



Joint Budget Committee

Supplemental Budget Requests FY 2026-27

Department of Revenue

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Overview of Revenue

The Department has four functional groups: the Taxation Business Group collects revenue for the state and for many local governments and assists taxpayers in tax-related matters; the Division of Motor Vehicles regulates motor vehicle safety, issues personal identification documents, and regulates commercial vehicles; the Specialized Business Group regulates alcohol, tobacco, marijuana, horse racing and off-track betting, sports betting, limited gaming, and automobile dealers and sales persons; and the State Lottery Division administers and regulates the lottery and disburses proceeds to beneficiaries.

Summary of Staff Recommendations

FY 2025-26 Summary

Department of Revenue: Recommended Changes for FY 2025-26

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds	FTE
FY 2025-26 Appropriation						
SB 25-206 (Long Bill)	\$557,041,568	\$154,621,461	\$392,122,764	\$9,445,211	\$852,132	1,817.2
Other legislation	264,517	314,520	-50,003	0	0	2.1
Current FY 2025-26 Appropriation	\$557,306,085	\$154,935,981	\$392,072,761	\$9,445,211	\$852,132	1,819.3
Recommended Changes						
Current FY 2025-26 Appropriation	\$557,306,085	154,935,981	\$392,072,761	\$9,445,211	\$852,132	1,819.3
S1 HR 1 Tax Resources and programming	34,984	34,984	0	0	0	0.0
S2 Executive order GF reductions	-637,500	-637,500	0	0	0	0.0
Impacts driven by other agencies	96,533	20,205	73,348	2,980	0	0.0
Recommended FY 2025-26 Appropriation	\$556,800,102	\$154,353,670	\$392,146,109	\$9,448,191	\$852,132	1,819.3
Recommended Increase/-Decrease from 2025-26						
Recommended Increase/-Decrease from 2025-26	-\$505,983	-\$582,311	\$73,348	\$2,980	\$0	0.0
Percentage Change	-0.1%	-0.4%	0.0%	0.0%	0.0%	0.0%
FY 2025-26 Executive Request						
FY 2025-26 Executive Request	\$556,800,102	\$154,353,670	\$392,146,109	\$9,448,191	\$852,132	1,819.3
Staff Rec. Above/-Below Request	\$0	\$0	\$0	\$0	\$0	0.0

S1 H.R. 1 Tax Resources and programming: The Department requests additional programming resources to implement and support changes to GenTax to align the tax processing software system with tax policy changes resulting from the enactment of federal H.R. 1.

Current Year: \$34,984 General Fund.

Staff recommends approval of the request

S2 Executive Order GF Reductions: The Department requests General Fund reductions across various line items in the Executive Director's Office and Division of Motor Vehicles.

Current Year: \$637,500 General Fund reduction

Staff recommends approval of the request

Impacts driven by other agencies: The request includes a net increase of \$96,533 for requests from other state agencies. These are also called "non-prioritized requests. The amounts shown in the table below reflect the impacts of requests made by other agencies. These requests are discussed during supplemental presentations for the lead requesting agency, at which point a staff recommendation will be made. Staff will update these figures to reflect the Committee's decisions on these requests.

Impacts Driven by Other Agencies

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds	FTE
Health, Life, and Dental	\$593,502	\$200,744	\$389,778	\$2,980	\$0	0.0
OIT Real time billing	-302,932	-154,344	-148,588	0	0	0.0
DPA Annual fleet	-194,037	-26,195	-167,842	0	0	0.0
Total	\$96,533	\$20,205	\$73,348	\$2,980	\$0	0.0

Department Supplemental Requests

→ S1 H.R. 1 Tax Resources and programming

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds	FTE
Request	\$34,984	\$34,984	\$0	\$0	\$0	0.0
Recommendation	34,984	34,984	0	0	0	0.0
Staff Recommendation Higher/-Lower than Request	\$0	\$0	\$0	\$0	\$0	0.0

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? Yes

An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.

Explanation: JBC staff and the Department agree that changes in the federal tax code from H.R. 1 were unknown when the FY 2025-26 budget closed, and the impact on Colorado's state tax code is an unforeseen contingency.

The Department requests \$34,984 General Fund for programming resources to implement and support changes to GenTax to align the tax system with tax policy changes enacted in federal H.R. 1.

Recommendation

Staff recommends that the Committee approve the request.

Analysis

GenTax is the tax processing software that Colorado uses to handle tax collection and filing. The current GenTax programming budget for FY 2025-26 was based on federal tax laws at the time of closing. The Department now needs to make further programming changes to address the new requirements following the passage of H.R. 1.

The passage of HR1 triggered a contingent statute that added overtime compensation, now, in many circumstances federally tax-exempt, to state taxable income. H.R. 1 also triggered dormant language that empowers the Department of Revenue to establish rules and regulations concerning employer reporting for the taxation of other compensation, such as tipped wages and overtime compensation. This funding is requested to cover GenTax programming costs and to ensure the Department can correctly collect the state tax for the required income addback.

Specific programming tasks include:

- Form changes to add reporting lines so that taxpayers can report the required addback. These changes will ensure there is a place for taxpayers to clearly report the required income, and to segregate the income

associated with this addback from other reported income and additions. The Department can use these data points to assist with compliance.

- Updates to employer withholding reporting, either to conform to any anticipated changes from the IRS and the Social Security Administration related to form W2, or to support additional reporting from employers to Colorado if federal reporting does not change.
- Update the Department’s data-matching and discovery programs that assist with audits for compliance purposes to use newly reported IRS and employer data to ensure taxpayers add back income when required. These changes involve updating complex data evaluation protocols and matching rules, updating letters for communications and billing processes, and aligning the new checks with other interdependent rules throughout the rest of the return.

These programming changes would allow the Department to maximize the use of data matching and information processing to safeguard state revenues and ensure taxes are being paid fairly and accurately by taxpayers. If these changes are not made, the Department could rely only on manual, labor-intensive processes, such as full financial audits, to validate individual compliance. This would undoubtedly result in lower coverage and success rates, and while the individual impact may be small, it could aggregate across thousands of returns to significant cumulative revenue impacts.

→ S2 Executive Order General Fund Reductions

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds	FTE
Request	-\$637,500	-637,500	\$0	\$0	\$0	0.0
Recommendation	-637,500	-637,500	0	0	0	0.0
Staff Recommendation Higher/-Lower than Request	\$0	\$0	\$0	\$0	\$0	0.0

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? YES

An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.

Explanation: JBC staff and the Department agree that this request is the result of an unforeseen contingency. Fiscal changes since the conclusion of the 2025 legislative session have created a budget deficit, which this request seeks to address.

The Department requests \$637,500 General Fund reductions across various line items in the Executive Director’s Office and Division of Motor Vehicles.

Below are the Department’s proposed General Fund reductions:

- \$250,000 reduction to Personal Services in the Executive Director’s Office
- \$125,000 reduction to Operating Expenses in the Executive Director’s Office
- \$125,000 reduction to Leased Space in the Executive Director’s Office
- \$137,500 reduction to Operating Expenses in the Division of Motor Vehicles

Recommendation

Staff recommends that the Committee approve the request.

Analysis

The Department states that these budget reductions can be absorbed through vacancy savings, employee attrition, the suspension of professional development programs, and decreased discretionary spending on items like computer upgrades for employees.

Appendix A: Numbers Pages

Appendix A details the actual expenditures for the last two state fiscal years, the appropriation for the current fiscal year, and the requested appropriation for next fiscal year. Appendix A organizes this information by line item and fund source.

JBC Staff Supplemental Recommendations - FY 2025-26
Staff Working Document - Does Not Represent Committee Decision

Appendix A: Numbers Pages

	FY 2024-25 Actual	FY 2025-26 Appropriation	FY 2025-26 Requested Change	FY 2025-26 Rec'd Change	FY 2025-26 Total w/Rec'd Change
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Department of Revenue
Mark Ferrandino, Executive Director

Executive order GF reductions

(1) Executive Director's Office

(A) Administration and Support

Personal Services	<u>17,271,589</u>	<u>21,186,402</u>	<u>-250,000</u>	<u>-250,000</u>	<u>20,936,402</u>
FTE	211.2	202.6	0.0	0.0	202.6
General Fund	7,653,213	9,314,720	(250,000)	(250,000)	9,064,720
Cash Funds	2,661,354	3,565,128	0	0	3,565,128
Reappropriated Funds	6,957,022	8,306,554	0	0	8,306,554
Federal Funds	0	0	0	0	0
Operating Expenses	<u>3,021,263</u>	<u>3,945,448</u>	<u>-125,000</u>	<u>-125,000</u>	<u>3,820,448</u>
General Fund	2,115,939	2,678,401	(125,000)	(125,000)	2,553,401
Cash Funds	905,324	1,243,197	0	0	1,243,197
Reappropriated Funds	0	23,850	0	0	23,850
Federal Funds	0	0	0	0	0
Leased Space	<u>5,255,294</u>	<u>7,289,345</u>	<u>-125,000</u>	<u>-125,000</u>	<u>7,164,345</u>
General Fund	748,762	909,496	(125,000)	(125,000)	784,496
Cash Funds	4,506,532	6,379,849	0	0	6,379,849
Reappropriated Funds	0	0	0	0	0
Federal Funds	0	0	0	0	0

(3) Taxation Business Group

JBC Staff Supplemental Recommendations - FY 2025-26
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	FY 2024-25 Actual	FY 2025-26 Appropriation	FY 2025-26 Requested Change	FY 2025-26 Rec'd Change	FY 2025-26 Total w/Rec'd Change
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(A) Administration

Tax Administration IT System (GenTax) Support	<u>8,399,187</u>	<u>7,923,036</u>	<u>34,984</u>	<u>34,984</u>	<u>7,958,020</u>
General Fund	7,558,239	7,775,934	34,984	34,984	7,810,918
Cash Funds	840,948	147,102	0	0	147,102
Reappropriated Funds	0	0	0	0	0
Federal Funds	0	0	0	0	0

(4) Division of Motor Vehicles

(B) Driver Services

Operating Expenses	<u>1,997,132</u>	<u>2,654,959</u>	<u>-137,500</u>	<u>-137,500</u>	<u>2,517,459</u>
General Fund	414,260	414,260	(137,500)	(137,500)	276,760
Cash Funds	1,572,702	2,230,529	0	0	2,230,529
Reappropriated Funds	10,170	10,170	0	0	10,170
Federal Funds	0	0	0	0	0

Total for Executive order GF reductions	35,944,465	42,999,190	(602,516)	(602,516)	42,396,674
FTE	<u>211.2</u>	<u>202.6</u>	<u>0.0</u>	<u>0.0</u>	<u>202.6</u>
General Fund	18,490,413	21,092,811	(602,516)	(602,516)	20,490,295
Cash Funds	10,486,860	13,565,805	0	0	13,565,805
Reappropriated Funds	6,967,192	8,340,574	0	0	8,340,574
Federal Funds	0	0	0	0	0

JBC Staff Supplemental Recommendations - FY 2025-26
Staff Working Document - Does Not Represent Committee Decision

	FY 2024-25 Actual	FY 2025-26 Appropriation	FY 2025-26 Requested Change	FY 2025-26 Rec'd Change	FY 2025-26 Total w/Rec'd Change
Totals Excluding Pending Items					
REVENUE					
TOTALS for ALL Departmental line items	600,984,403	557,306,085	-602,516	-602,516	556,703,569
<i>FTE</i>	<u>1,748.9</u>	<u>1,819.3</u>	<u>0.0</u>	<u>0.0</u>	<u>1,819.3</u>
General Fund	154,490,354	154,935,981	(602,516)	(602,516)	154,333,465
Cash Funds	438,599,264	392,072,761	0	0	392,072,761
Reappropriated Funds	7,894,785	9,445,211	0	0	9,445,211
Federal Funds	0	852,132	0	0	852,132