Department when it releases that data in early 2026. Additionally, the data on the number of claims and revenue impact of the Residential Energy Storage Exemption will not be available because they are reported by sellers on the “other exempt sales” line of the sales tax return, which aggregates several sales tax exemptions.

However, based on our review of EIA data and information reported to us by utilities, it appears likely that the revenue impact of the credit and exemption will be larger than initially anticipated when the credit and exemption were created and when the credit was extended. The fiscal note for Senate Bill 22-051 assumed that 110 ESSs would be installed in 2023 and 130 ESSs in 2024 with an equipment price of between \$11,500 and \$11,800, which would result in a revenue impact to the State for the credit and exemption of around \$165,000 in 2023 and \$195,000 in 2024. The fiscal note for Senate Bill 25-026, which extended the credit to 2025 and 2026, estimated the credit’s annual revenue impact to be around \$130,000. Our review of EIA data and information provided by utilities show that significantly more ESSs were installed in the state than what was expected in the fiscal notes. We also identified information showing that the average qualifying costs for each ESS may be higher than anticipated, increasing the average credit amount. For these reasons, we estimated that the revenue impact for Tax Years 2023 and 2024 could be substantially larger, potentially over \$3 million per year. Exhibit 2 shows how we calculated our estimate.

Exhibit 2

Estimated Revenue Impact of the Residential Energy Storage Credit and Exemption Tax Years 2023 and 2024

Estimated Revenue Impact Calculation Steps	2023	2024
Residential energy storage systems installed per year based on information provided by utilities and EIA data (From Exhibit 1)	1,633	1,749
Number of Systems that were likely ineligible for the Credit and Exemption based on EIA data and Holy Cross Electric annual reports	79	67
Number of Potential Exemption and Credit Eligible Systems Installed Per Year	1,554	1,682
Estimated Cost of an Average Battery ¹ Purchase for Systems	\$15,400	\$15,400
Estimated Revenue Impact of the Exemption (Number of Potential Systems x Estimated Cost of a Battery x 2.9%)	\$694,016	\$751,181
Estimated Revenue Impact of the Credit (Number of Potential Systems x Estimated Cost of a Battery x 10%)	\$2,393,160	\$2,590,280
Total Estimated Revenue Impact of the Exemption and Credit	\$3,087,176	\$3,341,461

Source: Office of the State Auditor analysis of data provided by utilities and U.S. Energy Information Administration data, Xcel filings with the Public Utilities Commission, Holy Cross Electric annual reports, and price of system data.

¹Energy Storage Systems have a wide range in price. We found price estimates of between \$3,000 and \$25,000+ per battery, so we used \$11,000 per battery for our estimate. Xcel rebate data showed 40 percent of customers purchased more than one battery, so we used an average of 1.4 batteries purchased per taxpayer to come up with the \$15,400 price.

There are several factors that could impact the accuracy of this estimate:

1. We do not know whether all of the 1,554 and 1,682 ESSs installed in 2023 and 2024, respectively, were eligible for the credit. Additionally, even if they were all eligible, we do not know whether the taxpayer claimed the credit or whether the exemption was properly applied. If some of these systems were not eligible, the homeowner did not claim or only partially claimed the credit, or the seller did not properly apply the exemption, the revenue impact would be less.
2. There could be additional ESSs that were installed off-grid and were not reported to utilities or in territories of utilities that did not provide us with data on the number of systems installed. These ESSs could potentially be eligible for the credit and exemption and are not accounted for in our estimate. To the extent that the credit and exemptions were claimed for these ESSs, the revenue impact would be larger.
3. There is a wide range of prices for ESSs, largely driven by the size and number of batteries, and we lacked information to precisely determine the average cost that would be eligible for the credit and exemption. As noted, we found estimates ranging from \$3,000 to \$25,000+ per battery, but we used \$11,000 per battery in our estimate. Additionally, in our estimate we assumed 1.4 batteries per building as many utilities reported customers with multiple batteries in their system. It is common for an ESS to have more than one battery; some off grid homes

could install multiple batteries. To the extent that a system had more than 1.4 batteries, our estimate would underestimate that impact.

4. The credit is available for 10 percent of the system's cost, including any local sales taxes and freight charged. Our estimate of the credit does not account for sales taxes and freight (lithium-ion batteries can weigh several hundred pounds and require special shipping procedures that could add to the final cost of the battery).

We identified several factors that may be driving stronger growth in ESS installation than what was projected at the time the Residential Energy Storage Credit and Exemption were established. First, it is possible that a large increase in ESS installations in 2023 and 2024 (and systems eligible for the state credit and exemption) were driven by Xcel Energy's RBC Program. As discussed, in mid-2023 Xcel Energy, which covers a large service area in the state, began offering its RBC Program rebate, which provides a large financial incentive to install an ESS and has had very high uptake. As a result of the success of the RBC Program, more ESSs may have been installed, a consequence of which may be a higher revenue impact to the State for its tax incentives.

Second, according to the Joint Center for Housing Studies of Harvard University, there has also been an increase in home remodeling that has occurred post-COVID, with the annual amount homeowners spent on remodeling growing by 51 percent from a total of \$404 billion in 2019 to a total of \$611 billion in 2022 and then plateauing at a total of \$609 million in 2023. Spending on energy efficiency projects grew by \$28 billion (25 percent) from 2021 to 2023 and was likely spurred further by the Inflation Reduction Act tax credits that were claimed by 3.4 million taxpayers in 2023. This surge in spending on home remodeling and the growth in spending on energy improvement projects was likely a large driver of ESS installation in Colorado and throughout the United States.

Third, ESS technology and software have seen improvements over the past decade that are making them a more attractive option for homeowners, with most of the gains experienced over the past few years. In particular, the introduction of Tesla's Powerwall 3, altered the market in two ways—it contains a built-in inverter and produces larger output capacity than other batteries on the market. The built-in inverter made it considerably cheaper than other storage systems that required an additional inverter, which is necessary to allow utilities to draw electricity from the battery, and the larger output capacity generates 11.5 KW, which allows them to power high electricity usage appliances, such as vacuums and air conditioners.

We do not have an estimate for the exemption and credit for Tax Year 2025; however, it is possible the revenue impact could again be substantial. Xcel's RBC Program has continued to be popular and had fully exhausted its nearly \$6.8 million budget for 2025 by October 2025. Additionally, it is possible that the One Big Beautiful Bill Act's acceleration of the expiration of the Federal Residential Clean Energy Credit at the end of 2025 increased demand for ESSs in 2025, since homeowners may have installed ESSs sooner so that they would still be able to claim the credit. Conversely, the revenue impact in 2026 may fall if fewer ESSs are purchased due to the expiration of the federal credit.

Installation of residential energy storage systems could play an important role in achieving the State's climate goals if they are more widely adopted. However, as discussed above, in most cases, the credit and exemption on their own are likely not the primary factors that incentivize the purchase and installation of these systems, and therefore, their impact on achieving the State's climate goals is likely small unless paired with other, larger tax incentives and rebates.

Colorado is making progress towards its goal of 100 percent of electricity generation in the state coming from renewable sources by 2040, but will need to significantly expand renewable electricity generation capacity to achieve this goal. According to the EIA's 2024 Colorado State Energy Profile, renewable energy sources accounted for 43 percent of total in-state electricity generation, with about two-thirds of this from wind power and 27 percent coming from solar. Generation from small-scale customer-sited solar panel systems, which are sometimes paired with ESSs, increased by 20 percent in 2024 and accounted for almost one-third of the state's total solar generation in 2024. In 2024, coal-fired power plants accounted for 27 percent of state electricity generation, down from 60 percent in 2014.

As coal-fired electricity generation is replaced by renewables, the need for energy storage in Colorado will continue to grow. Unlike a fossil fuel power plant that can run 24 hours a day, solar power is only generated when the sun is shining and wind power is only generated when the wind is blowing, meaning storage is needed to keep power available when it is not being generated. Conversely, if renewable energy generation exceeds the energy consumption needs at the time it is produced and there is inadequate storage capacity, utilities may turn off renewable energy production since they cannot sell the excess energy economically. ESSs play an important role in balancing demand because they can be charged when there is excess solar generated at a residence or from the grid at times when electricity prices are low due to low demand or excess renewable electricity generation.

Based on the available data, it appears that not enough ESSs have been installed in the Colorado to have a significant impact on the State achieving its climate goals, with our review showing it is likely that about 0.25 percent of the state's residential energy customers had installed ESSs as of 2024. However, as adoption of these systems increases, they may have a larger impact. Although utilities in the state are constructing their own systems to store electricity generated by renewable sources, their plans call for residential ESSs to also contribute to overall storage needs. For example, in January 2024, the PUC approved Phase II of Xcel's clean energy plan, which called for 6,100 MW of new generation from renewable sources, and included a storage goal of 1,850 MW. It reported that the majority of this storage will come from utility-scale storage, but small-scale residential energy storage will also contribute to this goal. Grid of the Future, Xcel's white paper, projected small-scale storage in their territory would grow from 52 MW as of 2025 by 9 to 14 times that amount by 2050, with projected amounts ranging from 472 MW to 755 MW. Holy Cross Electric's plan calls for 100 percent renewable electricity by 2030, with about 80 percent coming from utility-scale solar, wind, and battery storage and the remaining 20 percent coming from small-scale generation and storage, which includes residential rooftop solar and residential battery storage.

To the extent the Residential Energy Storage Credit and Exemption encourage the purchase and installation of ESSs, they can help the State meet its clean energy goal that is a component of its climate goals. As discussed, the State's credit and exemption alone are likely not large enough on their own to incentivize most homeowners to install an ESS. However, due the high up front cost of ESSs, incentives and other programs that lower their cost are likely important to sustaining their continued adoption and the credit and exemption contribute to the range of incentives homeowners may be able to use. Additionally, around the time that the credit and exemption were adopted, the General Assembly passed several bills that focused on encouraging the adoption of technologies that reduce overall greenhouse gas emissions and these tax expenditures appear to be intended to act as one part of a broader set of policies aimed at reducing individuals' contributions to climate change. Although it is difficult to isolate the impact ESSs to the State's climate goals, when combined with other technologies, such as solar power, heat pumps, EVs, and electric appliances, they can offer a larger potential benefit.

Policy Consideration

We did not identify any policy considerations for the Residential Energy Storage Credit or Exemption.

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Alternative Transportation Options Tax Credit



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Tax Expenditure Evaluation • March 2026 • 2026-TE1

Tax Type:	Income Tax
Expenditure Type:	Credit
Statutory Citation:	Section 39-22-509, C.R.S.
Year Enacted:	2023
Repeal/Expiration Date:	January 1, 2027
Revenue Impact (2023):	\$655,000
Purpose given in statute or enacting legislation? Yes	

The Alternative Transportation Options Credit allows employers to claim a refundable income tax credit for a percentage of the amount the employer spends to provide alternative transportation options, such as bus passes, bicycles, and ridesharing, to their employees. The General Assembly created the credit “to increase the use of alternative transportation options by employees in going to and returning from their places of employment by providing an incentive to employers to provide alternative transportation options to employees.”

Overall, we found that the credit has not effectively increased employee commute trips via transit for several reasons:

- While some employers are aware of and claiming the credit, and employers report some employee use of transit for commuting, the overall employer and employee participation in the program is very low relative to the overall number of employers in Colorado and the number of employees commuting to work. In Tax Year 2023, 52 employers filed an Alternative Transportation Option Plan (Plan) with the Department of Revenue and reported that about 20,700 employees would be provided a transit benefit. However, only 27 of the employers claimed the tax credit. Stakeholders and employers reported that burdensome administrative processes and confusion over eligible costs have dissuaded many employers from providing transit benefits and applying for the tax credit.
- Research on individual commuting behavior suggests that other factors, such as convenience, reliability, cost, and safety of transit options are more likely to influence employee commute choices than whether their employer provides a transit benefit.
- Research indicates that other investments to reduce individual barriers to using alternative transportation, such as transit infrastructure that provides convenient and reliable options to commuters, are more likely to result in changes in commute modes than the tax credit.

Policy Considerations

We initially reviewed this expenditure in 2023 when the tax credit was set to expire and issued a memo that identified several policy considerations regarding clarifying statutory definitions about qualifying costs and calculating the expenses for the tax credit. In 2024, the General Assembly extended the tax credit and the Department of Revenue issued rules that addressed the memo's policy considerations. In this evaluation we identified the following new policy considerations that the General Assembly could consider in order to meet the statutory purpose of the tax credit:

- Review the effectiveness and ability of the tax credit to increase employee use of transit for commuting compared to other policies, such as employer regulations and/or grant and rebate programs.
- Consider changing the design of the tax credit to increase employer interest in providing transit benefits and to more directly impact employee commuting behavior. For example, the General Assembly could:
 - Appoint a state agency or community organizations to market and administer the tax credit, including reviewing employer Plans, certifying eligibility for the credit, and collecting data on outcomes.
 - Remove or reduce employer application and reporting requirements that create an administrative burden and have created confusion for employers.
 - Revising statutory definitions of qualifying employer plans and expenses to narrow requirements to benefits that are most effective at changing employee commute behavior.
- Amend statute so that the dates for filing requirements for tax-exempt organizations to claim the tax credit align with the dates the tax credit is available.

Alternative Transportation Options Credit

Background

The Alternative Transportation Options Credit allows employers to claim a refundable income tax credit for a percentage of the amount the employer spends to provide alternative transportation options, such as bus passes, bicycles, and ridesharing, to their employees.

The General Assembly created the Alternative Transportation Options Credit for employers in 2022 **“to increase the use of alternative transportation options by employees in going to and returning from their places of employment by providing an incentive to employers to provide alternative transportation options to employees.”**

The credit was initially only available for Tax Years 2023 and 2024. Under statute, the OSA is required to publish an evaluation of tax expenditures the year prior to their expiration. Because data on the credit was not available at the time of the evaluation, we provided a memo with policy considerations should the General Assembly choose to extend the credit (Alternative Transportation Options Credit for Employers Memo – 2023-TE20). In 2024, the General Assembly extended the credit (House Bill 24-1036), which is now available through Tax Year 2026. In addition to extending the credit, the General Assembly clarified that tax-exempt organizations are eligible for the credit but must file an informational C-corporation tax return in order to claim the credit.

Technical Note: Statute defines alternative transportation options as “free or partially subsidized generally accepted transportation demand management strategies provided to employees working in Colorado” such as mass transit passes; provision of ridesharing vans, bicycles, and electric bicycles; and shared micromobility options such as bikesharing and electric scooter sharing programs. This report refers to these options as “transit benefits.”

To be eligible for the credit, an employer must have a minimum of three employees and must provide alternative transportation to all of its employees regardless of their job position, whether they are full- or part-time, and whether they are salaried, paid hourly, or tipped.

Statute requires a two-step process for employers to be eligible for and to claim the tax credit. As a pre-requisite to be eligible for the credit, employers must submit the Department of Revenue’s (Department) Annual Employer Plan Report (Plan) to the Department before incurring qualifying expenses.

Statute requires an employer to identify in the Plan:

- Its plan for notifying employees of the availability of the transit benefits that it offers, and
- The steps it will take to encourage employees to use the alternative transportation option(s).

After the employer has submitted a Plan, in order to claim the credit, statute requires the employer to report to the Department the outcomes of its previously filed Plan when filing their income tax return, including:

- The types of transit benefits offered,
- The number of employees that were offered transit benefits, and
- To the extent feasible, the number of employees actually using an alternative transportation option and the number of trips taken by employees using an alternative transportation option.

Employers only need to submit a Plan to pre-qualify for the tax credit one time, but must submit the outcomes of their Plan with their income tax return each year they intend to claim the tax credit.

Employers may claim an income tax credit for up to 50 percent of the amount spent to provide transit benefits to employees, up to a maximum amount of \$125,000 in tax credits. Employers may spend up to \$2,000 in transit benefits per employee, per year. This credit is refundable and is also available to tax-exempt entities that can receive the full amount of the credit even though they do not have an income tax liability.

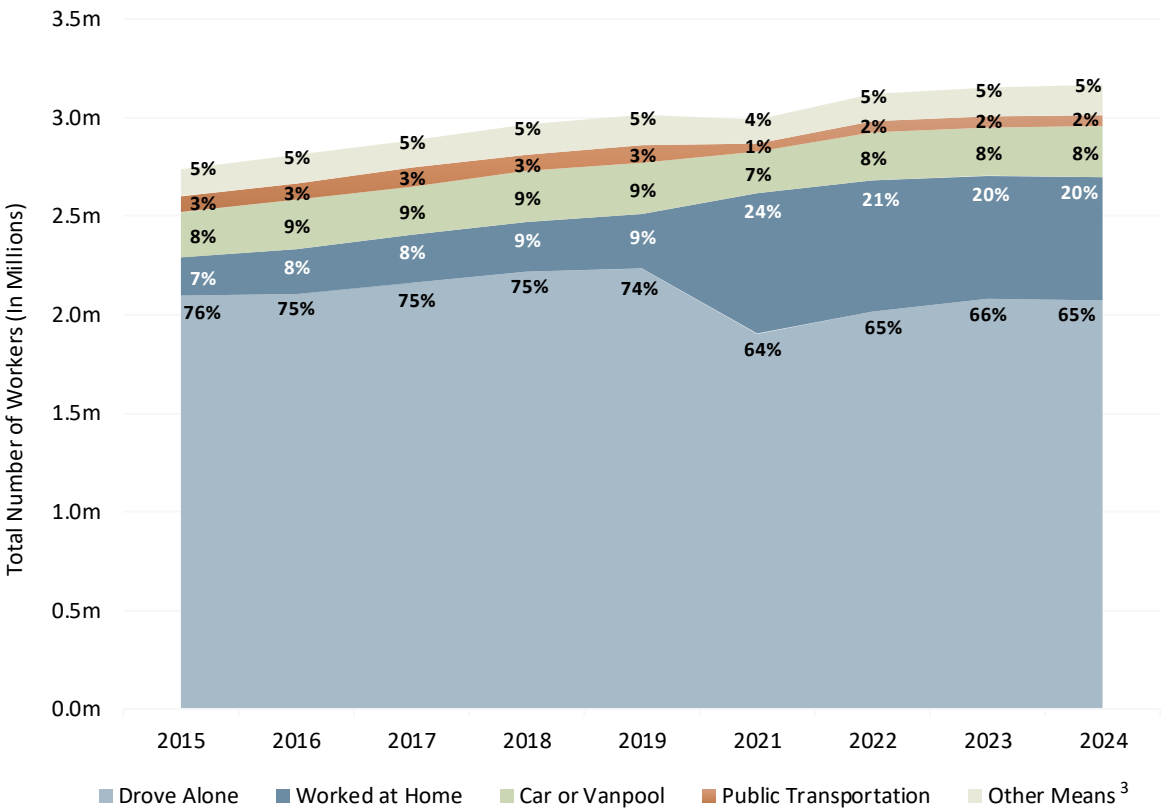
Technical Note: For federal income taxes, prior to 2018, employers could deduct costs for providing “qualified transportation fringe benefits” to employees from the employer’s income as ordinary and necessary business expenses. However, the 2017 Tax Cuts and Jobs Act (TCJA) limited the employer deduction to “costs needed to ensure employee safety;” in 2025 the One Big Beautiful Bill Act (OBBBA) repealed the employer deduction entirely, except for transportation costs for employee safety.

Federal law also allows employers to provide employees a pre-tax benefit (i.e., an exclusion from the employee’s wages) for qualified transportation benefits, including employee parking costs. This exclusion reduces an employee’s taxable wages, providing a tax benefit to both the employee and employer. Prior to 2018, this exclusion included bike-commuting benefits, such as cash reimbursements for biking to work; however, the TCJA also suspended the bike exclusion and the OBBBA repealed it entirely.

Based on U.S. Census Bureau data, over the past decade, Colorado employee commuting via transit has either remained flat or fallen. The largest impact to commuting behavior has been a 15 percent increase in working from home following the COVID-19 pandemic. Exhibit 1 shows the U.S. Census Bureau’s estimated commuting methods in Colorado from 2015 to 2024 as a percentage of

the total state workforce, based on a person’s reported commute method that represents their longest commute to work.

Exhibit 1
Workforce Commuting Patterns in Colorado¹, U.S. Census Bureau 1-Year Estimates for 2015 through 2024²



Source: U.S. Census Bureau, American Community Survey 1-Year Estimates of Commuting in Colorado for Workers 16-years and older.

¹ Respondents were asked “How did this person usually get to work LAST WEEK? Mark (X) ONE box for the method of transportation used for most of the distance.” Therefore, respondents are listed in only one commute category.

² Data for the 2020 ACS 1-Year Estimates is not available due to the COVID-19 pandemic impacts on data collection.

³ Other Means includes walking, taxicabs or rideshares, bicycles, and motorcycles.

In general, the U.S. Census Bureau data shows that while the percentage of workers driving alone to work has decreased following the COVID-19 pandemic, so has the percentage of workers using public transit and car or vanpools. Telework has seen the most significant increase in recent years and is an effective option to reduce commute traffic and congestion; however, telework expenses do not qualify for the tax credit.

Statute provides the following performance measures to evaluate whether this credit is meeting its purpose:

- The types of transit benefits offered.
- The number of employees using transit benefits.
- The number of trips using alternative transportation.

In addition to the statutory performance measures, to evaluate whether the credit is meeting its purpose, we evaluated:

- The effectiveness of the credit at incentivizing employers to provide transit benefits to their employees, and
- The effectiveness of transportation benefits to incentivize employees to increase their use of transit when commuting.

Evaluation Results

The credit has not effectively increased employee commute trips via transit. While some employers are aware of and claiming the credit, and employers report some employee use of transit for commuting, the overall employer and employee participation in the program is very low relative to the overall number of employers in Colorado and the number of employees commuting to work. Research indicates that other investments to reduce individual barriers to using alternative transportation are more likely to result in changes in commute modes than the tax credit.

The credit has not incentivized many employers to offer alternative transportation option benefits to employees. For Tax Years 2023 and 2024, a total of 73 employers submitted a Plan to the Department. Because many employers submitted Plans in both tax years, there was a total of 52 employers that submitted Plans in Tax Year 2023 and 57 employers in Tax Year 2024. While statute does not specify the number of employers that legislators intended to incentivize, 73 employers is overall a small fraction of total employers in Colorado. According to U.S. Census Bureau data from 2023, Colorado had nearly 183,000 employers.

Additionally, the use of the credit is significantly lower than the General Assembly originally estimated. The enacting bill's [House Bill 22-1026] fiscal note estimated that the revenue impact for Tax Year 2023 would be nearly \$22 million, based on a total of about 38,000 employees receiving employer alternative transportation benefits. However, based on Department data on credits claimed for Tax Year 2023, which is the most recent data available, 52 employers submitted a Plan that year but only 27 employers claimed the tax credit, resulting in a state revenue impact of about \$655,000, with an average benefit of about \$24,200 per employer. Due to data limitations with identifying which employers claimed the tax credit, we could not determine the number of

employees at these 27 employers who were provided an alternative transportation benefit in Tax Year 2023. However, based on the Plans that employers submitted for Tax Year 2023, these 52 employers reported in total that they would offer approximately 20,700 employees a transit benefit, which is slightly more than half the number of employees that were estimated to receive a transit benefit in the fiscal note.

Furthermore, it is not clear how many of the 73 employers that submitted Plans during Tax Years 2023 and 2024 were offering their employees alternative transportation benefits prior to the tax credit becoming available. We sent employer surveys to all 73 employers, and received responses from 7 of the employers. Of the 7 employers that responded to our survey, 4 reported that they were already offering alternative transportation benefits to their employees prior to the credit being available, though it was not clear whether the employer was covering the full cost of the benefits. When asked how much the credit influenced the employers' decision to offer benefits employer responses varied; 2 of the 7 employers said it had no impact on their decision, 2 said it caused them to increase the benefits they offered, and 2 said they would not have offered any benefits without the credit. The respondent for 1 employer was unsure about the impact of the credit on the employer's decision to provide transit benefits to employees.

Based on stakeholder interviews, Department information, and employer feedback, there have been several reasons why the uptake of the credit is much lower than anticipated. First, even though the credit became available in Tax Year 2023, the Department was not able to finalize the tax credit rules until January 2025, due in part to the complexity of interpreting and understanding the “alternative transportation options” concept in statute and working with stakeholders, as well as an increased workload due to a significant number of tax policy bills during the 2024 Legislative Session. According to stakeholders and the Department, employers may have been hesitant to apply for the tax credit because of uncertainty about what expenses are eligible, confusion over requirements for submitting Plans and providing “substantially equivalent” options to all employees in the state, and technical tax guidance such as calculating the per employee spending limit or claiming expenses for investments in depreciable assets, such as a van for shared commuting. While the Department believes that many of the initial employer and stakeholder concerns have been addressed through the rulemaking process, stakeholders report that many employers still have concerns about how to apply for the tax credit and what expenses are eligible.

Despite the potential monetary benefit of the tax credit, administrative barriers may reduce employer interest in the tax credit. For example, while statute requires employers to submit an initial Plan to the Department before incurring expenses, the Department does not approve the submitted Plans or certify that an employer has met the requirements to claim the tax credit when the initial Plan is submitted. According to the Department, certifying Plans as a tax administration agency without expertise in “generally accepted” transportation demand management strategies would create a conflict of interest if the Department approved an employer Plan and then later identified errors or non-qualified expenses and had to deny the credit. According to stakeholders and employers that responded to our survey, the pre-qualification process without explicit certification is “confusing,” “opaque,” and “overly complicated.” Hesitancy amongst employers to invest in transit benefits

without more assurance that they would qualify for the tax credit might be one reason why few employers have submitted Plans, and even fewer have claimed the tax credit.

Technical Note: While statute requires employers to file their Plan prior to making expenditures and claiming the tax credit, the Department waived this requirement while the rulemaking process regarding when and how to file Plans was in progress. Starting in January 2025, employers are now required to file their Plan prior to incurring qualified expenses for the credit, though Department rules allow employers to file their Plan up to 3 months after the start of their tax year to allow time for employers to report the outcomes from the previous year and file their Plan for the upcoming year.

Stakeholders representing the State's Transportation Management Organizations/Associations (TMOs or TMAs, see technical note below) also reported that they conduct extensive outreach to employers to help employers develop employee transit benefits programs in addition to marketing the credit. These stakeholders reported that despite initial interest from employer benefits departments, such as human resources functions, or sustainability departments, many employers' accounting and finance division staff are concerned about the risk of investing in transit benefits without a guarantee that their business would be able to claim the tax credit.

Technical Note: TMOs or TMAs are public-private partnership organizations that are responsible for the implementation of transportation demand management (TDM) programs and services in a community. TDM-related activities are intended to help travelers use transportation systems in a more efficient and sustainable way through mobility services, technology, transportation infrastructure, public policies, employer programs, parking management, and education and outreach campaigns.

TMOs/TMAs work to decrease the number of people driving alone on the roadway system to reduce traffic congestion and greenhouse gas emissions and to increase affordable, safe, and reliable transportation options for all travelers. They are generally established by local governments, states, or local organizations such as chambers of commerce and cover specific local regions. In Colorado, there are currently eight TMOs/TMAs that provide direct services (e.g., Guaranteed Ride Home, carpool and schoolpool matching, discounted vanpools) and employer transportation planning assistance generally covering the front-range metro areas. While the State does not specifically fund TMOs/TMAs, the Colorado Department of Transportation (CDOT) manages both state and federal grant funds that can assist communities with creating a TMO or TMA, addressing state transportation strategies such as improving local pedestrian or bike infrastructure, increasing transit ridership through education and outreach, and providing employers with no or low cost transit planning and managed transit benefit programs.

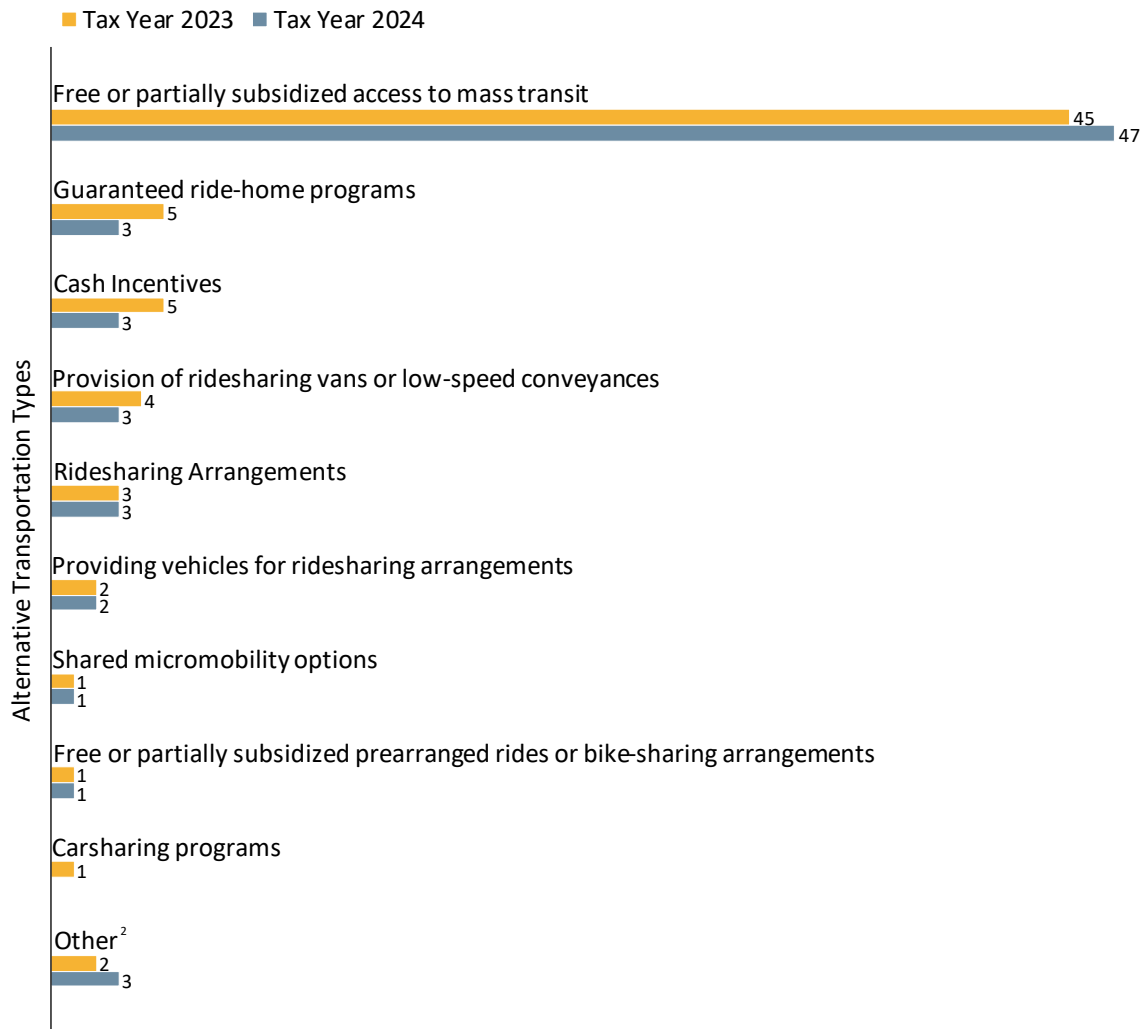
Stakeholders from TMOs/TMAs also reported that many smaller employers do not have the staff time and resources to develop and manage a transportation plan or track expenses and apply for a tax credit. While administrative costs related to managing a transit program are considered "eligible expenses" for the tax credit, smaller employers may not have the budget to invest in the benefits up

front and then apply for the tax credit the following year. None of the TMOs/TMAs we spoke with were aware of any employers in their regions that submitted a Plan to the Department and claimed a tax credit.

Employers offering transit benefits does not necessarily incentivize employees to use transit, which is the statutory purpose of the credit. Exhibit 2 shows the number of employers that submitted Plans in Tax Years 2023 and 2024 offering each type of alternative transportation option. Almost all employers that submitted plans offered free or reduced cost mass transit passes (i.e., the Regional Transportation District (RTD) EcoPass).

Exhibit 2

Number of Employers Providing Benefits, by Alternative Transportation Type for Tax Year 2023 and 2024 Employer Plans¹



Source: Office of the State Auditor analysis of Department records of Employer Alternative Transportation Option Plans (form DR 1323) for Tax Years 2023 and 2024.

¹ Some employers provided multiple transportation options and are counted in each transportation category.

² Employers did not specify the transportation options they provided within Other.

In both Tax Years 2023 and 2024, on average, employers reported that less than half of the employees offered a benefit ended up using the benefit. Exhibit 3 provides information that employers reported on their Plans regarding employees offered benefits and employees using benefits for Tax Years 2023 and 2024.

Exhibit 3

Employer Reported Data on Employees Offered Benefits and Employees Using Benefits Tax Years 2023 and 2024

Year	Employees Offered Benefits	Employees Using Benefits	Percentage of Employees Using Benefits
Tax Year 2023	20,735	8,734	42%
Tax Year 2024	27,085	10,685	39%

Source: Office of the State Auditor analysis of Department records of Employer Alternative Transportation Option Plans (form DR 1323) for Tax Years 2023 and 2024.

Employers do not report changes in employee commuting via transit, such as whether employees substituted driving alone with taking a bus, carpooling, biking, or another form of transit. Without baseline data on individual commute methods prior to the transit benefit and after the transit benefit, we could not conclude whether the credit increased the number of employees using transit to commute. All seven employers that responded to our survey indicated that their employees did increase their use of transit, but there is not reliable data to verify this or quantify the impact.

Furthermore, based on employer Plans, employers are not consistent in how they report data on employees using the transit benefit. Specifically, statute requires employers to report “to the extent feasible” the number of transit trips that occurred and does not provide guidance on how to track and report the number of transit trips or require employers to submit documentation of transit use when filing for the credit. About one quarter of employers did not report the number of trips taken and the employers that did report employee transit trips inconsistently reported the data. For example, some employers provided an estimate of the number of trips, but did not provide how they calculated the estimate, while others reported a general estimate of “two trips per day.” Only a few employers included documentation showing how exact data was tracked and reported. Therefore, we could not rely on the employer-provided data to determine whether employees actually increased their use of transit.

Research on individual commuting behavior suggests that other factors, such as convenience, reliability, cost, and safety of transit options are more likely to influence employee commute choices than whether their employer provides a transit benefit. For example, the benefit of a free bus pass does not outweigh the convenience or flexibility of driving alone, unless the bus pass also helps the employee avoid parking costs, reduces their overall time in traffic or reduces commute time, and the transit is reliable and convenient. Several employers that responded to our survey reported that

public transportation reliability issues, such as light rail service disruption and reduced bus schedule options, are barriers to their employees using their transit passes. Research also shows that monetary benefits for employees, such as cash or a reimbursement per transit commute trip, can provide additional incentives for an employee to choose to commute via transit, even if the transit option is less convenient or takes longer than driving. While statute does allow employers to claim the tax credit for cash incentives, administering incentive or reward programs requires more employer time and resources; several stakeholders reported that many employers do not have the time to administer these types of programs, or are hesitant to provide cash incentives because statute does not provide clear guidance on the type of transit incentive programs that would be eligible for the credit, or guidance on reasonable amounts for cash incentives for employees biking or walking to work.

Colorado's broader investments in alternative transportation infrastructure to reduce individual barriers to using alternative transportation are more likely to result in changes in commute modes than the tax credit. In addition to the credit, Colorado has several other efforts aimed at increasing the use of alternative transportation to reduce road congestion, pollution, and greenhouse gas emissions. These efforts are aimed at addressing several of the underlying barriers that individuals face when using transit, such as convenience, reliability, and safety. Colorado's investments in transit have used state and federal funding for infrastructure projects, and included statutory requirements and regulations to address local housing and transit planning. For example, in 2021, the Transportation Commission of Colorado approved new transportation planning standards that require local transportation planners to build and provide travel options that reduce greenhouse gas emissions. These standards included the Colorado Department of Transportation (CDOT) adding five Bus Rapid Transit corridors in the Denver Metro area with the goal of having high-capacity, efficient bus services operating in all five corridors by 2030. Additionally, state funding has been allocated to support CDOT's statewide transit systems, such as interregional transit services like the Bustang that provide long distance bus service on the I-70 and I-25 corridors. In addition to investing in mass transit infrastructure, the Governor's 2024 Colorado Greenhouse Gas Pollution Roadmap cites several other strategies to address convenience, reliability, and safety for alternative transportation, including:

- Encouraging land use policies that support walkable neighborhoods and increase transit access. The Department of Local Affairs (DOLA) manages implementation of several of the State's 2024 Land Use Laws to encourage local governments to zone for denser housing, mixed use developments, and reforming parking minimum requirements to encourage density near transit systems.
- Planning and building pedestrian and bicycle infrastructure such as sidewalks, protected bike lanes, and bike facilities, with a focus on increasing pedestrian and bicyclist safety on major arterial roadways. CDOT administers the State's Revitalizing Main Streets grant program, which provided statewide grant funding for projects that develop and improve the community's access to central business areas via walkways and bike paths.

- Investing in electric transit infrastructure, such as tax credits for electric vehicles and electric bikes, and grant programs to build electric charging infrastructure along major roadways and densely populated areas. For example, the Colorado Energy Office (CEO) has administered several programs that have provided incentives for local governments to increase bikeshare infrastructure and incentives for individuals to purchase e-bikes.

Other state approaches to reduce drive-alone commutes may be more impactful than an employer tax credit. We identified one other state, Maryland, that provides a tax credit to employers to provide broad employee transit benefits in order to increase employee commuting via transit. We also identified two other states that provided more limited credits – Minnesota, which provides a tax credit for employers providing transit passes to employees, and Massachusetts, which provides a corporate excise tax credit for employers' costs for purchasing or leasing a company shuttle van for employee ridesharing to and from work. A 2024 Maryland Department of Transportation report on overall outcomes of the state's various commuting strategies reported that 32 employers submitted applications for the tax credit in 2024. We did not identify any current research on Minnesota or Massachusetts' more narrow tax incentives.

In addition, we found that states and localities have implemented regulations and requirements for both employers and individuals to reduce congestion and pollution. We spoke with several stakeholders and reviewed research on effective strategies for changing commuting behavior that other states and cities have implemented. We provide two examples of regulatory approaches that are often cited as effective transit policy to reduce employee drive-alone commutes.

First, the State of Washington's Commute Trip Reduction Law, passed in 1991, requires employers with 100 or more employees that commute to work between high traffic periods to develop a Commute Trip Reduction Plan for employees, appoint an employee as the Transportation Coordinator to administer the program, and conduct employee surveys every 2 years to measure commute patterns. Local jurisdictions (cities and counties) implement ordinances to define how the law applies to worksites in their area, and are required to provide training and technical assistance for employers. While employees still receive the benefit of free or subsidized transit or options to telework, having statewide employer requirements coupled with employer training improves the adoption of employer-supported commute reduction plans across the state. The law requires more active participation and investment from employers, who are then more likely to adopt a culture of commuting and actively work to engage employees in using transit. 2024 U.S. Census Bureau data on commuting for Washington state, which has a similar number of workers as Colorado, shows that approximately 65 percent of workers drove alone to work, similar to Colorado's reported workers driving alone, while 4 percent used public transportation, which is higher than Colorado's estimated 2 percent. A review of the program in Seattle found evidence that worksites that removed incentives to driving alone, such as free or reimbursed parking, had fewer employee drive-alone trips compared to worksites that provided transit benefits and parking benefits. The report noted that reducing incentives for parking is one of the most impactful strategies for reducing drive-alone trips.

The Washington D.C. Metro area also requires certain employers to provide employees with benefits to encourage using transit. D.C. employers that offer free or subsidized parking benefits and have 20

or more employees who work at least 50 percent of their time in D.C. are required to provide a Clean Air Transportation Fringe Benefit (i.e., parking cashout) to employees that choose to forgo parking benefits, develop a transportation plan to reduce employee car commute trips, or pay a monthly fee for employees that are offered parking benefits. Employers who do not offer or have stopped offering free, subsidized, or reimbursed parking benefits are exempt from the requirement. Parking cashouts allow employees to choose the value of the parking benefit the employer provides as a cash benefit or transit benefit if they forgo the employer's parking benefit and choose not to drive to work. Program compliance and reporting is administered through a single portal that also provides employers with comprehensive information on the program, information on vendors that can help manage transportation plans and processes, training, and free transportation incentive programs such as carpool ride-matching. Prior to the law going into effect, 2022 U.S. Census Bureau data on commuting for the Washington D.C. Metro area showed about 19 percent of workers commuting via public transportation and about 28 percent driving alone. The most recent 2024 data shows that approximately 27 percent of workers commuted via public transportation, while driving alone remained relatively steady at 29 percent of workers.

Policy Considerations

In our 2023 memo that evaluated the initial implementation of the credit, we identified four policy considerations related to qualifying expenses, calculations of per employee maximum spending, and employer responsibilities to provide all employees with an alternative transportation option or a 'substantially equivalent' option. Since the credit became available in 2023, the Department has engaged in several rulemaking sessions with stakeholders to clarify several of the issues raised in these previous policy considerations. Updated rules for the credit now include:

- Clarification that transportation expenses for employees do not include transportation expenses for volunteers of an organization.
- Guidelines for claiming expenses on employer purchases of capital assets, such as a van purchased to drive multiple employees to work or electric bikes for employees to use for commuting. Employers must claim the amount of depreciation expense recorded for the asset annually, and not claim the full initial cash expense for the asset.
- Guidelines that the per employee cap of \$2,000 should be calculated by including both the direct costs for each individual employee (i.e., individual bus passes, cash incentives) plus any apportionable costs per employee for shared services (i.e., the total cost of providing carshares, vanpools, electric bikes, etc., divided by the total number of eligible employees).
- Clarification that the statutory requirement that an employer offer "substantially equivalent" transportation options to employees that are not able to be offered the benefit provided in the Plan only applies if it is feasible. While the definition of substantially equivalent offerings has not been clarified in statute and there may still be employer confusion regarding what qualifies as a substantially equivalent option, the Department believes that allowing employers to claim the credit so long as they provide information on why providing a substantially equivalent option is

not feasible will alleviate some employer concerns about whether they can qualify if employees in other areas of the state are not offered transit benefits.

The current evaluation identified the following new policy considerations for the General Assembly to consider.

Review the effectiveness and ability of the tax credit to increase employee use of transit for commuting compared to other policies. As previously discussed, Colorado is one of four states that offers employers an incentive to provide employees with an alternative transportation option. However, research from other states has shown that regulations paired with employer training and education, can encourage employers to actively promote the use of transit benefits and choose benefits that are more tailored to their employees' needs.

Other policy options include funding grant or rebate programs that require employers to implement specific employee commute plans. Because grant or rebate programs award funds to applicants that qualify and generally provide funds as costs are incurred rather than only after tax returns are filed, a grant or rebate program can address employer concerns about whether their program and costs qualify and better guarantee that the employer will receive a reimbursement for their costs.

If the General Assembly chooses to extend the tax credit, it could consider changes to the design of the credit to increase employer interest and more directly impact employee commuting behavior. There are several ways the General Assembly could amend the design of the tax credit to better achieve its legislative purpose.

First, to reduce employer hesitancy and increase the amount of employers offering employee transit benefits, the General Assembly could consider having a state agency with expertise in transportation demand management or TMOs/TMAs review employer alternative transportation option plans and reported outcomes, provide a certification for approved plans, and provide technical expert assistance on transportation demand management options for employers, similar to how several other tax credits operate. For example, the Office of Economic Development and International Trade (OEDIT) and designated local economic development organizations administer the Enterprise Zone Contribution Tax Credit. OEDIT is charged with developing specific rules and requirements for program administration, and the local economic development organizations review and certify taxpayer contributions to designated projects and submit relevant data to OEDIT. This process increases oversight of qualified contributions before the taxpayer files their taxes, provides taxpayers with greater assurance that they will be able to claim the tax credit, and allows for more accurate data collection and reporting on the impact of the credit. While having a State agency or other transportation demand management organizations approve employer Plans and certify tax credits requires additional funding for administration, this type of oversight can provide employers with more assurance that they will qualify for the credit, leading to more interest and participation in the program. Several of Colorado's agency-administered tax incentives have application fees that pay for program administration or caps on the amount of tax credits that can be claimed annually in order to offset the State's administrative costs. Having an agency or other organization(s) administer the tax credit could also improve the reliability of employer-reported data because the agency could

require employers to provide evidence of changes in employee commuting patterns or number of trips and promote consistent reporting standards among all employers.

Alternatively, the General Assembly could consider removing employer requirements to submit a Plan to the Department to reduce administrative burdens for employers and the Department. If the General Assembly chooses to remove employer reporting requirements, it should consider that employer information on Plans, including employee use of the transit benefits would likely no longer be available. Additionally, having fewer administrative steps for employers increases the risk of taxpayer errors or fraudulent claims. In order to balance reduced administrative oversight with increased cost risks, the General Assembly could consider reducing the value of the credit and/or removing the refundable allowance for employers that are not tax-exempt.

In addition, to increase the tax credit's impact on employee commuting choices, the General Assembly could consider narrowing the statutory definition of eligible employer plans to only the activities that are most impactful to increasing employee use of transit benefits. This could include statutory requirements that employers either (1) provide a benefit beyond free or subsidized transportation options, such as cash benefits for walking, biking, car-pooling, etc., or (2) that remove some of the convenience of driving alone to work, such as requiring employers claiming the credit to reduce subsidies for on-site parking for employees who drive to work alone, or requiring employers to provide a parking cashout for employees that choose not to use parking benefits. However, these additional requirements may create more confusion for employers and reduce employer interest in the tax credit if new requirements are not clear and specific, or require employers to eliminate benefits that they think are more valuable to their employees than transit benefits, such as free onsite parking. While other states, such as Minnesota, have a narrower definition of eligible costs (i.e., purchasing transit passes or the cost of a vanpool) which likely reduces employer confusion and agency administrative costs, many workers in Colorado do not have access to mass transit options and stakeholders reported that vanpool costs are one of the most expensive transportation options for employers and that smaller employers are likely not able to afford vanpool costs. Additionally, the General Assembly should consider that the tax credit for employers cannot address systemic barriers that influence individual commuting behavior, such as proximity to transit infrastructure, convenience, and reliability of transit options.

Finally, the General Assembly may want to clarify the statutory dates for tax-exempt organizations to file an informational corporate tax return. As noted in the background, in 2024, the General Assembly added a requirement that tax-exempt organizations must file an informational corporate tax return in order to claim the credit. The bill specified that the requirement was for Tax Year 2024, however the same bill also extended the tax credit through Tax Year 2026. Currently the dates regarding tax-exempt organization filing requirements do not cover the dates when the credit is available. While the Department believes that the statutory language regarding when the tax credit is available allows tax-exempt organizations to continue to claim the tax credit by filing an informational return, the General Assembly may want to consider revising or removing the specific date references for tax-exempt organizations to clarify that tax-exempt organizations are eligible for the credit through the credit's the expiration date.

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Employer Assistance for Home Purchase Tax Expenditures

This memo covers two tax expenditures that are available when an employer establishes a savings account for an employee and makes contributions to this account for the employee to purchase a primary residence—the Employer Assistance for Home Purchase Credit [Section 39-22-558, C.R.S.] and the Employer Assistance for Home Purchase Employee Deduction [Section 39-22-104(4)(bb), C.R.S.]. Both tax expenditures were created in 2023 by House Bill 23-1189 and are available for Tax Years 2024 to 2026. Neither tax expenditure has been substantively changed since its creation. Statute requires the Office of the State Auditor (OSA) to issue an evaluation prior to the legislative session before a tax expenditure expires [Section 39-21-305(1)(d), C.R.S.]. At this time, data is not available from the Department of Revenue (Department) to evaluate either tax expenditure. Therefore, this memo summarizes how the tax expenditures work, discusses the data limitations, and provides a few policy considerations for the General Assembly to consider.

The Employer Assistance for Home Purchase Credit (Employer Credit) allows an employer to claim an income tax credit equal to 5 percent of the employer’s contribution to the employee’s home savings account. In each tax year, the amount of the credit is limited to \$5,000 per employee for any given employer, and employers may not claim more than \$500,000 in total credits for home savings account contributions to all employees. The credit is not refundable but can be carried forward for 5 years if the credit exceeds the employer’s tax liability. In order to be eligible for the credit, employers must establish a savings account where the contributed funds can be deposited, along with policies on how the employer contributions will be made and how employees can make their own contributions and withdrawals. Under statute, eligible expenses are defined as “a down payment and any closing costs included on a real estate settlement statement, including but not limited to appraisal fees, mortgage origination fees, and inspection fees” [Section 39-22-558(2)(b), C.R.S.]. Eligible property must be purchased by an employee as a primary residence. If the employee ends their employment with the employer that established the home savings account on their behalf or the employee uses the funds they contributed to the home savings account for any purpose other than an eligible expense, then the employer must remit to the employee the remaining amount of the employee’s contributions to the account plus interest earned on that amount. The employee also forfeits any of the unexpended employer contributions to the account, and the employer must repay any credit they previously claimed as employer contributions to that account by increasing their tax liability for the tax year in which the remittance to the employee occurs.

Statute says the purpose of the Employer Credit is “to induce certain designated behavior by taxpayers to encourage home ownership by providing tax relief to employers who contribute money to an employee for a down payment and related closing costs on a home purchase” [Section 39-22-558(1)(a), C.R.S.]. Additionally, during committee hearings for House Bill 23-1189, the bill sponsors stated that one of the main purposes of the credit is for employers to use it for recruitment and retention of employees.

Statute provides that the OSA should measure the effectiveness of the credit in achieving its purpose based on records maintained by an employer that show (1) the number of employees for which the employer made

employer contributions in the tax year, (2) the amount the employer contributed to each employee's home purchase savings account in the tax year as employer contributions, (3) the number of employees who expended money from a savings account on eligible expenses for a home purchase in the tax year, and (4) the total amount of any employer contributions made by the employer for use by the employee for eligible expenses in connection with a qualifying home purchase that an employee has forfeited in the tax year. However, statute does not explicitly require the Department to collect this information from employers, and Department staff verified that they do not collect any of this information from employers during the income tax return filing process. Therefore, we are unable to measure the effectiveness of the Employer Credit using these metrics. Additionally, Department data on claims of the Employer Credit for Tax Year 2024 will not be available until January 2027, so we are unable to determine the extent to which the credit has been used or its revenue impact to the State at this time. We spoke with stakeholders from two trade organizations that operate in the state that had testified in support of the creation of this credit in 2023. They reported that they were not aware of any businesses that had used this credit and thought that awareness of the credit was likely low, at least partly because no state agencies were promoting it to employers.

The Employer Assistance for Home Purchase Employee Deduction (Employee Deduction) allows an employee to deduct any employer contributions to a home savings account when calculating their Colorado taxable income. According to Department guidance on the Employee Deduction, the Department only allows employees to claim the deduction to the extent that these contributions are included in the employee's federal taxable income, but that requirement is not explicitly included in statute. Employees may also make contributions to the account, but their own contributions are not eligible to be deducted. If the employee ends their employment with the contributing employer or uses their own contributions to the home savings account for any purpose other than expenses associated with the purchase of a primary residence, the employee must add back any amounts previously claimed under this deduction to their federal taxable income when calculating their Colorado taxable income.

Statute does not establish a purpose for the Employee Deduction. Based on legislative testimony from the bill sponsors for House Bill 23-1189, we inferred that the purpose was to avoid imposing state income tax on employees for the amount contributed by their employers to the employees' home savings accounts because they wanted to make the employer contributions to these accounts a non-taxable benefit for employees. In the Policy Considerations section, we discuss several issues with the timing of the Employee Deduction that the General Assembly might want to address.

Statute also does not provide performance measures for the Employee Deduction. Department data on claims of the Employee Deduction for Tax Year 2024 will not be available until January 2027, so we are unable to determine the extent to which the deduction has been used or the revenue impact to the State at this time.

We did not identify any states that currently offer a similar tax expenditure to the Employer Credit or Employee Deduction. The Connecticut and Florida legislatures considered bills in 2024 and 2026, respectively, to create employer credits similar to Colorado's credit, but the bills did not pass.

We did not identify any other tax expenditures or programs in the state that provide employers with a financial benefit for helping their employees purchase a primary residence. There are several other programs available in the state that help people purchase a home. For example, the Colorado Housing and Financing

Authority (CHFA) offers down payment assistance grants and loans to eligible applicants. Metro Down Payment Assistance (metroDPA) is a program sponsored by the City and County of Denver that provides qualifying applicants with down payment assistance to purchase homes in certain Front Range cities.

Policy Considerations

Due to uncertainty about whether employees claim the Employee Deduction when their employer makes the contribution or when the employee withdraws the money from the account, the General Assembly might want to consider extending the tax years that employees can claim the Employee Deduction so it is available in future tax years when employees withdraw funds from their home savings accounts. Based on the statutory language and discussions with Department staff, we were unable to definitively determine whether the employer contributions should be included in the employee's federal income when the contributions are made or later when the employee withdraws the money to pay for an eligible expense. The Department has interpreted statute to require the contribution to be included in the employee's federal income in order to claim the deduction. Therefore, the timing of when employer contributions are included in the employee's federal income tax has implications for when the employee might claim the Employee Deduction as well as when the employee might need to addback a previously claimed deduction. Extending the Employee Deduction does not mean the General Assembly would also need to extend the Employer Credit. The Employer Credit could still be allowed to expire at the end of Tax Year 2026 with employees allowed to claim the Employee Deduction in subsequent tax years.

If the employer owns and controls the home savings account until the employee uses the funds for an eligible purchase, it is unlikely that employer contributions are included in employees' federal income at the time the contributions are made. This is because the employees are not likely considered to have received the contributions as income for federal income tax purposes. Federal regulations [26 CFR § 1.451-2(a)] consider a taxpayer to have received income when "Income although not actually reduced to a taxpayer's possession is constructively received by him in the taxable year during which it is credited to his account, set apart for him, or otherwise made available so that he may draw upon it at any time, or so that he could have drawn upon it during the taxable year if notice of intention to withdraw had been given. **However, income is not constructively received if the taxpayer's control of its receipt is subject to substantial limitations or restrictions**" (emphasis added).

Statute requires that the employer establish the account and establish policies and procedures regarding contributions to and withdrawals from the account [Section 39-22-558(3)(b)(I) and (II), C.R.S.], which suggests that the employer retains ownership and control of the account until an employee withdraws funds to pay for eligible expenses. This likely means that the employee is not considered to have received (for federal income tax purposes) the employer contributions to the account until they withdraw the funds for an eligible purpose and, therefore, employer contributions would not be included in employees' federal taxable income until the year in which funds are withdrawn to pay for eligible expenses. In this scenario, an employee would not use the Employee Deduction until they withdraw the funds from the account.

The Department seems to agree with this interpretation of federal law and statute. Department staff told us, "...we think it likely that the employer contribution is not recognized by the employee as income at the time the employer makes the contribution because the employee is likely not in constructive receipt of an

employer's contributions prior to withdrawal...Consequently, we believe employees generally will not be able to claim a subtraction for an employer contribution made to their account." However, it is likely that when the employee makes a withdrawal from the account to pay for an eligible expense related to a home purchase that the employee will be considered to have received income for federal income tax purposes, and thus have some amount of the employer contributions included in their federal income. The deduction is currently set to expire January 1, 2027, which means that employer contributions made between Tax Years 2024 and 2026 could be taxable to the employee if the employee withdraws the funds for an eligible expense after the end of 2026. In this case, the employee could have a large and unexpected state tax liability depending on the amount of the contributions included in their federal taxable income at the time of the withdrawal. For example, if an employer contributed \$5,000 to an employee's home savings account each year in 2024, 2025, and 2026, and the employee used the \$15,000 for eligible expenses related to purchasing a primary residence in 2027, in this scenario, the employee would be unable to claim the Employee Deduction in 2027 because it expired, and the employee would owe \$660 in Colorado income taxes on the \$15,000 in employer contributions (assuming a 2027 Colorado tax rate of 4.4 percent). It is unclear whether that was the intention of the General Assembly.

On the other hand, extending the Employee Deduction might cause an additional administrative burden on the Department for relatively few taxpayers. As discussed previously, we do not know how many taxpayers have claimed the deduction or how many might potentially be eligible in the future because their employer contributed to their home savings account. However, the Department reported that several taxpayers have incorrectly tried to claim the Employee Deduction. Department staff reported to us that of the claims of the deduction that the Department has reviewed so far, the majority of the claims by employees are incorrect. Additionally, Department staff stated that when taxpayers (employees) called the Department to ask questions about the Employee Deduction, they often stated that they claimed their Health Savings Account (HSA) amount on the line for the Employee Deduction on their tax returns. Department staff were not certain why this occurred, but thought it could be due to a knowledge gap or lack of proper guidance on software vendor platforms when individuals were filing their 2024 tax returns. Therefore, the deduction might be providing relatively little benefit to taxpayers relative to the cost and time for the Department to administer the deduction.

If the General Assembly decides to extend the Employer Credit and Employee Deduction, it could clarify whether the employer or the employee owns and controls the home savings account prior to the employee using the funds for eligible expenses. As discussed above, clarifying this could make the federal tax treatment of these contributions and accounts clearer regarding when the employee can claim the Employee Deduction. Alternatively, the General Assembly could clarify in statute that the employee is eligible to take the Employee Deduction in the tax year their employer makes the contribution to their account, regardless of whether the funds were included in federal income in that year. This would mean some employees would receive the state deduction in a prior year to when it is included in their federal income, but would help ensure the Employer Credit and Employee Deduction are taken in the same tax year and would eliminate the need to have a longer expiration date for the Employee Deduction.

If the General Assembly decides to extend the Employer Credit and Employee Deduction, it could consider directing the Department to collect the information from employers outlined in statute. As discussed above, we encountered significant data constraints that made it impossible for the OSA to evaluate the Employer Credit and Employee Deduction using the performance measures that the General Assembly

created. Specifically, statute provides that the OSA should measure the effectiveness of the Employer Credit in achieving its purpose based on records maintained by an employer that show (1) the number of employees for which the employer made employer contributions in the tax year, (2) the amount the employer contributed to each employee's home purchase savings account in the tax year as employer contributions, (3) the number of employees who expended money from a savings account on eligible expenses for a home purchase in the tax year, and (4) the total amount of any employer contributions made by the employer for use by the employee for eligible expenses in connection with a qualifying home purchase that an employee has forfeited in the tax year. These performance measures are not usable because the Department is not explicitly required to and does not collect the relevant information from employers, even though employers are required under statute to maintain records of the information. If the General Assembly extends the credit and wants the OSA to conduct an evaluation using these performance measures, it should specifically direct employers to maintain the information, the Department to collect the information from employers, and the Department to provide it to our office upon request.

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Declared Wildfire Disaster Rebuild Sales and Use Tax Refund



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Tax Expenditure Evaluation • June 2026 • 2026-TE3

Tax Type:	Sales and use
Expenditure Type:	Exemption (administered solely as a Refund)
Statutory Citation:	Section 39-26-734, C.R.S.
Year Enacted:	2023
Repeal/Expiration Date:	July 1, 2028
Revenue Impact:	Could not determine

Purpose given in statute or enacting legislation? **Yes**

The Declared Wildfire Disaster Rebuild Sales and Use Tax Refund (Wildfire Rebuild Refund) allows a homeowner repairing or rebuilding their home that was damaged or destroyed in a declared wildfire disaster from 2020 to 2022 to claim a refund of sales and use taxes in an amount equal to 4 percent of the total estimated construction and building materials cost of the rebuilt home. The homeowner must certify that they were the owner of the residential structure at the time it was damaged or destroyed and that the repair or replacement cost for each residential structure exceeds the coverage under any homeowner's insurance policy associated with the residential structure.

According to statute, the purpose of the refund is “to provide financial relief to Coloradans recovering and rebuilding from declared wildfire disasters.” Statute provides that the Office of the State Auditor should measure the effectiveness of the refund “based on the number of wildfire exemption certificates issued..., the number and amount of all refund claims allowed..., and an estimate by the state auditor of the proportion of homeowners affected by declared wildfire disasters who benefitted from the [refund] in the rebuilding or repairing of their homes” [Section 39-26-734(1)(c), C.R.S.].

We found:

- **Local governments issued about 600 Wildfire Rebuild Certificates for nearly \$10 million in estimated refunds related to the four state wildfire disasters that occurred in 2020 through 2022.** About 37 percent of owners of affected homes that were destroyed have been issued Wildfire Rebuild Exemption Certificates from local governments and therefore have potentially benefitted from the Wildfire Rebuild Refund. Utilization was highest among homeowners who lost homes in the Marshall Fire. Homeowners have until June 30, 2028 to submit a claim for the Wildfire Rebuild Refund, so the usage rate and revenue impact could continue to increase if more homeowners file a claim for the refund.

- **The requirement that the homeowner be underinsured on the destroyed home may have prevented or delayed usage for homeowners who were uncertain if they were underinsured.** Homeowners who waited until they knew their insurance payouts and rebuilding costs were finalized to determine if they met the underinsurance criteria went a long period of time between when their home was permitted to be rebuilt and receiving the Wildfire Rebuild Refund.
- **Administrative issues may have delayed refunds for some eligible homeowners.** Specifically, it appears that some local governments input the incorrect amount of the estimated building and construction materials cost on the certificates issued to homeowners. There were also administrative difficulties in jurisdictions where there is not a local use tax on building and construction materials because the homeowner had to input the building and construction costs, and they sometimes included costs that are not eligible for the refund. In both of these cases, the Department needed to correspond with the local government and/or homeowner in order to determine the correct amount, which added to the administrative burden on the Department to administer the refund and delayed the homeowner receiving their refund.

Policy Considerations

We found several issues with the Wildfire Rebuild Refund that likely reduced its use among eligible homeowners and delayed many refunds. If the General Assembly establishes a similar tax refund again in the future, it could consider:

- Using a different method to determine the refund amount that is simpler to administer. For example, providing a refund that is a set amount (e.g., based on average home size and estimated average cost per square foot to rebuild), using the assessed value of the destroyed home to determine the refund amount, or using another basis—such as property taxes—to determine the amount of assistance.
- Eliminating or simplifying the requirement for the homeowner to be underinsured to remove uncertainty on whether a homeowner can qualify for the refund.
- Removing the requirement that recipients owned the property at the time the home was destroyed to allow homeowners who could not afford to rebuild to still receive the benefit of the refund.

Declared Wildfire Disaster Rebuild Sales and Use Tax Refund

Background

The Declared Wildfire Disaster Rebuild Sales and Use Tax Refund (Wildfire Rebuild Refund) [Section 39-26-734, C.R.S.] provides a sales and use tax refund to qualified homeowners rebuilding a qualified residential structure in Colorado. A qualified residential structure is a residential structure that was damaged or destroyed by a wildfire that was declared a disaster by the Governor in Calendar Year 2020, 2021, or 2022. A qualified homeowner is a homeowner that is rebuilding or repairing a qualified residence they owned at the time of the disaster; if the property is sold after the disaster but before the residence is rebuilt, the new owner is not eligible for the refund. A refund is only allowed if the homeowner certifies that the replacement cost of the qualified residential structure exceeds the homeowner's coverage under any insurance policy associated with the structure.

The Wildfire Rebuild Refund allows homeowners to claim a refund of state and certain local sales and use taxes that have been or will be paid to repair or rebuild a qualified residential structure. Specifically, the homeowner can claim a refund on 4 percent of the estimated cost of construction and building materials used to repair or rebuild, which is equal to the Colorado sales and use tax of 2.9 percent plus the 1.0 percent Regional Transportation District (RTD) and 0.1 percent Scientific and Cultural Facilities District (SCFD) local sales and use taxes that are collected by the State. The refund percentage is the same regardless of whether the homes are within or outside of these local tax districts. Qualified homeowners are eligible to apply for and receive the Wildfire Rebuild Refund once a permit to rebuild or repair a qualified residence has been issued; the repair to a residence or rebuilding of the residence does not need to be completed at the time the homeowner applies for and/or receives the refund. This tax expenditure is administered solely as a refund and is not applied to building or construction materials at the point of sale.

There were 16 declared wildfire disasters that occurred in Colorado from 2020 to 2022.

Our office consulted with assessors in the counties where these declared wildfire disasters occurred and determined that four declared wildfire disasters resulted in the damage or destruction of homes that would be eligible for the refund. Exhibit 1 shows the year, name, and location of the 16 declared wildfire disasters and shows which wildfires destroyed private residences in Colorado and which did not.

Exhibit 1**16 Declared Wildfire Disasters Occurred in 2020, 2021, and 2022**

More than 1,600 homes in total were destroyed in the following four fires:

Year	Name	County
2020	Calwood	Boulder
2020	East Troublesome	Grand and Larimer
2020	Cameron Peak	Larimer
2021	Marshall	Boulder

There were 12 declared wildfire disasters between 2020 and 2022 that did not result in the destruction of any privately owned homes in Colorado. Those include:

Year	Name	County
2020	Lefthand	Boulder
2020	Grizzly Creek and Red Canyon	Garfield and Eagle
2020	Mullen	Jackson
2020	Elephant Butte	Jefferson
2020	Lewstone	Larimer
2020	East Fork	Las Animas
2020	Pine Gulch	Garfield and Mesa
2021	Muddy Slide	Routt
2022	Bent's Fort and Fort Lyons	Bent and Otero
2022	Menkhaven	Conejos
2022	Ute Pass	La Plata
2022	High Park	Teller

Source: Office of the State Auditor analysis of Department of Revenue Application for Wildfire Rebuild Exemption Certificate form instructions (DR 0992); Governor's Executive Orders issued disaster declarations in 2020, 2021, and 2022; and information from county assessors.

According to the Colorado Division of Fire Prevention and Control within the Department of Public Safety, Colorado recorded the three largest fires in state history in terms of acres burned in 2020. The Cameron Peak fire began in August and burned for nearly 4 months. It became the largest wildfire ever recorded in Colorado, burning more than 208,000 acres. The East Troublesome fire began in October and quickly grew to become the second largest fire, burning almost 194,000 acres. The Pine Gulch fire was the third largest in state history, consuming about 139,000 acres; however, as shown in Exhibit 1, it did not destroy any homes. The Marshall Fire in 2021 was the most destructive wildfire in state history in terms of residences destroyed—burning about 1,100 homes and causing damage to thousands more—with an initial estimate of \$513 million in residential property damage that was later updated to about \$1 billion in residential property damage.

The Wildfire Rebuild Refund was created in 2023 by House Bill 23-1240. Qualified homeowners could start the application process for the Wildfire Rebuild Refund beginning in fall 2023. Their first step required is to submit an Application for Wildfire Rebuild Exemption Certificate (form DR 0992) to the local government that issued their building permit. The technical note provides additional detail about the information the homeowner is required to provide on this form.

Technical Note: There are seven sections of the Application for Wildfire Rebuild Exemption Certificate form that the homeowner needs to complete.

Section 1 asks the homeowner for identifying information, including their name, Social Security number (SSN) or individual taxpayer identification number (ITIN), mailing address, phone number, and email (optional). The form asks the applicant to only list one name.

Section 2 asks for contact information on the primary contractor hired to rebuild or repair the residence.

Section 3 asks for building permit information for the residences being repaired or rebuilt, including the building permit number. There is space for the applicant to list three addresses or building permits.

Section 4 asks the homeowner to select which of the 16 eligible declared wildfires damaged or destroyed their residence.

Section 5 requires the homeowner to certify that they were the owner of the residential structure at the time it was damaged or destroyed by the wildfire and that they are either rebuilding or repairing the structure.

Section 6 requires the homeowner to certify that the repair or replacement costs of home(s) listed in section 3 exceeds the homeowners coverage under any insurance policy associated with the above-listed structures.

In **Section 7**, the homeowner, or person acting as their power of attorney, signs and dates the form.

After receiving an Application for Wildfire Rebuild Exemption Certificate from a homeowner, the local government verifies whether the homeowner's information is correct and, if so, completes a Wildfire Rebuild Exemption Certificate (form DR 0993). The local government official must provide additional information on the Wildfire Rebuild Exemption Certificate, including permit information and the estimated cost of construction, when available. The technical note provides additional detail about the information the local government official and the homeowner are required to provide on this form. The local government then issues the Wildfire Rebuild Exemption Certificate to the homeowner.

Technical Note: Upon receipt of a completed Application for Wildfire Rebuild Exemption Certificate, the local government reviews the application and, if approved, completes sections 1 through 5 of the Wildfire Rebuild Exemption Certificate (DR 0993).

In **Section 1**, the local government official lists their contact information.

Section 2 asks the local government official to enter the name, SSN or ITIN (truncated to the last four digits is allowed), mailing address, email address (this is optional), and phone number of the qualified homeowner from the DR 0992 application.

Section 3 asks for the contractor's name and contact information.

Section 4 requires the local government official to provide the address, building permit number, and estimated construction and building materials cost. The local government often has the estimated construction and building materials cost because it is generally the amount that the local government uses to collect estimated use tax when issuing the building permit. If the local government makes an estimate for the purpose of collecting a use tax, this estimated amount is used in Section 4. If the local government does not make an estimate of the total project cost or valuation for purposes of collecting an estimated use tax (e.g., if the local government does not have a local use tax), the local government official is instructed to enter N/A. In those cases, as discussion later in this technical note, the homeowner is required to fill in this amount, typically based on the construction contract or the final invoice from the contractor.

In **Section 5** the local government official signs to certify that the local government issued the building permit, affirms the residential structure is qualified as defined in statute, the homeowner is the same homeowner as at the time of the fire, and that the estimated construction and building materials cost, if listed, was used by the local government to collect use tax in connection with the issuance of the building permit.

The homeowner is required to complete Section 6 of the certificate prior to submitting it to the Department of Revenue.

In **Section 6**, the homeowner enters their name, full SSN or ITIN, the total estimated construction and building materials cost from Section 4 or calculate that cost themselves if the local government entered "N/A" (in this case the homeowner is also required to include a copy of the construction contract or final invoice showing total costs of construction), then multiply the total costs by 4 percent to calculate the total refund.

The homeowner then submits the Wildfire Rebuild Exemption Certificate and any required documentation to the Department of Revenue (Department), and Department staff indicated that the Department typically issues a refund to the homeowner in the form of a check within a month of receiving the certificate. The Wildfire Rebuild Exemption Certificate can be submitted to the Department through June 30, 2028.

We did not identify any other states that offer a sales or use tax refund for homeowners rebuilding after a disaster like Colorado's refund. However, we identified two states with sales tax refunds and one with a credit that help provide financial relief to residents recovering from federally declared major disasters. Louisiana allows residents who lost property due to a disaster to claim a refund of state sales taxes paid on property losses not reimbursed by insurance or the federal government; however, it is limited to property that is movable, such as furniture and appliances. Tennessee offers claimants receiving federal disaster assistance from the Federal Emergency Management Agency (FEMA) a refund for sales tax paid on purchases of major appliances, residential furniture, and residential building supplies used for the restoration, repair, replacement, or rebuilding of the individual's primary residence. Tennessee limits its refund to a maximum of \$2,500 per residence. Oklahoma also offers residents whose homes were destroyed in a Presidential Declared Major Disaster to claim a refundable income tax credit equal to the difference between property taxes after the home was rebuilt and before the disaster occurred. If the homeowner increased the size of their home during rebuilding, they must prorate their credit based on the square footage of the destroyed home. Taxpayers may claim the credit for 5 years, but the credit amount is decreased by 20 percent each year.

Statute provides that the purpose of the Wildfire Rebuild Refund is “to provide financial relief to Coloradans recovering and rebuilding from declared wildfire disasters” [Section 39-26-734(1)(b), C.R.S.]. This refund was established with the passage of House Bill 23-1240 in 2023 with the intent of helping underinsured homeowners rebuild their homes. The State experienced a record Taxpayer's Bill of Rights (TABOR) surplus exceeding \$3.7 billion in Fiscal Year 2022 and the surplus exceeded \$3.6 billion in Fiscal Year 2023. In light of the historically large surpluses, which would be even larger due to the “windfall” to the State from the unexpected sales and use tax revenues generated as over 1,000 homes were rebuilt, legislators thought this was a chance to provide more targeted financial assistance to underinsured homeowners who lost their homes in wildfires. According to testimony in support of the bill, the State had a choice between either collecting the added revenues, which could have resulted in a few extra dollars to refund checks all taxpayers received that year (which were \$800 for individuals and \$1,600 for joint filers), or refunding these added sales and use tax dollars to homeowners whose rebuilding costs exceeded their insurance payouts. The Fiscal Note for this bill estimated TABOR refunds in Fiscal Year 2024 would be reduced by \$4.1 to \$8.4 million and reduced between \$3.0 to \$5.7 million in Fiscal Year 2025.

Statute provides three performance measures for determining the effectiveness of the refund. Specifically, statute states, “the state auditor shall measure the effectiveness of the [refund]... based on the number of wildfire exemption certificates issued..., the number and amount of all refund claims allowed..., and an estimate by the state auditor of the proportion of homeowners affected by declared wildfire disasters who benefitted from the [refund] in the rebuilding or repairing of their homes” [Section 39-26-734(1)(c), C.R.S.].

Evaluation Results

Based on our review of available data, it appears that about 600 Wildfire Rebuild Exemption Certificates were issued by local governments between September 2023 and March 2026, covering about 37 percent of the homes destroyed in the declared wildfire disasters that occurred in 2020, 2021, and 2022.

Based on information local governments submitted to the Department, we found that 608 rebuilt homes that were destroyed in one of the 2020, 2021, or 2022 wildfires and subsequently rebuilt benefitted from the Wildfire Rebuild Refund. The number of certificates (598) was slightly different than the number of homes rebuilt that benefitted from the refund because some homeowners were issued certificates more than once, some homeowners received amended certificates for the same property, and in some cases multiple homes were listed on the same certificate.

Exhibit 2 shows the distribution of the 608 homes whose owners benefitted from the refund as well as the number of homes destroyed in declared disasters for each jurisdiction.

Exhibit 2

Number of Homes Rebuilt That Received a Wildfire Exemption Certificate Compared to the Total Homes Destroyed in Declared Disasters

Declared Disaster Fire	Local Government Issuing Building Permit	Number of Homes Rebuilt That Received a Wildfire Exemption Certificate (DR 0993)	Total Homes Destroyed	Percentage of Homes Destroyed That Benefitted from the Refund
Cameron Peak	Larimer	14	184	8%
East Troublesome	Grand	61	370	16%
Calwood	Boulder	0	20	0%
Marshall	Boulder	56	157	36%
Marshall	Superior	162	378	43%
Marshall	Louisville	315	550	57%
4 Fires Combined	Various	608	1,659	37%

Source: Office of the State Auditor analysis of local government data, county assessors reports and assessments, correspondence with county assessors, and reports submitted to the State Treasurer for homes destroyed by natural disasters seeking property tax relief under House Bill 14-1001.

As shown in Exhibit 2, overall, about 37 percent of the homeowners whose homes were completely destroyed benefitted from the refund. There are a few caveats to our analysis.

First, statute instructs us to make an estimate “of the proportion of homeowners affected by declared wildfire disasters who benefitted from the [refund] in the rebuilding or repairing of their homes.” This language suggests that the estimate should be based on the number of homeowners who received a refund. As discussed later in this report, the Department was not able to provide us

with data on how many homeowners claimed the refund. Therefore, we based our estimate on the number of homeowners who were issued a Wildfire Rebuild Exemption Certificate from a local government, but we do not know whether everyone who was issued an exemption certificate filed their refund claim with the Department and received the refund.

Second, we were not able to find comprehensive and reliable data on the number of residential structures that sustained damage but were not completely destroyed in any of the wildfires eligible for this refund. The Boulder County air quality coordinator, Bill Hayes, said “We don’t have an accurate count of the number of homes that suffered smoke damage...but there are between 13,000 and 14,000 homes in the burn area that were not destroyed...I think it’s safe to say that a large majority of those [homes] suffered a degree of smoke damage ranging from mild to severe.” The winds that fueled the fires also spread toxic smoke that damaged homes (e.g., damaged insulation that needed to be replaced, and homes needing deep cleanings to remove volatile organic compounds, or VOCs). The City of Louisville issued over 1,400 permits to replace insulation in smoke-damaged homes. We could not identify any estimates of the number of homes damaged in the other eligible wildfire disasters. Therefore, our estimate of the proportion of homeowners affected by declared wildfire disasters who benefitted from the refund (as shown in Exhibit 2) only considers homes that were entirely destroyed. It is possible that some additional homes were damaged and were potentially eligible for the refund; however, based on our review of the refund amounts individual homeowners were eligible to take, it appears that almost all claims for the refund were for homes that were completely destroyed and claims for repairs on damaged homes were uncommon. It is possible that insurance was more likely to fully cover this damage, in which case the homeowner would not be eligible for the refund. In addition, some homeowners might have relied on other programs to repair damaged homes. The Boulder Community Foundation Disaster Assistance Fund provided grants for smoke and ash damaged properties that directly paid a third-party provider for repairs, so it is likely that some homeowners used this grant program instead of insurance to cover these repairs. It is also possible that homeowners who had damage were less likely to be aware of the refund or did not think it was worth the time to take the administrative steps necessary to claim it since the amount of the refund might only be a few hundred dollars or less. However, we were ultimately not able to determine why more homeowners did not claim the refund for damage.

Third, although there were 1,659 homes that were fully destroyed in the four fires, because of the statutory eligibility requirements that (1) the home be permitted to be rebuilt, (2) the homeowner that is rebuilding or repairing the home must be the same homeowner that owned the property at the time of the wildfire, and (3) the replacement cost to rebuild the home must exceed the homeowner’s insurance coverage, not all of the 1,659 homes destroyed were eligible for the Wildfire Rebuild Refund at the time of our evaluation. We were unable to determine the precise number of homes out of the 1,659 that were destroyed that are ineligible for the refund because of these requirements; however, many of the homes destroyed would not meet one or more of the three criteria to apply for the refund, as discussed below. This means that usage among the eligible homeowners is likely higher than 37 percent.

We identified several factors that may have limited usage in the refund.

- **In many cases, properties were sold prior to the home being rebuilt.** As discussed, the refund is limited to the same property owners who owned the property at the time of the qualifying wildfire; therefore, properties that are sold prior to rebuilding are not eligible. The percentage of homeowners who sold their lots is indeterminate and varies by location. For example, we could not identify a source of information to determine the number of homeowners who sold after the Cameron Peak fire in Larimer County or the East Troublesome fire in Grand County. A Boulder County official said nearly 200 homeowners sold their lots after the Marshall Fire. One municipality impacted by the Marshall Fire provided our office with a list of homes that were sold and rebuilt by a different owner that showed 17 percent of homes were ineligible for its local use tax refund since they were sold to a different owner. There are a number of reasons a homeowner might choose to sell their lot rather than rebuild, but homeowners who are significantly underinsured are less likely to be able to afford to rebuild their homes and may choose to sell to pay off existing mortgages on the property and to minimize their losses.
- **In some cases, destroyed homes have not yet been permitted to rebuild.** For example, 125 homes in Larimer County had not been rebuilt or permitted to be rebuilt as of early 2026. If these homes were underinsured, have not been sold, and are permitted to rebuild between now and early 2028, the owners can submit a Wildfire Rebuild Exemption certificate to the Department. This could increase the share of homeowners who benefitted from this expenditure before it expires on June 30, 2028.
- **A small share of the homes that were destroyed were fully insured.** As discussed, the Wildfire Rebuild Refund is only allowed to homeowners who certified that the cost to rebuild their home exceeded the insurance proceeds from any insurance policy for the destroyed home. Those homeowners whose insurance proceeds fully covered the cost to rebuild could not receive a refund. A Colorado Division of Insurance study analyzed the insurance policies of 951 of the 1,084 homes destroyed in the Marshall Fire and found that 76 homes, or 8 percent of the policies analyzed, had guaranteed replacement coverage and stated “underinsurance is not a problem for these homes.” According to a survey from United Policy Holders conducted 2 years after the Marshall Fire, “15% of survey respondents reported they have enough insurance to cover the cost of replacing or rebuilding their home.” In another survey from United Policy Holders about the 2020 Colorado wildfires, “28% of survey respondents reported they [had] enough insurance to cover the cost of repairing, replacing or rebuilding their homes.”
- **The requirement that homes be underinsured may limit participation of homeowners who are uncertain if they are underinsured.** It is possible that the requirement that a homeowner certify that they were underinsured drove down usage of the refund among the eligible homeowners or has delayed them in applying for it since they may not know at the time the rebuild is permitted whether their insurance will cover the cost to rebuild the destroyed home. There are a couple of potential issues with the underinsurance requirement. First, some homeowners may not have known at the time they received their building permits whether

insurance would cover the full replacement cost of their destroyed home. According to a United Policy Holders Survey done 1 year after the 2020 fires, “8% of survey respondents reported they do not know yet if they are underinsured.” According to a similar survey from United Policy Holders done 2 years after the Marshall Fire, “7% of survey respondents reported they do not know yet if they are underinsured.” Additionally, homeowners are unlikely to rebuild an exact replica of the destroyed home, so most homeowners would not know the cost to replace it. As mentioned in the technical note above, the homeowner is required to certify that the repair or replacement costs of the residential structure exceeds the coverage under any homeowners insurance policy. Some homeowners could be unwilling to certify that the replacement cost exceeded their insurance coverage, without knowing the replacement cost or the final amount of insurance coverage.

Since it can be difficult for homeowners to determine that they are underinsured when applying for their building permit, it is possible that some eligible homeowners delayed applying for the refund or chose not to apply because they were uncertain if they qualified. Coverage Neglect in Homeowners Insurance, a research paper prepared by J. Anthony Cookson and Emily A. Gallagher at the University of Colorado Boulder and Philip Mulder at the University of Wisconsin Madison, included data on 989 policies linked to homes that were completely destroyed by the Marshall Fire and found that 74 percent of policyholders were underinsured. However, despite the likelihood of being underinsured, according to one local government official that we spoke with, some homeowners were hesitant to apply for the state refund because they had not settled with their insurance company yet and were not sure what their final insurance payout would be, so they were concerned they might have to repay the State later. Statute allows homeowners who are rebuilding to use the estimate of building and construction costs listed on the building permit, which suggests that legislators intended for homeowners to be able to receive the Wildfire Rebuild Refund earlier in the rebuilding process in order to receive financial relief sooner. However, the total proceeds from insurance policies are often unknown to the homeowner until their home is complete, a process that can stretch a few years. Similarly, the final cost to rebuild is often unknown until the builder sends its final invoice and the final payment could be higher than the estimated construction costs when the house was permitted. This uncertainty could cause some homeowners to delay applying for the refund or to not apply at all.

Homeowners who lost homes during the Marshall fire were significantly more likely to claim the refund than homeowners in other areas due to several factors. As shown in Exhibit 2, the percentage of homeowners who benefited from the refund is highest for homeowners whose homes were destroyed by the Marshall Fire. There are several reasons why homeowners impacted by the Marshall Fire may have higher usage rates of the Wildfire Rebuild Refund than the other three disasters in which homes were destroyed. These include:

- **Less Time Delay.** The Calwood, East Troublesome, and Cameron Peak fires occurred about 3 years before the refund became available, so it is likely the sizable time lag between the disaster and the availability of the refund decreased its utilization for property owners impacted by these 2020 fires. In contrast, the Marshall Fire occurred about a year and a half before the creation of

the refund. The time delay matters because when a homeowner's primary residence is destroyed, their insurance company typically provides for additional living expenses (ALE) while the homeowner is rebuilding and includes temporary housing. However, this coverage typically only lasts for 1 or 2 years, and after a homeowner's ALE coverage is exhausted, the homeowner must pay the cost of their temporary housing out of pocket (in addition to continuing to pay the mortgage on the destroyed home). This situation leads many homeowners to sell their lots.

- Location with a High Demand for Residential Building Sites and Growing Population.** According to a 2015 report in the International Journal of Wildland Fire, historically, by 5 years after a wildfire occurs, typically only about 25 percent of residents whose homes were destroyed have rebuilt their homes. However, according to the report, "high demand for residential building sites to house a growing population provides incentive for rebuilding and for new development." The growing population of the Denver Metro area (of which Superior, Louisville, and unincorporated Boulder County are a part) along with highly in-demand and high-value residential building sites are a couple of reasons why the Marshall Fire had high rebuilding rates as well as the highest usage of Wildfire Rebuild Refunds.
- More Occupied Homes.** Homes destroyed in the Marshall Fire were more likely to be owner-occupied or renter-occupied compared to the homes burned in other declared wildfire disasters, which may have also contributed to higher rebuilding rates. According to the 2020 Census, 94 to 96 percent of homes in Superior, Louisville, and Unincorporated Boulder County were occupied at the time of the decennial census about 1.5 years before the Marshall Fire. In contrast, the Larimer County sheriff's department reported that 42 of the 184 homes that were destroyed in the Cameron Peak Fire were primary homes. Primary homes accounted for 184 of the 370 homes destroyed in the East Troublesome Fire (note that we were unable to determine an accurate rebuild rate for the East Troublesome Fire because Grand County permitting data was incomplete and only included permits issued as of January 2024). As discussed, insurance typically covers up to 2 years of temporary living expenses as homeowners rebuild their homes, providing a sense of urgency for primary homeowners to rebuild and move into their home before this benefit expires. Conversely, owners of second-homes and cabins do not face a similar time constraint and might delay rebuilding, especially if underinsurance leaves them with insufficient funds.
- Multiple Local Government, Nonprofit, and Utility Programs Available to Help Marshall Fire Homeowners Rebuild.** There were also many additional programs and local government refunds and rebates that were available to homeowners affected by the Marshall Fire that helped to provide financial relief to these homeowners and made them more likely to rebuild. For example, a property owner in Boulder County rebuilding after the Marshall Fire potentially could have received more than \$100,000 in financial relief from programs that were not offered to homeowners whose properties were destroyed in other declared disasters. The financial relief from debris removal, local government permit fee reductions and use tax rebates, FEMA grants and Small Business Administration loans, community foundation grants, utility rebates, and rebates from the Colorado Energy Office (all of which are discussed in more detail below) likely contributed to the higher rates of rebuilding after the Marshall Fire.

- **Local Government Sales and Use Tax and Permit Rebates.** Boulder County, the Town of Superior, and the City of Louisville each established sales and use tax refunds or rebates in 2022 for homeowners impacted by the fire. One rebate could be applied for while the homeowner was applying for their building permits and, according to a stakeholder we interviewed, refunds were provided to homeowners in as little as one week after the application was submitted.

The Town of Superior provided residents with a 47 percent discount on its building permit fees and allowed residents to claim a refund for local sales and use tax beginning on February 28, 2022. The Town of Superior's recovery website indicates that as of March 2026, it had refunded more than \$3.21 million to 273 residents who applied for its rebate and permit fee reduction, which is about \$11,750 for each resident.

In September 2022, Boulder County instituted a use tax refund for homeowners rebuilding; the county gave homeowners 3 years from the date of the fire to claim the refund and later extended the deadline to January 31, 2025 for those whose homes were damaged or destroyed in the Marshall Fire and who had obtained an approved building permit. The refund was limited to \$3,500 in 2022, but the refund cap was increased to \$4,200 in 2023 through 2025. When this refund closed, the county reported it had provided 676 homeowners with a total of \$2.14 million in refunds. Boulder County's use tax was 0.985 percent in 2022 and increased to 1.185 percent in 2023. By applying a limit of \$3,500 to the refund in 2022, the county effectively only allowed \$355,300 of estimated construction costs to qualify for the refund. The 2023 to 2025 cap of \$4,200 effectively limited the county's use tax refund to the first \$354,400 of total construction costs.

The City of Louisville established its use tax refund on October 3, 2022; this refund was available for Louisville property owners who owned a property with a home that was destroyed or sustained significant structural fire damage as a result of the Marshall Fire. The program is also available to property owners in Superior, Louisville, and unincorporated Boulder County who owned a property with a home that was destroyed and purchased a different lot in Louisville with a home that was destroyed. This refund program had two distinct differences from the state's refund: (1) a qualified homeowner was not required to rebuild in the same location to claim the refund, and (2) certain homeowners who rebuilt significantly larger homes under a more lenient energy-efficiency standard received a reduced rebate of city use taxes. The City of Louisville provided our office with a list of all properties that were provided use tax rebates from the municipality. This data showed Louisville provided rebates to roughly 440 homeowners through January 2026 and the rebates totaled over \$6.57 million.

Collectively, the use tax rebates provided by Boulder County, Superior, and Louisville provided nearly \$12 million in financial relief to more than 675 property owners. By contrast, the Wildfire Rebuild Refund provided an estimated \$8.3 million in financial relief to 533 property owners in Boulder County. It is worth noting that the amount of use tax refunded to Boulder County residents would have been larger if not for the cap. More than 300 homes

that were given exemption certificates by local governments in Boulder County had an estimated construction cost exceeding \$355,000. Several houses rebuilt in Boulder County had estimated construction costs over \$1 million. A hypothetical homeowner building a home in 2023 with a \$1 million estimated construction cost would pay \$11,850 in Boulder County use taxes and \$40,000 in state and state-collected local sales and use taxes. While the \$4,200 cap on the county refund would limit the homeowner to recovering 35 percent of county use taxes paid, since the Wildfire Rebuild Refund is not limited, the homeowner could recover 100 percent of the \$40,000 paid in state and certain state-collected local sales and use taxes.

Boulder County also reduced fees on permits for tearing down the house and then rebuilding. Boulder County charged residents a \$100 flat fee for their demolition permits after the Calwood and Marshall Fires. Additionally, Boulder County reduced the permit fee on home rebuilds by \$4,400 for the primary residence and by 25 percent on permits for detached garages. Boulder County also helped lead a Private Property Debris Removal (PPDR) program; 566 property owners in the county opted into this program to get all the burned debris off their lots at no cost to the property owner. This program cost \$35 million and was 90 percent FEMA-funded, with the State and local governments each covering 5 percent. This program cleared the debris from all lots in 4 months. If the cost of debris removal was not covered by the PPDR, the homeowner would pay the cost out of the insurance payout, which reduced the amount of insurance proceeds that could be used to rebuild the house. By contrast, residents in Larimer County did not have a publicly-funded and coordinated effort to remove debris from private property and had volunteers help clear debris, while Grand County opted out of a FEMA led debris removal program and coordinated with volunteers to clear lots, leaving some homeowners still clearing debris years after the Cameron Peak and East Troublesome Fires. Clearing all debris and mitigating ash and other damage to the soil is a precondition for rebuilding.

- **Nonprofit Grants.** The Boulder Community Foundation raised more than \$44 million dollars from donations and interest that were distributed to those impacted by the Marshall Fire and helped them to meet immediate costs as well as to access additional funding that could be used towards the rebuilding of the house. According to a 2024 Boulder County Wildfire Fund report, more than \$17 million of the funds raised went to a rebuild fund; 638 properties received assistance from the rebuild fund with an average award of \$23,500. By contrast, the Grand Foundation raised and distributed about \$2.44 million and provided \$1.76 million to 283 homeowners impacted by the East Troublesome Fire, which is about \$6,200 per household, and the Larimer County Long-Term recovery group raised \$1.68 million in donations and distributed \$1.15 million, with about \$250,000 going to property recovery for homeowners impacted by the Cameron Peak Fire.
- **Energy Incentives.** Xcel Energy and the Colorado Energy Office (CEO) offered incentives to Marshall Fire homeowners rebuilding to higher energy efficiency standards. Xcel's incentives ranged from \$7,500 to \$37,500 for those rebuilding and allowed an incentive to those who purchased a lot after the fire in an amount between \$1,250 and \$15,000. Xcel's

program provided a rebate check to customers. The program opened to customers in March 2022 and is available to homes permitted by June 30, 2025 and completed by December 31, 2026. As of November 2025, 540 customers had taken advantage of this rebate program and had received over \$6 million from the program. The CEO provided more than \$1.8 million to 183 households from the CEO Electrification Rebate program launch date in March 2022 to November 2025; this program ran through April 2026. A research paper from the Urban Institute published in December 2025 reported that 70 percent of all homes rebuilt after the Marshall fire were rebuilt to energy codes exceeding the 2018 International Energy Conservation Code (IECC). A study commissioned by the City of Louisville “found that the cost of building to the higher energy codes [above 2018 standards] would be roughly \$6,000 to \$22,000 per home, before incentives.” It also said “a homeowner rebuilding to the Passive House standard could earn a total of \$57,500 in incentives.” The Passive House standard is the highest level of energy efficiency rebate offered. Eight homeowners rebuilt to the Passive House standard.

- **Xcel Payouts.** Xcel Energy also settled a civil lawsuit before it went to trial in September 2025 for \$640 million. According to a Colorado Public Radio news article on the settlement, the terms of the settlement are confidential and the utility admitted no wrongdoing. More than 2,000 Coloradans stood to benefit from this settlement, including around 600 minors and children. Homeowners benefitting from this settlement could be more likely to rebuild, even if underinsured.

Based on the Wildfire Rebuild Exemption Certificates issued by the local governments, we estimate that the amount of all refunds could be around \$10 million total if everyone who was issued a certificate claimed the refund. The Department was unable to provide us with data showing the total amount of Wildfire Rebuild Refunds that were issued, so we were unable to determine whether homeowners who were issued exemption certificates ultimately claimed the refund, the amount they received, and the revenue impact to the State. Specifically, Department data for refunds issued for 2021 was not publicly releasable due to taxpayer confidentiality requirements. In addition, Department staff told us that data for 2022 could not be provided because that is not a year it publishes data for in its other reports, such as the Tax Profile and Expenditure Report, and the Department generally does not have resources to provide data beyond what it already captures and extracts from tax forms for its own reports. Finally, at the time of our evaluation, refund data for 2023 was unavailable due to Department time and resource constraints. Department staff indicated that the 2023 data will be available in January 2027. Notably, when the Department reports on claims and the revenue impact for the Wildfire Rebuild Refund, it reports them based on the permit date; in cases when it does not have the permit date, it uses the date that the Wildfire Rebuild Exemption Certificate was issued. For example, for a home that was permitted and rebuilt in 2021 and had a Wildfire Rebuild Refund issued for that home in 2023, that refund would be included in the Department’s 2021 data.

Exhibit 3 shows our estimate for the total potential refunds issued to homeowners for the Wildfire Rebuild Refund, which provides the approximate revenue impact to the State for all years the refund is available.

Exhibit 3**Estimated Total State Revenue Impact of the Wildfire Rebuild Refund, Presented by Declared Wildfire Disaster**

Declared Disaster Fire	Local Government Issuing Building Permit and Certificate	Number of Homes Benefiting from the Refund	Estimated Construction Costs	Sales or Use Tax Refunded (0.04 x Estimated Construction Costs)	Average Refund per Homeowner
Cameron Peak	Larimer County	14	\$2,226,929	\$89,077	\$6,363
East Troublesome	Grand County	61	\$35,016,860 ¹	\$1,400,674	\$24,573 ²
Calwood	Boulder County	0	\$0	\$0	\$0
Marshall	Boulder County	56	\$31,764,511	\$1,270,580	\$22,689
Marshall	Superior	162	\$44,752,050	\$1,790,082	\$11,050
Marshall	Louisville	315	\$131,474,637	\$5,258,985	\$16,695
4 Fires Combined	Various	608	\$245,234,987	\$9,809,399	\$16,241²

Source: Office of the State Auditor analysis of Wildfire Rebuild Exemption Certificates (DR 0993) provided to our office by local governments, examination of certificates in GenTax, and Grand County assessor's website for properties issued a Wildfire Rebuild Exemption Certificate.

¹ Since Grand County does not charge a use tax and reported "N/A" on the estimated construction and building cost totals on the certificates issued and reporting spreadsheets, the total construction costs for homeowners rebuilding and the refunds they were approved to receive could not be precisely determined. We were able to identify 5 homeowner accounts in GenTax and used the amount of the refund issued to those homeowners and then divided this amount by 4 percent to calculate the estimated total construction and building costs on which the refund was based. For another 52 properties, we found the 2025 assessed value of the property on the assessor's website and multiplied that amount by 40 percent (which was the average construction and building materials cost as a percentage of assessed value for the homes we had data on) to estimate the approximate total cost of construction and building materials that were subject to the refund. We were unable to find the address or assessed value for 4 homeowners who claimed the refund; these homes were excluded from the cost estimate. Using this method, total construction costs were estimated at \$35.02 million and the total amount refunded to homeowners totaled about \$1.4 million, but the actual amount of refunds provided to Grand County homeowners could differ slightly from that estimate. Additionally, some homes were still in the process of being rebuilt and the assessed value of these homes is not reflective of the actual value of the house once it is rebuilt.

² As discussed in footnote 1 immediately above, we were unable to find the address or assessed value for 4 of the 61 homeowners who were issued exemption certificates. Therefore, the average refund per homeowner for Grand County was based on the 57 we were able to find data for, and the overall average was calculated based on 604 rather than 608.

In general, we used the estimated construction and building costs listed on the Wildfire Rebuild Exemption Certificates to make our estimates in Exhibit 3. However, as discussed later in this report, the estimated construction and building costs listed on some forms were incorrect were subsequently corrected by the Department. We searched for Wildfire Rebuild Exemption Certificates in GenTax, which is the Department's tax return processing and data storage system. When we found adjustments made in GenTax to a refund claim, we used the actual amount allowed rather than an estimate. However, due to time constraints and the limitations of searching in GenTax, we were not able to locate all refund claims in GenTax, so the revenue impact presented in Exhibit 3 should be considered an estimate rather than the actual revenue impact. Additionally, Grand County did not provide estimated construction and building costs on the Wildfire Rebuild Exemption Certificates because it does not collect a use tax. Therefore, we used a different method for estimating most of the refunds for Grand County, which is described in the footnotes to Exhibit 3.

Additionally, our estimated Wildfire Rebuild Refund revenue impact to the State may underestimate the actual revenue impact to the extent that additional Wildfire Rebuild Refund claims have been processed by the Department that were not included on the list of Wildfire Rebuild Exemption Certificates provided to us by local governments. Similarly, certain cost estimates that were adjusted higher in an amended application were not captured in our estimate and could lead to a higher total cost to the State; about 6 percent of claims were amended higher according to the Department. Conversely, to the extent that the Department rejected or reduced the amount of the refund requested, the estimated cost to the State could also be lower. Additionally, as previously mentioned, homeowners have until June 30, 2028 to submit a claim for the Wildfire Rebuild Refund, so the total revenue impact could continue to increase if more homeowners file a claim for the refund. It is possible that some homeowners who already rebuilt and later become aware of the refund will apply for it.

It is also worth noting that the Wildfire Rebuild Refund applies only to items used in the construction of the house that become a permanent part of the house once it is rebuilt, such as lumber, drywall, insulation, plumbing, flooring, and shingles. Homeowners who lost their homes in a Colorado fire also need to replace the contents that were lost in the fire, such as clothing, computers, televisions, books, works of art, furniture, window coverings, grills, outdoor furniture, fences, swing sets, tools, bicycles, and cars. A homeowner would spend tens of thousands or more likely hundreds of thousands of dollars to replace all the personal items they lost in a fire. The purchase of these items after a home is rebuilt has the potential to generate substantial sales tax revenue for state and local governments, which partially offsets the revenue impact of the Wildfire Rebuild Refund and is not accounted for in our estimate.

We identified administrative issues with the Wildfire Rebuild Refund that delayed financial relief for some filers and likely added to the administrative burden on the Department to administer this refund. Specifically, it appears that some local governments input the incorrect amount of the estimated construction and building materials cost on the Wildfire Rebuild Exemption Certificate issued to the homeowner, which resulted in them needing to reissue the form with the corrected amount or the Department needing to make adjustments to the refund amount,

which took additional time and, often, additional communication with the homeowner. As explained in the technical note in the Background section of this report, local government officials were instructed to include the estimated construction and building materials cost on the form. According to the form, “[t]his is generally the amount that the local government uses to collect estimated use tax when issuing the building permit. It is often a percentage of the contract price or project cost valuation. If the local government completing this form DR 0993 makes such an estimate for the purpose of collecting estimated use tax, enter that estimate...” We were able to match claims of the Wildfire Rebuild Refund with permits issued for rebuilds in one jurisdiction and found that 45 percent of the Wildfire Rebuild Exemption Certificates (DR 0993) issued by that jurisdiction had an estimated construction and building materials cost of 100 percent or more of the total project cost listed on the building permit, indicating that the local government had put the incorrect amount on the form. This is a problem because the 4 percent refund is calculated based on that amount. We looked up a targeted selection of these homeowners in GenTax to see if their refund matched 4 percent of the total estimated cost total and found that the Department corrected their requested refund amounts, usually reducing the refund amount by half. This created a substantial amount of work for the Department and could delay the time required to process a refund check by several months as the correct refund amount was calculated and approved by the Department. In more than one instance, the homeowner disagreed with the recalculated lower refund amount and protested the decision by the Department, further delaying their refund.

There were also administrative difficulties issuing Wildfire Rebuild Refunds to homeowners in jurisdictions where there is not a local use tax. The East Troublesome Fire destroyed homes in Grand County, which does not have a use tax and, therefore, per the form instructions, the local government official entered “N/A” on the form. We were able to find some of the refund claims filed by Grand County residents in GenTax and found many of them were initially denied by the Department since the homeowner did not provide a copy of their construction contract or the final invoice showing the total rebuilding cost. A number of refund requests for Grand County residents were also amended by the Department after they determined the homeowner did not properly calculate their eligible construction costs. This resulted in delays in homeowners receiving their refund and additional administrative burden on the Department. Department guidance states, “Using the permit estimate streamlines the refund application and allows homeowners to receive these funds earlier in the rebuilding process.” Since Grand County did not provide a permit cost estimate, some homeowners may have waited until they had completed construction and knew their final costs before submitting a refund application. Grand County was unique in that it was the only local government with more Exemption Certificates issued in 2024 than 2023 and was the only locality in the state to issue exemption certificates in 2026.

Finally, since the majority of the homeowners rebuilding from the fire were forced to relocate to temporary living quarters, it was imperative for each homeowner applying for the refund to list their current mailing address correctly. In some cases, the mailing address was not completed correctly or was not entered correctly into GenTax and the refund checks were returned to the Department as undeliverable. This resulted in additional work for the Department to contact the filer, correct their mailing address, and reissue or resend the check; this also added to the cost of postage to send the refund checks to qualified homeowners.

Policy Consideration

We found several issues with the Wildfire Rebuild Refund that likely reduced its use among eligible homeowners and contributed to homeowners receiving refunds months or years after the homeowner completed rebuilding, which lessened the relief the refund was intended to provide. As discussed, the Wildfire Rebuild Refund expires June 30, 2028 and only applies to wildfires with declared disaster emergencies issued by the Governor that occurred in 2020, 2021, and 2022. If the General Assembly chooses to implement a similar tax expenditure to provide disaster relief to homeowners rebuilding after suffering catastrophic losses in the future, it could consider the following changes to simplify how the refund amount and eligibility is determined to allow homeowners to receive more timely financial relief.

The General Assembly could consider a different method for determining the refund amounts that is less administratively burdensome on homeowners, local governments, and the Department, while providing financial relief in a timelier manner. Specifically:

- **The General Assembly could structure the refund as a set amount.** One option is to create an equal refund or credit for all homeowners. The amount could be a flat amount based on the revenue available, such as \$10,000 per rebuilt home, or determined using the average square footage of all the homes destroyed in the fire and the prevailing building costs at the time homes are being rebuilt. This structure would make determining the refund amount that homeowners receive less administratively complex and likely reduce the number of errors on the certification forms because local government and homeowners would not need to estimate or know the actual construction materials costs for the rebuilt home. However, the amounts received by homeowners would likely not precisely match the actual sales and use taxes they paid; some homeowners would likely get less than what they paid in sales and use taxes and others would get more. Additionally, it could be difficult to use this method for damaged—but not destroyed, homes—although the General Assembly could choose a lower amount for homes that were damaged. As discussed earlier in this report, based on the amounts listed on exemption certificates, it appears that very few homeowners used the Wildfire Rebuild Refund for damaged structures.
- **The General Assembly could use the value of the old home to determine the refund amount.** Instead of basing the refund on the cost to rebuild the home, which could be significantly more than the value of the home that was destroyed, the refund could be a percentage of the actual value of the destroyed property based on the most recent property tax assessment. Using the value of the old home instead of the construction costs of the new home would streamline the refund process for homes rebuilt in localities that do not charge a use tax on construction and would eliminate the need for the Department to review construction costs and issue amended refunds in cases where actual construction costs exceed the estimated costs used to calculate the refund. Additionally, by using the characteristics of the destroyed house to determine the refund amount, the revenue impact to the State could be limited since the refund would not apply to larger houses or energy efficient upgrades. For example, as discussed earlier in the policy considerations section in this report, our office was able to compare the square

footage of the old home and the newly permitted homes on nearly 120 homes in one municipality. We found that 93 percent of homes were rebuilt larger than the prior home, with nearly three-quarters of homes rebuilt 11 to 88 percent larger than the home it is replacing. The average size of these rebuilt homes was 23 percent larger than the home that was destroyed in the fire.

- **The General Assembly could use another basis, such as property taxes, to determine the amount of assistance.** Colorado has used property taxes as the basis for other taxpayer assistance programs in recent years. Colorado offered homeowners who lost their homes due to natural causes—including the fires in 2020 and 2021—assistance with their property taxes from 2013 to 2024 under the Colorado Property Tax Reimbursement Program, which was enacted by House Bill 14-1001. This bill was passed in response to natural disasters in 2013 and allowed county treasurers in the state to work with their county’s assessor to compile a list of destroyed properties and their prorated property tax due on the destroyed properties for submission to the State Treasurer’s Office. The State Treasurer would then reimburse the county treasurer an amount equal to the property taxes due on the destroyed properties. The Colorado Property Tax Reimbursement Program provided nearly \$4.39 million in financial relief to property owners impacted by the Calwood, East Troublesome, Cameron Peak, and Marshall Fires. However, unlike the Wildfire Rebuild Refund which provided relief only to qualified homeowners who rebuilt or were rebuilding, the relief from the property tax reimbursement program was available to all homeowners whose property was identified as destroyed by the county assessor.

The General Assembly could consider eliminating or simplifying the requirement for the homeowner to be underinsured. The requirement to certify they are underinsured prevented some homeowners from qualifying for the refund and may have discouraged some homeowners who were actually underinsured from applying for financial relief from the Wildfire Rebuild Refund because, in some cases, it may have been difficult to determine that they were underinsured. Eliminating the underinsurance requirement could make it possible for all affected homeowners to receive the refund. As mentioned earlier, a study found that only about 8 percent of all homeowners who had homes destroyed in the Marshall Fire had guaranteed replacement coverage; therefore, about 92 percent were likely underinsured to some degree. If the General Assembly still wanted to only allow potentially underinsured homeowners to receive the refund, it could limit it to homeowners who did not have guaranteed replacement coverage. Either approach would likely increase the cost of a similar tax expenditure in the future because it would increase the number of affected homeowners who are eligible; however, it would simplify the process to determine eligibility because homeowners would not need to estimate or know the cost to rebuild their home and how much they will receive from insurance in order to apply.

Homeowners appear to have been more likely to receive local government use tax refunds when the local government did not have an underinsurance requirement. For example, homeowners in the Town of Superior did not have to be underinsured to claim the town’s use tax rebate and it included its use tax rebate as part of a building permit form, effectively combining the permitting and refund process into one step. Superior issued 162 Wildfire Rebuild Exemption Certificates to residents, but 273 residents received the town’s use tax rebate, making the number of local use tax rebates issued

69 percent greater than the State use tax refunds. By contrast, the City of Louisville's use tax rebate was only available to underinsured homeowners. Its program saw a 39 percent greater usage than the State's use tax refund, with 438 homeowners benefiting from the city's program versus 315 homeowners benefitting from the Wildfire Rebuild Refund through the end of 2025.

The General Assembly could consider removing the qualified homeowner requirement.

Limiting refund eligibility to homeowners who owned the property at the time it was destroyed prevented homeowners who sold their property from benefiting from the refund and lowered its utilization. Severely underinsured property owners are more likely to sell their destroyed property and purchase or rent another home. Coverage Neglect in Homeowners Insurance, a research paper prepared by J. Anthony Cookson and Emily A. Gallagher at the University of Colorado Boulder and Philip Mulder at the University of Wisconsin Madison, reported that "underinsurance reduces the number of rebuilding permits filed within one year of the fire by 25% and contributes to over half of the sales of destroyed properties within 18 months post-fire." Of the 989 policies analyzed for the report, 36 percent were severely underinsured, which means that their insurance dwelling coverage limits were less than 75 percent of their home's replacement cost. For these homeowners, rebuilding their home is less financially feasible. For example, these homeowners would need an additional \$250,000 above what they receive from insurance to rebuild a \$1 million home. Homeowners who were severely underinsured and could not afford to rebuild their homes were unable to receive financial relief from the refund despite the fact severe underinsurance left them among those most in need of relief. If the exemption were tied to the property instead of the homeowner, those who chose to sell and purchase another home could still realize some of the benefit of the exemption. For example, a developer might be incentivized to purchase a lot on which they could receive a refund for sales or use tax paid on building materials and would potentially pay a premium for the lot. Therefore, removing the qualified homeowner requirement could allow them to still receive some of the benefit of the refund. This approach would also reduce the administrative burden on local governments and the Department since they would no longer need to verify that the party rebuilding is the same homeowner as at the time of the disaster. However, removing this requirement would likely increase utilization and the cost of the expenditure.

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OFFICE OF THE STATE AUDITOR

C O L O R A D O

Working to improve government for the people of Colorado.



Wildfire Mitigation Measures Tax Credit

Tax Expenditure Evaluation • June 2026 • 2026-TE4

Tax Type:	Income
Expenditure Type:	Credit
Statutory Citation:	Section 39-22-543, C.R.S.
Year Enacted:	2022
Repeal/Expiration Date:	January 1, 2031
Revenue Impact (2023):	\$198,158

Purpose given in statute or enacting legislation? **Yes**

The Wildfire Mitigation Measures Tax Credit allows taxpayers who own or lease private land in Colorado, and meet certain income limitations, to claim an income tax credit for the costs of wildfire mitigation performed on their private property. **The General Assembly created the credit to “reimburse a landowner for the costs incurred in performing wildfire mitigation measures on the landowner’s property” in Colorado.**

Overall, we found that the credit has only been partially effective at meeting its purpose because it has been underutilized and the benefit of the credit is relatively low compared to the costs of wildfire mitigation.

- The use of the credit was very low relative to the overall number of taxpayers that were likely eligible for the credit. In Tax Year 2023, the most recent year of data available, there were about 450 claims for the credit. Stakeholders reported that awareness of the credit is low, with many reporting they had not heard about the credit prior to our outreach.
- Due to the credit being non-refundable, lower income taxpayers who have little to no state tax liability receive a lower credit amount, or no credit because they cannot claim any amount over their actual state tax liability. Additionally, taxpayers with a Federal Taxable Income (FTI) above \$120,000 were not eligible for the credit. Starting in Tax Year 2027 the credit will be refundable and the income limitation has been increased to \$300,000 federal Adjusted Gross Income (AGI).
- The costs for wildfire mitigation can vary significantly depending on the type of mitigation activity and the size of the project. According to State Forest Service data, the costs of a one-acre defensible space project around a home typically ranges between a total of \$3,200 and \$6,100. For taxpayers that could claim the full amount of \$625 in Tax Year 2023, the credit would have covered between 10 and 20 percent of their costs. Starting in Tax Year 2027, the credit amount is increased to a maximum of \$2,000. Additionally, the credit cannot be claimed for costs of structural mitigation activities like installing a fire-resistant roof, because statute does not include home-hardening activities, despite their effectiveness at reducing the likelihood that a structure will burn and their inclusion in general mitigation standards.

The changes the General Assembly made through House Bill 26-1289 to the income limitation, and amount and refundability of the Wildfire Mitigation Credit may address some of the issues impacting the effectiveness of the credit. The changes will likely increase the number of taxpayers who are eligible to receive the credit and the amount the credit reimburses taxpayers for wildfire mitigation work in future years, starting in Tax Year 2027. As a result we do not have a policy consideration related to these issues.

Policy Consideration

The General Assembly may want to consider allowing home hardening activities to be an eligible expense for the credit. According to the State Forest Service and Department of Natural Resources, home hardening activities and defensible space projects work together to reduce the impacts of wildfires in the area closest to the home by reducing structural ignitability.

Wildfire Mitigation Credit

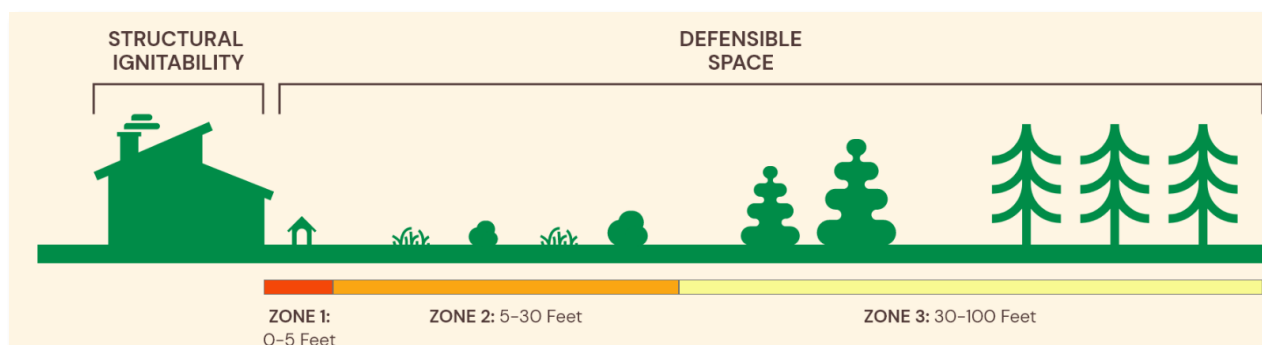
Background

The Wildfire Mitigation Credit (credit) allows taxpayers who own or lease private land in Colorado, and meet certain income limitations, to claim an income tax credit for wildfire mitigation costs performed on their private property.

Qualifying wildfire mitigation measures are defined in statute as “the creation of a defensible space around structures; the establishment of fuel breaks; the thinning of woody vegetation for the primary purpose of reducing risk to structures from wildland fire; or the secondary treatment of woody fuels by lopping and scattering, piling, chipping, removing from the site, or prescribed burning...” [Section 39-22-543(2)(d), C.R.S.]. Statute also specifies that wildfire mitigation measures must “meet or exceed any Colorado state forest service standards or any other applicable state rules” to qualify. The Colorado State Forest Service (State Forest Service), housed within the Division of Forestry at the Department of Natural Resources (DNR), provides guidance to homeowners interested in performing wildfire mitigation activities through its Live Wildfire Ready campaign and a Home Ignition Zone guide, which educates homeowners on how to reduce structural ignitability (e.g., home hardening) and create a defensible space in three zones, as shown in Exhibit 1. Home hardening activities focus on structural components to make the building resistant to ignition from embers and flames by using noncombustible materials (e.g., roofing, exterior walls, decking, fences). Creating defensible space focuses on reducing fuel loads around a home or structure to decrease the risk of a fire spreading (e.g., removing flammable vegetation, pruning branches, spacing trees) and may require ongoing maintenance.

Exhibit 1

Home Ignition Zone

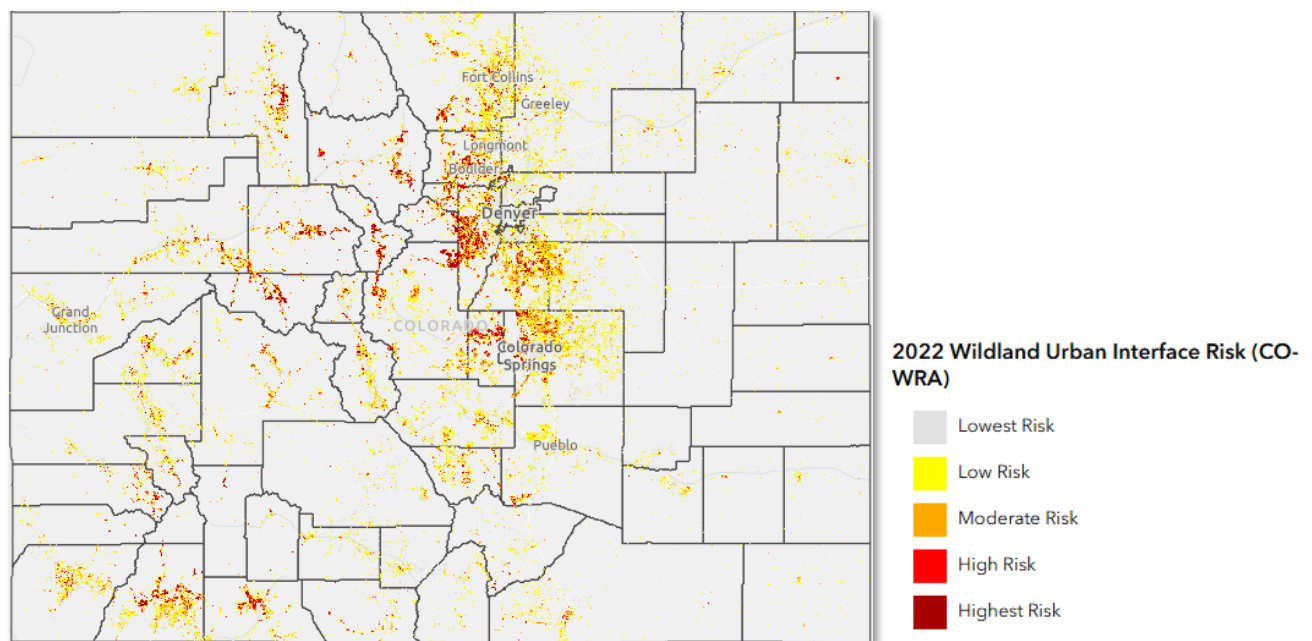


Source: Colorado State Forest Service’s Live Wildfire Ready Program Website.

Wildfire mitigation work on private property is not generally subject to statewide standards, but local mitigation requirements apply in some areas of the state, particularly in the wildland-urban interface. The State Forest Service defines the wildland-urban interface as “any areas where structures and other human developments meet or intermingle with wildland vegetative fuels.” The State Forest Service estimates that 2.5 million Coloradans live in the wildland-urban interface, covering 4.5 million acres of the state. Exhibit 2 shows the wildland-urban interface risk across the state. Wildland-urban interface risk is a measure of the potential impact of a wildfire on people and their homes. Housing density data (houses per acre) was combined with flame length to calculate the wildland-urban interface risk index. Areas in the wildland-urban interface with high housing density and high flame lengths are highest risk, whereas areas with low housing density and low flame lengths are lowest risk.

Exhibit 2

Wildland-Urban Interface Risk Map, 2022 Colorado Wildfire Risk Assessment (CO-WRA)



Source: Colorado State Forest Service and Technosylva Inc. 2022 Colorado Wildfire Risk Assessment (CO-WRA).

Since 2025, local districts that provide fire protection services can create requirements through vegetative fuel programs and the Wildfire Resiliency Code Board has new standards for wildfire mitigation activities in the wildland-urban interface, with requirements tailored to fire risk.

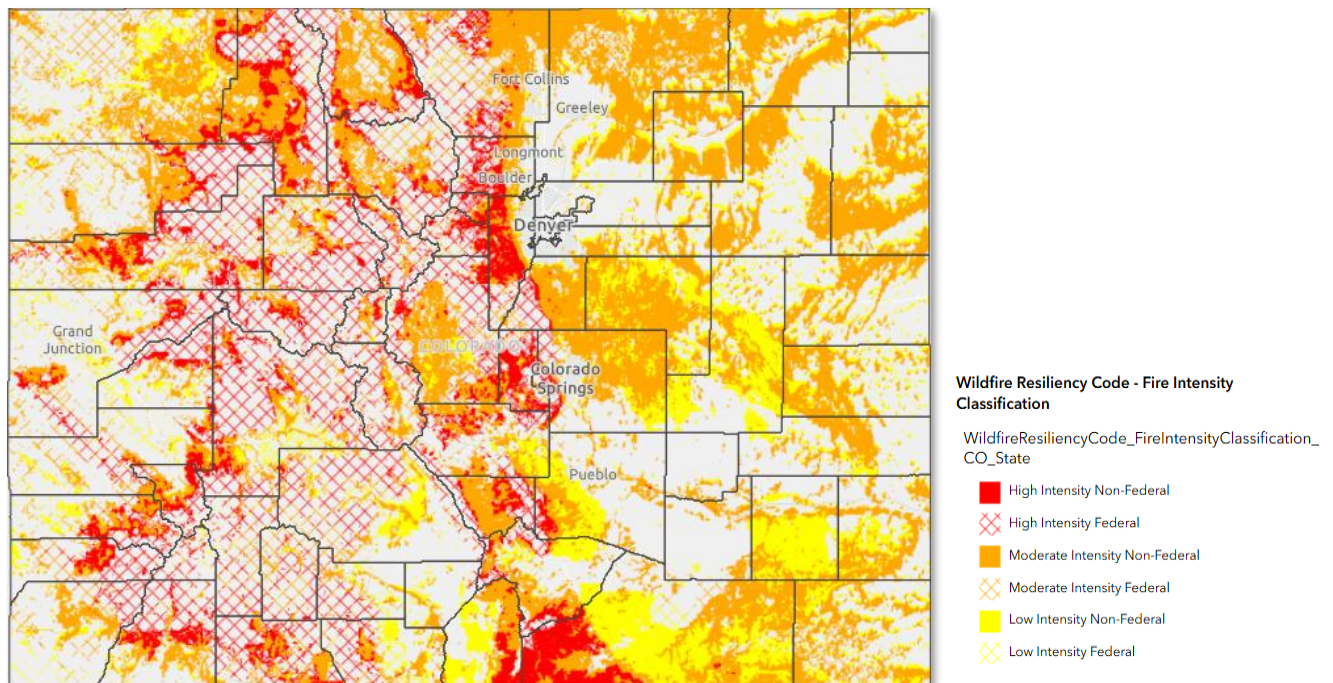
Technical Note: Senate Bill 23-166 created the Colorado Wildfire Resiliency Code Board to develop minimum standards for reducing structural ignitability and fire risk in the defensible space surrounding structures in the wildland-urban interface. The Board adopted the 2025 Colorado Wildfire Resiliency Code on July 1, 2025. Statute requires local governing bodies in the wildland-urban interface to adopt code standards by April 1, 2026 with enforcement starting by July 1, 2026. The code does not apply retroactively, instead it applies for new construction and certain exterior alterations and additions. The Wildfire Resiliency Code Board Cash Fund is used to support implementation and enforcement of the code [Section 24-33.5-1236(8) C.R.S.], with administrative support from the Division of Fire Prevention and Control in the Department of Public Safety.

House Bill 25-1009 authorizes fire protection districts and metropolitan districts that provide fire protection services to implement local vegetative fuel management programs to reduce wildfire risk and improve community safety. Local districts may adopt vegetative fuel removal management requirements that align with the standards and codes developed by the Colorado Wildfire Resiliency Code Board. Statute authorizes fire protection districts to impose fines for noncompliance and requires districts to prioritize revenue from those fines to assist low-income residents, seniors, and individuals with disabilities. Districts may also waive fines for weather-related delays or grant residents up to a one-year extension to comply if they demonstrate a good faith effort to mitigate flammable vegetation and the district determines that mitigation costs warrant additional time.

Exhibit 3 shows the State map for the 2025 Colorado Wildfire Resiliency Code. The map shows areas classified by expected fire intensity, and the code tailors requirements to the specific fire hazard level. Low fire intensity areas are only subject to structure hardening requirements, focused on construction materials and methods to make the home ignition resistant from embers and flames (e.g., roofing, exterior walls, decking), within five feet of the home. Moderate to high fire intensity areas are subject to structure hardening requirements, as well as additional site and area requirements in the surrounding defensible space to reduce nearby fuel loads and wildfire intensity around structures, within 100 feet of the home. Local governing bodies can either adopt the official state-provided map or develop a local map.

Exhibit 3

2025 Wildfire Resiliency Code Map



Source: Division of Fire Prevention and Control and the Colorado State Forest Service State Map for the Application of the 2025 Wildfire Resiliency Code.

The credit was created in 2022 by House Bill 22-1007 and was first available in Tax Year 2023. House Bill 22-1007 also extended the expiration date of the Wildfire Mitigation Deduction (deduction) —which the structure and purpose of the credit was largely based on—through Tax Year 2025. The deduction was created in 2008 and was available only to private landowners and leaseholders in the wildland-urban interface including individuals, as well as estates and trusts. The credit instituted an income threshold for eligibility, but removed the specific wildland-urban interface requirement, allowing taxpayers in any part of the state to be eligible to claim it. We published a report evaluating the deduction in February 2023. In that 2023 report, we found that a landowner in a wildland-urban interface area could potentially claim both the deduction and the credit for qualifying wildfire mitigation costs (a potential total tax benefit of \$735 for both expenditures), and it was unclear if this was the General Assembly’s intent. Based on our review of the House Bill 24-1036 legislative history—which passed after our previous evaluation and modified the deduction to expire a year earlier at the end of Tax Year 2024—the General Assembly did not intend the two provisions to create a duplicative benefit or a larger potential benefit for certain taxpayers. Starting in Tax Year 2025, only the credit is available to taxpayers. However, there was overlap in the availability of the deduction and the credit for Tax Years 2023 and 2024 for taxpayers in the wildland-urban interface.

Since the credit became available in Tax Year 2023, the General Assembly has made several changes that have revised the amount of the credit, the type of expenses that qualify, taxpayer income limitations, and whether the credit is refundable (i.e., the taxpayer receives the full value of the credit

even if it is over their state income tax liability). Because the most recently available data for the credit is for Tax Year 2023, this evaluation provides information on the use and benefit of the credit as it existed in 2023, and provides information on recent updates to the credit that may impact the use and benefit of the credit going forward. House Bill 24-1036 changed the definition of eligible costs in 2024 and increased the credit amount starting in Tax Year 2025. House Bill 26-1289 narrowed the definition of “landowner” to individuals and extended the credit through Tax Year 2030. Starting in Tax Year 2027, House Bill 26-1289 also makes the credit refundable, increases the income limit for eligibility and the credit amount, and expands eligibility to include thinning woody vegetation infested or at risk of infestation for mountain pine beetle or spruce beetle.

Prior to Tax Year 2027, the credit is only available to taxpayers with Federal Taxable Income (FTI) below specific amounts. Specifically, statute limits eligibility for the credit to taxpayers with an FTI of \$120,000 or less, adjusted annually for inflation. This \$120,000 FTI limitation applies to both single and joint filers. House Bill 26-1289 increased the income limitation so that taxpayers with a Federal Adjusted Gross Income (AGI) of up to \$300,000 may claim the credit starting in Tax Year 2027. Exhibit 4 shows the credit limitations across years.

Technical Note: FTI is calculated after taxpayers deduct either the standard deduction or itemized deductions (e.g., charitable contributions, mortgage interest, state and local taxes, etc.) from their Federal AGI. While the exact calculations of Federal AGI and FTI vary for taxpayers based on their unique circumstances, in general, FTI is a lower amount than Federal AGI.

Exhibit 4

Wildfire Mitigation Measures Credit Limitations by Tax Year, 2023 through 2027

Tax Year	2023	2024	2025	2026	2027
Income Limitation	\$120,000 FTI	\$126,300 FTI	\$129,200 FTI	TBD ¹	\$300,000 Federal AGI
Credit as a Percent of Mitigation Expenses	25 percent	25 percent	100 percent	100 percent	100 percent
Maximum Credit	\$625	\$625	\$1,000	\$1,000	\$2,000 (Refundable)

Source: Colorado Office of the State Auditor analysis of Department of Revenue guidance and statute [Section 39-22-543, C.R.S.].

¹ The Department of Revenue cannot calculate the inflation adjusted limit for the 2026 Tax Year until the end of the year.

To qualify for the credit, taxpayers must hire a third-party service provider to perform eligible wildfire mitigation activities. Taxpayers cannot claim a credit for any certification or inspection fees, nor can taxpayers claim a credit for cost-sharing (i.e., shared mitigation expenses split among property owners) or any portion of mitigation that may have been covered through a grant program. However, if a taxpayer participates in a grant program that reimburses them for a portion of costs, they could qualify to claim a credit for the portion of costs not reimbursed by the grant. Taxpayers claim the credit when they file their state income tax return and must submit receipts documenting eligible expenses.

Technical Note: When the credit was originally enacted in House Bill 22-1007, taxpayers could claim the credit for costs incurred from performing the mitigation work themselves, such as renting or purchasing equipment and materials. However, the General Assembly amended the definition of costs under House Bill 24-1036 to include only costs paid to a third-party service provider that performs wildfire mitigation measures. Starting in August 2024, any amount that a landowner pays to purchase materials or purchase or rent equipment is not eligible for the credit [Section 39-22-543(2)(a), C.R.S.].

Wildfires cause significant damage to property in Colorado each year. For example, according to the Rocky Mountain Insurance Information Association, the 2021 Marshall Fire in Boulder County resulted in insurance claims of over \$2 billion, with more than 1,200 properties lost or damaged. Wildfire mitigation can reduce damage to property when a wildfire occurs nearby. According to the Rocky Mountain Insurance Information Association, Colorado saw a 58 percent average increase to home insurance premium costs from 2018 to 2023, compared to a nationwide increase of only 34 percent. While most of this increase is driven by hail risk, which is spread across all areas of the state, over 321,000 Colorado homes are at risk of wildfire damage. The Division of Insurance (DOI), within the Department of Regulatory Agencies, reported that insurers target high-risk areas when pricing for wildfire risk. For example, the average wildfire portion of a premium is close to 25 percent for La Plata County, whereas its about 1 percent for Denver County. DOI's analysis found wildfire mitigation has the potential to save homeowners an average of \$3 to \$25 per year. House Bill 25-1182 requires insurers to incorporate wildfire mitigation into wildfire risk assessments or offer discounts for wildfire mitigation and home hardening work to policyholders starting in July 2026. Additionally, Senate Bill 26-155 creates a new enterprise, the Strengthen Colorado Homes Enterprise (Enterprise) in DOI, to impose and collect an annual fee assessed on insurers. A portion of the fee is allocated to the Enterprise Board to conduct or contract for a study to analyze insurance risk in high-risk wildfire areas of the state, including an analysis of market competition in those areas and the impact of a high-risk insurance program on the availability of homeowner's insurance in those areas.

Per statute, the purpose of the credit is to “reimburse a landowner for the costs incurred in performing wildfire mitigation measures on the landowner’s property” in Colorado. The State Forest Service estimates that over 50 percent of the land in Colorado is privately owned, emphasizing the importance of private landowners doing wildfire mitigation to reduce overall wildfire risk in the state. According to the National Fire Protection Association, removing flammable materials, such as vegetation and mulch, from the perimeters of a home and thinning trees can significantly decrease wildfire damage or destruction.

Statute does not provide performance measures to evaluate whether the credit is meeting its purpose. Therefore, we evaluated the effectiveness of the credit at meeting its purpose by measuring the extent to which the credit provides financial support to private landowners who incur costs related to completing wildfire mitigation activities.

We developed the following performance measures to evaluate the credit:

- The extent to which private landowners and wildfire mitigation service providers are aware of the credit, and the overall use of the credit.
- The extent to which the credit provides financial support to private landowners who incur costs for completing wildfire mitigation activities, including the extent to which private landowners in different income groups can claim the credit.

Evaluation Results

Overall, we found that the credit is partially meeting its purpose as it does provide a reimbursement to landowners that have wildfire mitigation work done on their property and apply for the credit. However, we found that the credit is underutilized due to a lack of awareness and understanding among taxpayers, and the benefit of the reimbursement is relatively low compared to average costs for wildfire mitigation. Recent legislation made changes that may improve the use of the credit and the reimbursement amount, which could be an important piece of providing private landowners with assistance to perform mitigation work that otherwise is not available from the State's other programs.

The credit is underutilized. The credit reimbursed about \$200,000 to 457 landowners for their wildfire mitigation expenses in Tax Year 2023, the most recent data available at the time of our review. We were not able to determine how many landowners were potentially eligible for the credit because there is not a source of data on the number of private landowners and leaseholders that had an FTI of \$120,000 or less and performed mitigation work eligible for the credit. Therefore, we were not able to determine what percentage of the eligible population claimed the credit. However, landowners in the wildland-urban interface could have claimed both the credit and the deduction in Tax Year 2023, to the extent that their FTI was \$120,000 or less, and they had a state income tax liability to apply the credit against.

When compared to the use of the deduction, the usage of the credit is low. According to Department data, 2,140 individual taxpayers claimed the deduction in Tax Year 2023. Among taxpayers with a Federal AGI below \$100,000, who likely were also eligible for the credit in Tax Year 2023, far more individuals claimed the deduction than the credit. In this income group, 271 individuals claimed the credit compared to 638 who claimed the deduction, even though the deduction was limited to taxpayers living in the wildland-urban interface whereas the credit is available statewide. Since the Department's aggregate data for Tax Year 2023 only provides claims by Federal AGI, not FTI, we could not conduct a definite comparison of all taxpayers with an FTI of \$120,000 or less. However, taxpayers with a Federal AGI below \$100,000 are likely well below the \$120,000 FTI limit for the credit. Among taxpayers with a Federal AGI between \$100,000 and \$200,000 for Tax Year 2023, 184 individuals claimed the credit compared to 766 individuals who claimed the deduction.

Technical Note: The Department of Revenue publishes summary statistics of taxpayers claiming income tax credits and deductions by Federal AGI annually. According to Department data, most taxpayers subtract the standard deduction from their Federal AGI to reach FTI. Based on the 2023 federal standard deduction amounts, the credit's FTI limitation of \$120,000 translates to a Federal AGI of at least \$133,850 for single taxpayers and \$147,700 for joint taxpayers.

While the credit can also be claimed by estates and trusts, as well as partnerships and S corporations with residential dwellings on the land, the Department's tax forms for these entities aggregate the credit with other credits; therefore, the Department does not track or report on wildfire mitigation credits claimed by taxpayers other than individuals. As a result, we cannot verify if any other types of private landowners, such as trusts, estates, partnerships, S corporations, or similar entities, benefited from the credit. However, the Department's tax guidance only provides instructions on claiming the credit for individual taxpayers, so other types of private landowners in Colorado may not be aware that statute allows them to benefit from the credit, or may not know how to claim the benefit at the entity level. Therefore, there are likely not a significant number of other types of landowners who claimed the credit, and House Bill 26-1289 narrows eligibility to only individual taxpayers starting in Tax Year 2026.

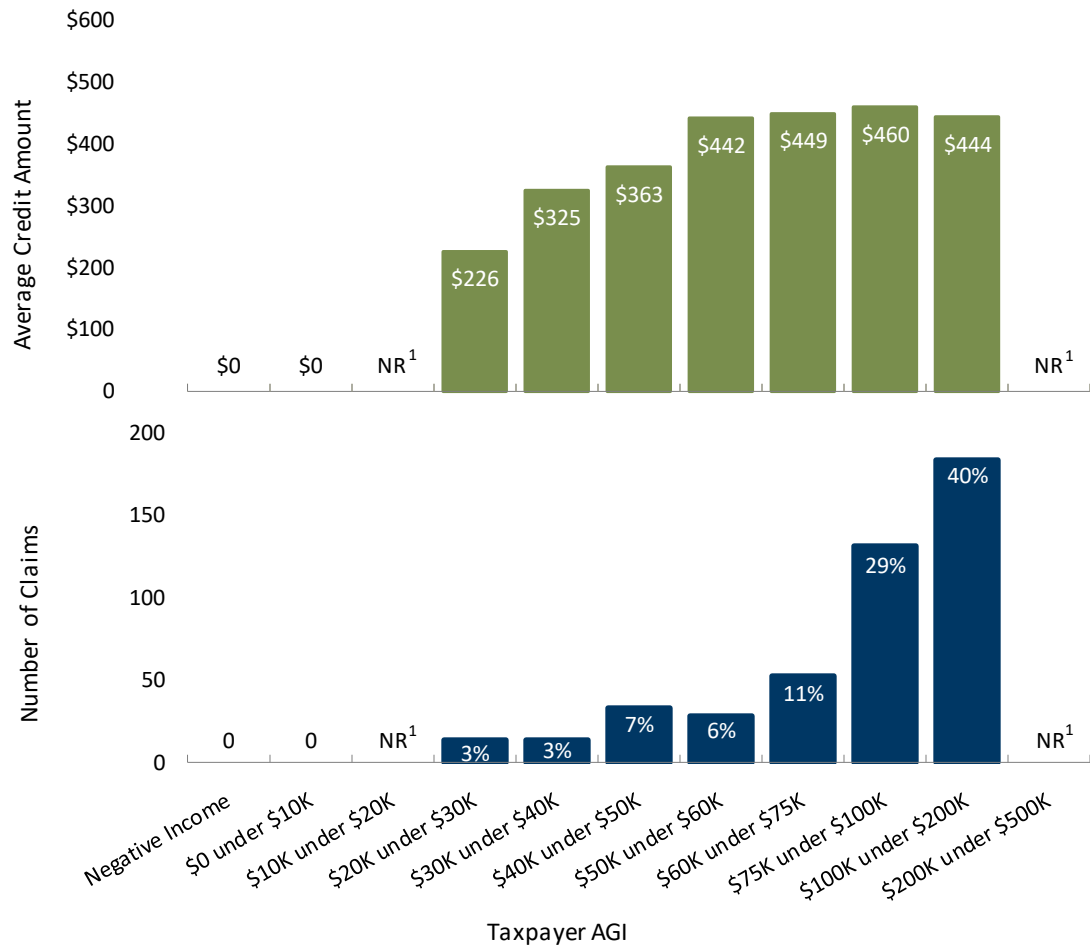
General awareness of the credit is low among stakeholders, including contractors and landowners. We conducted a survey gauging awareness of the credit across Colorado by contacting contractors and fire prevention community partners. We relied on local community partners to extend survey outreach to landowners. We received 360 responses, including 241 responses from private landowners or leaseholders and 28 responses from wildfire mitigation contractors. Less than 50 percent of respondents were aware of the credit prior to the survey and 115 respondents stated that they first learned about the credit from the survey; under 11 percent of respondents indicated they are very familiar with the credit. Over 70 percent of respondents stated that, in general, landowners are unaware of the credit and 20 percent stated that contractor awareness is low.

While our survey has likely helped increase awareness of the credit for use in future tax years, landowners generally rely on trusted community partners, such as fire protection districts or regional wildfire councils, to learn about wildfire mitigation funding opportunities. Some community partners we identified shared outdated information on their websites regarding the credit or the deduction prior to the survey. The State Forest Service reported to us that they are planning to include information on the credit on their webpage and with information they share about resources for landowners. They are also considering including information in the materials for their Live Wildfire Ready program that conducts outreach to homeowners, if it expands beyond its focus on simple mitigation actions homeowners can take themselves. These outreach efforts might help increase awareness and utilization of the credit in future years.

The credit likely reimbursed taxpayers for a relatively small portion of their mitigation costs, was unavailable for taxpayers with FTI above \$120,000, and was further limited for lower income taxpayers who may not have had sufficient tax liability to receive the full amount of the credit. In Tax Year 2023, more than 40 percent of total credit dollars benefited taxpayers with

Federal AGI between \$100,000 and under \$200,000. The credit did not provide assistance to the lowest income taxpayers, in part, because they may have lacked the income tax liability to claim the credit, which was not refundable in Tax Year 2023, or to higher income taxpayers because they may not have been eligible to claim it. Exhibit 5 shows average credits claimed and total number of claims by taxpayers in Tax Year 2023, by income level.

Exhibit 5
Average Credit Amounts Claimed and Count of Claims¹ by Income Level, Tax Year 2023



Source: Colorado Office of the State Auditor analysis of Department of Revenue data for individual taxpayers.
¹ Due to the number and amount of credits claimed by some income groups being non-releasable to protect taxpayer confidentiality, the number of claims and amount claimed shown in this graphic is less than the total claims and amount claimed reported elsewhere in this report.

Tax credits that are nonrefundable are limited to the total amount of tax liability the taxpayer owes. Because the credit is nonrefundable, the tax benefit shrinks to the extent that a landowner does not generate at least \$625 of state income tax liability. Less than 10 percent of total credit dollars benefited taxpayers with Federal AGI below \$50,000, even though 13 percent of total claimants were in this income level. According to Department of Revenue data, 457 taxpayers claimed the credit in Tax Year 2023, with the average credit being about \$434, which is about 30 percent below

the maximum \$625 credit. On the other hand, because of the income limitation, a landowner with FTI above \$120,000 in Tax Year 2023, for both joint and single filers, would not receive any tax benefit from the credit.

Department data shows that in Tax Year 2023, the majority of taxpayers that benefited from the deduction had a Federal AGI above \$100,000, the majority of taxpayers that benefited from the credit had a Federal AGI above \$75,000, and almost five times as many taxpayers were able to claim the deduction compared to the credit. Taxpayers in these AGI brackets may more likely be able to afford mitigation costs, but also still likely require some financial assistance, especially for larger projects, and would benefit from the credit. The FTI limitation likely reduced the amount of taxpayers that could claim the credit compared to the deduction and may have excluded some taxpayers, especially joint filers, from being eligible to claim the credit. The deduction had no income limitations. While it is not uncommon to use income limitations to target a tax incentive towards those who may need the credit, and as a way to control costs by reducing the total amount of people that are eligible, the \$120,000 FTI limit likely excluded many taxpayers that were previously eligible for the deduction.

For taxpayers that could claim the full credit, the reimbursement likely provided eligible landowners with a relatively small financial benefit compared to the cost of wildfire mitigation. Mitigation costs can vary significantly depending on the scope of work and can range in activities from vegetative fuels management to landscaping and home hardening. We were not able to determine actual mitigation activities or costs incurred by landowners who claimed the credit. Therefore, we were not able to determine what percentage of eligible mitigation costs were reimbursed for credit claimants. The State Forest Service estimates median statewide mitigation costs to be about \$4,300 per acre, based on treatment costs associated with its administration of the Forest Restoration and Wildfire Risk Mitigation Grant Program. Projects conducted under this program are statewide and cover a range of forest conditions. Additionally, the State Forest Service received information from local partners that a one-acre defensible space project around a home or buildings may cost on average between \$3,200 and \$6,100, depending on the location. As a result, if a taxpayer spent between \$3,200 and \$6,100 on mitigation work, they would receive a maximum reimbursement of between 10 and 20 percent of their costs, assuming they could claim the maximum \$625 credit in Tax Years 2023 or 2024. If they mitigated additional land or the mitigation work was more expensive, the percentage reimbursed would be lower.

While the General Assembly did not intend for the credit and deduction to be used simultaneously, taxpayers in the wildland-urban interface could claim both the credit and the deduction in Tax Years 2023 and 2024 to the extent that they had enough state income tax liability and FTI no higher than \$120,000, for both joint and single filers. We could not determine which taxpayers claimed both the deduction and the credit in Tax Year 2023; however, the credit and the deduction could provide a maximum combined benefit of \$680 for a project costing \$2,500 or \$735 for a project costing \$5,000.

The General Assembly enacted changes to the credit that will increase the number of eligible taxpayers and the amount they can receive. The General Assembly passed House Bill

26-1289, which starting in Tax Year 2027 expands access to the credit for lower income taxpayers by making the credit refundable, which could increase the average credit claimed. Additionally, the bill increased the income limitation to \$300,000 Federal AGI and, therefore, will expand access to the credit for middle- and higher-income households. As discussed previously, middle- and higher-income taxpayers are more likely to be able to afford wildfire mitigation costs, but may have been unable to claim the credit in Tax Year 2023 due to having an FTI above the \$120,000 income limitation, whereas the deduction had no income limitation for eligibility. This change could likely result in a larger impact to state revenue by expanding eligibility among middle- and higher-income taxpayers that are more likely able to afford the necessary wildfire mitigation costs required to claim the credit.

The Department’s most recent data is for Tax Year 2023, and therefore, we cannot evaluate the impact of changes to the credit. However, exhibit 6 shows the potential tax benefit from the changes for two hypothetical projects—one costing \$2,500 and another costing \$5,000.

Exhibit 6
Amount Reimbursed by the Credit, Tax Years 2023-2030

Project Cost	\$2,500 Project	\$5,000 Project
Tax Years 2023-2024 Maximum Credit: 25 percent of costs up to \$2,500. Limitations: Limited by actual CO income tax; the credit is nonrefundable and cannot be carried forward.	Project Cost: \$2,500 Maximum Credit: \$625 Percentage of Cost Reimbursed by Credit: 25 percent	Project Cost: \$5,000 Maximum Credit: \$625 Percentage of Cost Reimbursed by Credit: 12.5 percent
Tax Years 2025-2026 Maximum Credit: 100 percent of costs up to \$1,000. Limitations: Limited by actual CO income tax liability; the credit is nonrefundable and cannot be carried forward.	Project Cost: \$2,500 Maximum Credit: \$1,000 Percentage of Cost Reimbursed by Credit: 40 percent	Project Cost: \$5,000 Maximum Credit: \$1,000 Percentage of Cost Reimbursed by Credit: 20 percent
Tax Years 2027-2030 Maximum Credit: 100 percent of costs up to \$2,000 Limitations: Not limited by actual CO income tax; the credit is refundable.	Project Cost: \$2,500 Maximum Credit: \$2,000 Percentage of Cost Reimbursed by Credit: 80 percent	Project Cost: \$5,000 Maximum Credit: \$2,000 Percentage of Cost Reimbursed by Credit: 40 percent

Source: Colorado Office of the State Auditor analysis of House Bill 26-1289 and statute [Section 39-22-543, C.R.S.].

Colorado’s broader investments in community wildfire mitigation likely provide greater benefits than the credit because they support larger, coordinated projects and can more directly reduce landowner costs. Unlike the credit, which reimburses individual taxpayers for individual property mitigation work, community-scale programs can fund multi-year projects, multi-property mitigation, defensible space cost shares, home assessments, equipment, staffing, and

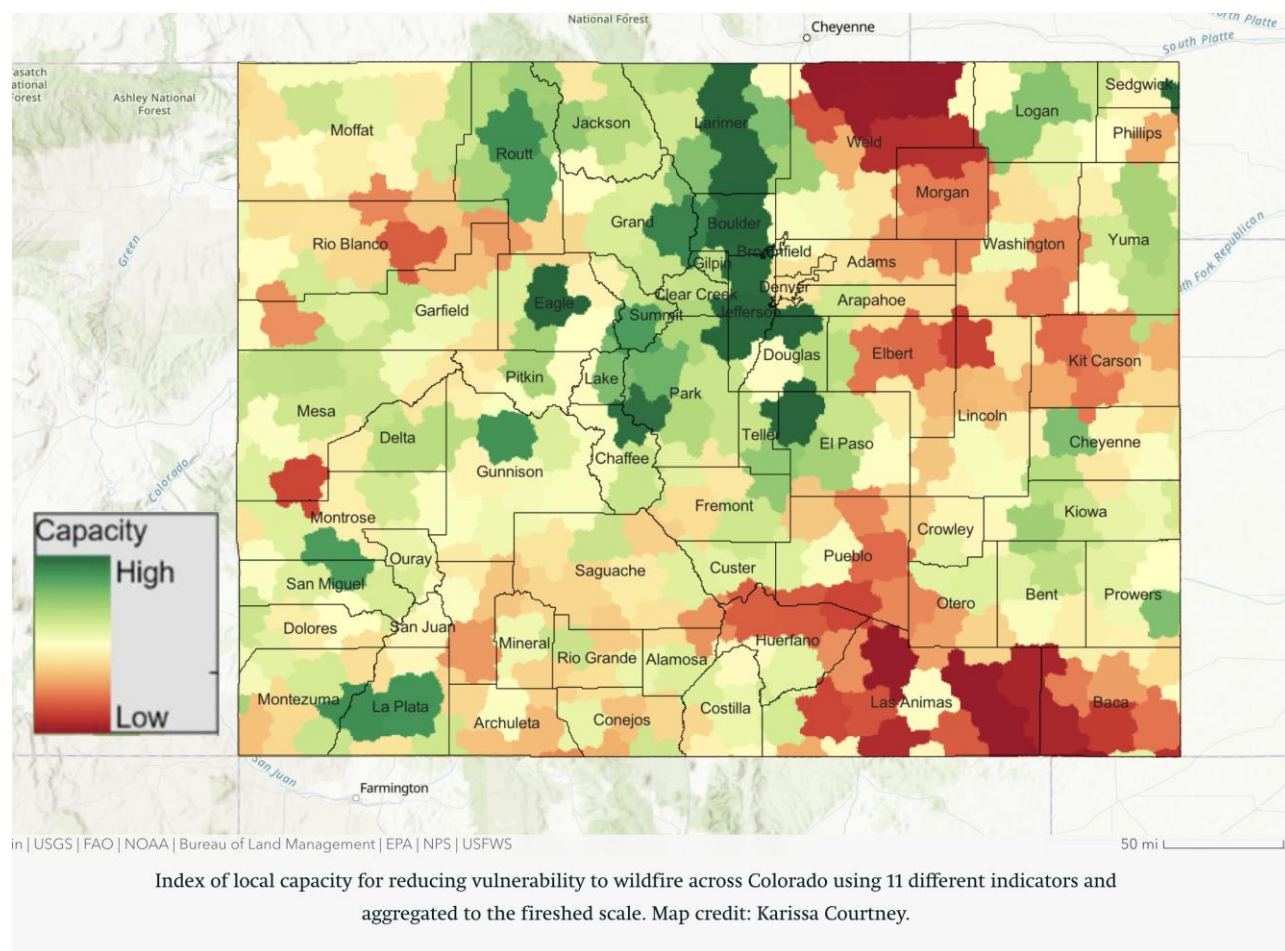
technical assistance. These programs may also reach landowners who lack the upfront resources or tax liability needed to benefit from the credit. However, demand for these programs consistently exceeds available funding, and some communities lack the administrative capacity, matching funds, or contractor availability needed to fully access or implement mitigation programs.

Many landowner-focused mitigation efforts are locally implemented by fire protection districts, counties, nonprofits, and other partners that are funded through state and federal grants awarded to those local entities. As a result, the availability of direct landowner assistance varies significantly by community. Many grant programs require matching funds, which may come from local taxes, private funding, or homeowner and community cost-share structures. Across the eight wildfire mitigation programs we reviewed, funding data shows substantial demand for mitigation assistance, as well as recurring funding gaps. For example, since the Forest Restoration and Wildfire Risk Mitigation Grant Program was created in 2017, the State Forest Service has awarded more than \$51 million for 312 projects, while it has received \$127.8 million in requests for 711 projects. Similarly, one-time programs such as the Wildfire Resilient Homes Grant Program, Incentives for Local Government Grant Program, Rural Grant Navigator Grant Program, and Wildfire Mitigation Outreach Grant Program all received funding requests that exceeded available resources.

According to DNR and the State Forest Service, the capacities of local fire departments to encourage and monitor private landowners' wildfire mitigation activities range across a broad spectrum. Paid fire departments generally have the greatest capacity to encourage and monitor private landowners' wildfire mitigation activities. According to a Colorado State University 2025 Study, 'Mapping Community Capacity to Reduce Vulnerability to Wildfire in Colorado', there is a mismatch between wildfire risk and mitigation resources across Colorado, with some areas of the state at high risk for fire but low on resources. The study noted that Colorado is characterized by a "variety of landownership and socioeconomic conditions that also factor into the complexity of capacity to do wildfire mitigation work." Exhibit 7 shows the areas in the state with higher and lower wildfire mitigation capacity.

Exhibit 7

Local Capacity to Conduct Wildfire Mitigation



Source: Courtney, K., Holm, F., Brousseau, J. et al. Mapping Community Capacity to Reduce Vulnerability to Wildfire in Colorado, USA. *For. Sci.* 71, 821–840 (2025).

Overall, community-based programs appear to provide more direct and coordinated support for wildfire mitigation than the credit, particularly where local partners have the capacity to apply for and administer grants. However, funding limitations, match requirements, local administrative capacity, project timing deadlines, and workforce constraints limit the extent to which these programs can meet statewide mitigation needs. The credit can help in situations where grants are not available, and the credit may also help close the gap for private landowners where cost-share programs are available at the local level because these programs do not cover 100 percent of costs.

Policy Consideration

As noted, during our evaluation of the credit, the General Assembly passed House Bill 26-1289, which made the credit refundable, increased the amount of the credit, and increased the income limitation starting in Tax Year 2027. These changes will likely increase the effectiveness of the credit by addressing some of the utilization and benefit amount issues noted in the evaluation results. Additionally, while we identified low awareness among stakeholders and potential beneficiaries, the State Forest Service reported that it plans to include more information about the credit on its website in the future. We expect these changes will likely improve the effectiveness of the credit in future years. As a result, we do not have a policy consideration related to these issues.

We did identify one area that the General Assembly could consider in order to align the credit with current wildfire resiliency standards. Specifically, the General Assembly may want to allow home hardening activities to be an eligible expense. Research shows that combining home hardening activities with defensible space is the most effective way to increase the chance of a structure surviving a wildfire. Home hardening activities (e.g., metal roof) ensure that if flying embers land on or near a property, the structure itself is less likely to ignite. Defensible space creates a buffer zone that slows the spread of a wildfire, lowers the intensity of radiant heat, and keeps direct flames away from the structure. According to the Department of Revenue, home hardening activities do not currently qualify for the credit because these activities are not mentioned in statute. Rather, the credit is available to reimburse private landowners for wildfire mitigation activities in the defensible space surrounding structures (e.g., thinning or removing woody fuels). Statute requires that wildfire mitigation activities adhere to standards set by the State Forest Service or any other applicable state rules. According to DNR and the State Forest Service, home hardening activities and defensible space projects work together to reduce the impacts of wildfires and, in some cases may overlap, such as installing concrete or rock around a structure. The State Forest Service provides guidance to homeowners interested in reducing their home's wildfire risk in the form of the Home Ignition Zone guide, which focuses on reducing structural ignitability and improving the quality of surrounding defensible space. Some survey respondents raised the issue of home hardening activities not being eligible for the credit and emphasized the need for funding. Although the General Assembly has previously introduced bills to create separate funding for home hardening activities, the bills have not passed or provided limited funds for this purpose.

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