



Tax Policy Impacts from the Federal Reconciliation bill, H.R. 1

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July 30th, 2025

Changes to tax policy in H.R. 1 are immediate and significant with a \$1.2b negative impact to state revenues in FY 2025-26. The impacts on state expenditures from reduced federal funds starts small and grow over time with the largest impact in the out years growing to nearly \$1b.

Overview of H.R. 1

Revenue - The bill will reduce state revenue by over \$1.2b in the current year, and by roughly \$700m in FY27 and FY28. The loss of revenue is largely due to increased tax deductions for corporations.

Expense - The bill increases expenses by shifting costs from the federal government to the states. This will start slowly but grow significantly over time with the impacts of SNAP Match and Provider Fee reductions. This will start at about \$50-100M in the first year growing to nearly \$1b in expenses by 2032. When accounting for loss in federal funds due to Medicaid the impact could be more than \$3b.

H.R. 1 has created a significant deficit in what was previously a balanced budget in FY 2025-26

- Because of the federal reconciliation bill, **OSPB now has a midpoint estimate of a \$955m shortfall in FY 2025-26.**
- In its June forecast, OSPB estimated that the General Fund reserve would fall \$40.9m below the 15% reserve requirement in the current fiscal year (2025-26). The baseline June estimates used current law as of the time of the forecast.
- Since the forecast, and the passage of H.R. 1, OSPB has worked to understand its tax policy provisions. In total, OSPB expects the following ranges of negative revenue impacts from H.R. 1:
 - **FY 2025-26: -\$986 to -\$1,420m (-\$1,203m midpoint estimate)**
 - **FY 2026-27: -\$540 to -\$818m (-\$679m midpoint estimate)**
 - **FY 2027-28: -\$615 to -\$831m (-\$723m midpoint estimate)**

TABOR surplus and budget balancing compared to OSPB June Forecast

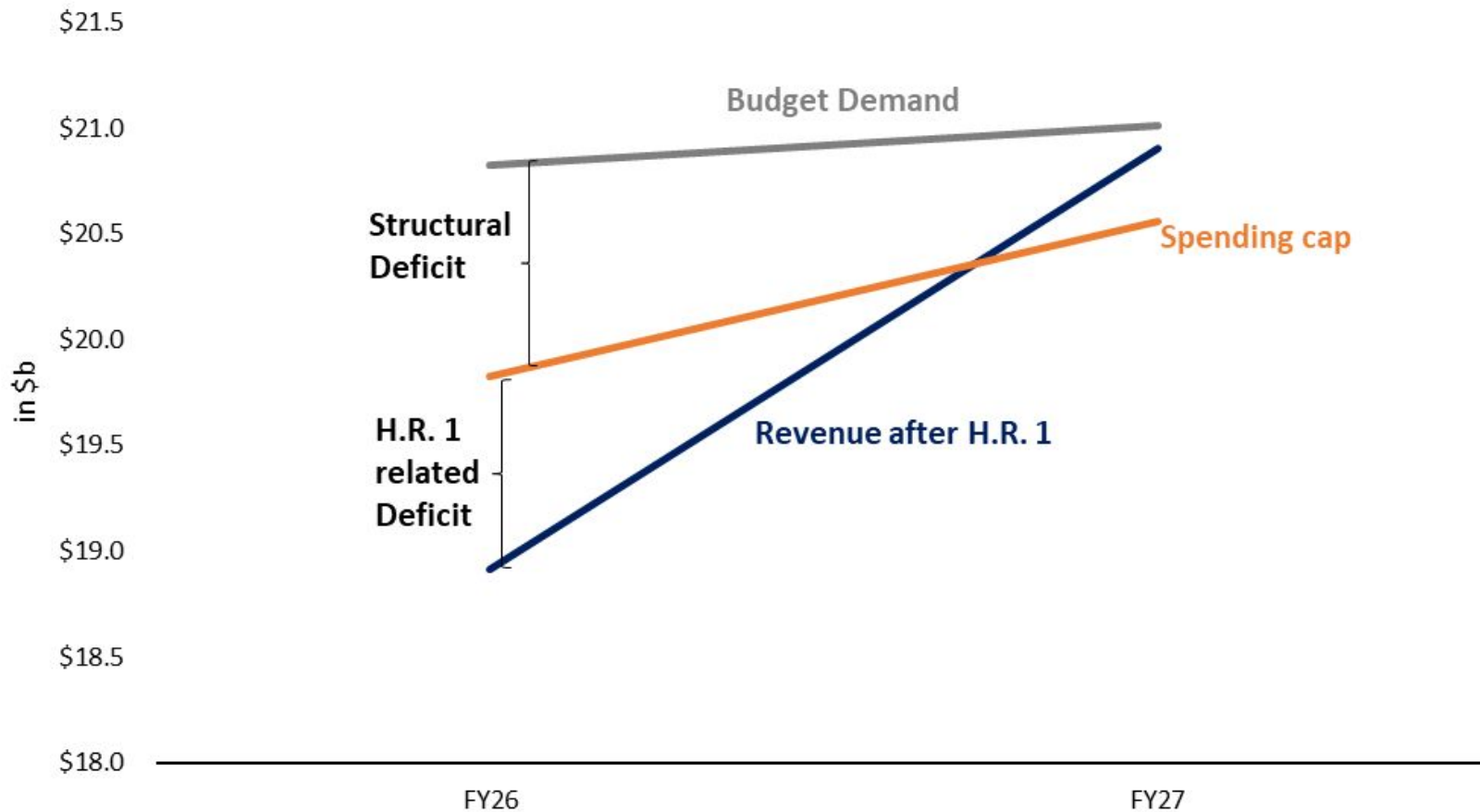
Updated TABOR Surplus Estimates following H.R. 1. in \$m

| (\$millions) | FY 2024-25 | FY 2025-26 | FY 2026-27 |
|---|------------------|-----------------|-----------------|
| June 2025 OSPB Forecast TABOR Surplus | +\$224.0 | +\$289.0 | +\$536.4 |
| H.R. 1 Tax Policy Impacts (midpoint) | \$0 | -\$1,203 | -\$679 |
| Change in FATC/EITC Triggers from June Forecast | \$0 | \$0 | +\$487.8 |
| Updated TABOR Surplus Estimate w/ impact of H.R. 1 | +\$283.2* | -\$914.0 | +\$345.2 |

*Updated TABOR surplus estimate for FY 2024-25 includes June revenue actuals received after the June 2025 forecast publication.

- In the June forecast, the General Fund in FY 2025-26 was estimated to be in a deficit position of \$40.9m (0.2% drop in reserve). This estimate would have likely led to a balanced budget after considering reversions, which are ~\$80m in a 'normal' year. Due to revenue impacts from H.R. 1, FY 2025-26 is now projected to be in a deficit position of \$954.9m, after combining the prior position with \$914.0m less GF retained by the state
- Family Affordability (FATC) and Expanded Earned Income (EITC) tax credits were assumed to be fully available in Tax Year 2027 in the June forecast, but the revenue loss from H.R. 1 turns these off, mitigating the revenue loss in FY 2026-27.

In FY 2025-26, we solved for a \$1b structural deficit already



- The state previously solved an FY26 budget deficit of over \$1b during legislative session, which was caused by caseload pressures exceeding spending cap growth
- Now, there is a new deficit caused by immediate loss of revenue related to the impacts of H.R. 1 in FY26
- FY27 budget demand still exceeds available room, which would compound the budget issues ahead if the new H.R.1 related deficit is not addressed

Colorado is linked to federal tax policy changes more than most states. Also, due to immediate changes, particularly targeting tax breaks that reduce state corporate income revenue, FY26 revenue losses caused by H.R. 1 are likely to exceed \$1b.

Compared to other state, Colorado is more susceptible to the impacts of federal tax changes

- 6 States (14%), including Colorado, begin at Federal Taxable Income (FTI), most use Adjusted Gross Income (AGI) for individual income
 - FTI is a lower starting point and incorporates more federal deductions than AGI. For example, AGI comes prior to standard/itemized deductions, as well as overtime, tips, and passthrough deductions.
- 24 States (~60%), including Colorado, have rolling conformity for either individual or corporate tax
 - Rolling conformity means federal changes are automatically adopted into state tax code
 - States with static conformity choose a date and conform to the IRC as of that date, and may update or not with federal changes
- Colorado is one of 18 states to use FTI after all federal deductions at the corporate income level
- Only 4 States both start with FTI and follow rolling conformity for individual income (CO, OR*, ND, IA) making these states the most susceptible to federal tax policy changes

How Federal Taxable Income is Calculated for Individuals

| |
|---|
| Federal Gross Income (exclusive of exclusions) |
| - "Above-the-Line" Deductions |
| <hr/> |
| = Federal Adjusted Gross Income |
| - Standard Deduction or Itemized Deductions |
| - Qualified Business Deduction |
| - Charitable Contribution Deduction for Non-itemizing Taxpayers |
| - Personal Exemptions |
| <hr/> |
| = Federal Taxable Income |

Source: Office of the State Auditor analysis of federal laws.

How Federal Taxable Income is Calculated for Corporations

| |
|--|
| Gross Sales |
| - Cost of Goods Sold |
| <hr/> |
| = Federal Gross Income |
| - Deductions |
| <hr/> |
| = Federal Taxable Income |
| - Federal Net Operating Loss Deduction |
| - Special Deductions |
| <hr/> |
| = Net Federal Taxable Income |

Source: Office of the State Auditor analysis of federal laws.

Methodology of Calculating Tax Policy Impacts

1. Begin with Joint Committee on Taxation (JCT) National Score
 2. Estimate effective marginal tax rate to calculate the base of Federal Taxable Income
 3. Apportion FTI to Colorado and use Colorado Income Tax Rate
 4. Adjust for unique Colorado Tax Provisions (Add-backs, coupling)
 5. Align with OSPB June Forecast assumptions as appropriate
 - Some provisions are estimated separately utilizing Colorado level tax data
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- Unless specifically noted, our estimates account only for direct changes to Colorado tax base from the reconciliation bill

 - Top line impacts focus on Individual and Corporate General Fund revenue, including Healthy School Meals for All revenue

NOTE: OSPB estimates based on a “current law” baseline, which would have assumed the roll off of TCJA

Summary of H.R. 1 Tax Sections

- The bill has numerous sections that impact the state:
 - **Chapter 1: Individual income tax extension and expansion of TCJA:** Includes higher standard deduction, repeal of personal exemption (except for Seniors), QBI deduction extension, SALT cap increase, and repeals/modifications to smaller itemized deductions
 - **Chapter 2: New individual income tax exemptions:** Includes deductions on tax for tips, overtime, and auto loans.
 - **Chapter 3: Extending and expanding exemptions for businesses:** Includes business depreciation, investment credits, business interest rules, and international revenues treatment.
 - **Chapter 4: Catch-all:** Includes family tax credits, education provisions, charitable contributions floors, Opportunity Zones, LIHTC, and smaller business provisions
 - **Chapter 5: IRA/Energy tax credit rollbacks:** Includes repeal of EV and other clean energy tax expenditures, treatment of certain intangible development costs for drilling
 - **Chapter 6: Smaller Business Provisions:** Treatment of partnership income, federal tax credits
 - **Health Chapter 3:** expanded HSA eligibility

Summary of revenue impacts by chapter

- Note that some tax policy changes begin in TY2025, but OSPB are not making adjustments to final FY 2024-25 accruals given the wide band of uncertainty. Therefore, the estimated FY25 impacts below instead negatively impact FY 2025-26 revenue, as shown in the totals row below, in \$m:

| HR 1 Chapter | Summary of Provisions | FY 2024-25 | FY 2025-26 | FY 2026-27 | FY 2027-28 |
|------------------|--|------------------|---------------------------|-------------------------|-------------------------|
| Chapter 1 | Core Individual TCJA Extensions/Expansions | -\$95 to -\$65 | -\$105 to -\$95 | -\$140 to -\$130 | -\$165 to -\$155 |
| Chapter 2 | New Campaign Promises (OT, Tips, Auto Loans) | -\$10 to -\$5 | -\$405 to -\$240 | -\$109 to -\$75 | -\$122 to -\$85 |
| Chapter 3 | Expensing, Business, and Foreign Income Reforms | -\$285 to -\$235 | -\$520 to -\$330 | -\$560 to -\$300 | -\$510 to -\$325 |
| Chapter 4 | Misc Federal Credits, Business Treatments, Education, Charitable Contributions | \$0 | -\$7 to -\$5 | -\$35 to -\$30 | -\$57 to -\$50 |
| Chapter 5 | IRA/Clean Energy Terminations | -\$2 to \$2 | -\$2 to \$2 | -\$5 to \$0 | -\$5 to \$0 |
| Chapter 6 | Business, Fed Credits, Misc | \$0 to \$3 | \$5 to \$10 | \$13 to \$18 | \$13 to \$18 |
| Health Chapter 3 | Premium Tax Credits, HSAs | \$0 | -\$2 to \$0 | -\$3 to -\$1 | -\$3 to -\$1 |
| | TOTAL | | -\$1,420 to -\$986 | -\$818 to -\$540 | -\$831 to -\$615 |

Negative impacts from H.R. 1 are strongly weighted to the corporate income stream

Impacts to Income streams, in \$m

| Income Stream | FY26 impact (18 months impact*) | FY27 Impact | FY28 Impact |
|---------------|---------------------------------|------------------|------------------|
| Individual | -\$465 to -\$290 | -\$5 to +\$13 | \$1 to \$18 |
| Corporate | -\$956 to -\$700 | -\$830 to -\$535 | -\$850 to -\$616 |

*Note: 18 months impact refers to the fact that 12 months of TY25 revenue and roughly half of TY26 revenue (based on accruals methodology) are incorporated into FY26 estimates

Individual Income Tax Provisions with Major Impacts

Revenue impacts, in \$m

| Provision | FY26 impact | FY27 Impact | FY28 Impact | Appendix Slide |
|---|------------------|------------------|------------------|----------------|
| Termination of Personal Exemption Other than Seniors | \$295 to \$430 | \$630 to \$925 | \$712 to \$1,045 | 31 |
| Extension and Enhancement of Increased Standard Deduction | -\$450 to -\$310 | -\$770 to -\$525 | -\$875 to -\$600 | 31 |
| No Tax on Overtime | -\$180 to -\$290 | 0 | 0 | 32 |
| No tax on Tips | -\$90 to -\$45 | -\$65 to -\$50 | -\$70 to -\$50 | 32 |

Note: Standard Deduction extension and temporary expansion expected \$ HSMA impact range: FY26: +\$25m to \$35m; FY27 and FY28: \$52m to \$72m. Approximately \$45-57m in FY27 and FY28 is resulting from TCJA extension, with \$7-15m being from the temporary expansion.

Individual Income Tax Provisions Moderate Impacts

Revenue impacts, in \$m

| Provision | FY26 impact | FY27 Impact | FY28 Impact | Appendix Slide |
|--|-----------------|----------------|----------------|----------------|
| Limitation on individual deductions for SALT | -\$25 to -\$45 | -\$25 to -\$45 | -\$30 to -\$50 | 33 |
| No tax on car loan interest | -\$40 to - \$25 | -\$40 to -\$30 | -\$50 to -\$40 | 32 |
| Limitation on tax benefit of itemized deductions | -\$40 to -\$35 | -\$80 to -\$70 | -\$90 to -\$80 | 33 |
| Termination of miscellaneous itemized deductions | \$30 to \$35 | \$70 to \$80 | \$85 to \$95 | 33 |
| Permanent deduction for charitable contributions of individuals who do not elect to itemize | -\$8 to -\$3 | -\$30 to -\$25 | -\$40 to -\$35 | 35 |
| 0.5 percent floor on deduction for charitable contributions of individuals who do not elect to itemize | \$2 to \$7 | \$20 to \$25 | \$30 to \$35 | 35 |

Note: SALT cap changes expected \$ HSMA impact range: +\$7m to \$15m

Individual Income Tax Provisions, continued

- OSPB assumes no fiscal impacts as a result of the following changes in the federal bill:
 - Tax Rates made permanent
 - The lower TCJA marginal tax rates (ranging from 10% to 37%) were made permanent.
 - The TCJA adjustments to the brackets eliminating most of the “marriage penalty” were also made permanent.
 - Child Tax Credit
 - The CTC is increased to \$2,200 per child indexed for inflation.
 - The TCJA changes to the additional child tax credit are made permanent.
 - The state decoupled from the federal credit in 2023
 - Estate Tax
 - EV tax credits
 - ACA premium tax changes to eligibility

Impacts to individual income revenue forecast

- Combining these provisions discussed, OSPB expects the following ranges of individual income tax revenue impacts:
 - **FY 2025-26: -\$290m to -\$463m (-\$376m midpoint estimate)**
 - **FY 2026-27: -\$5m to +\$12m (+\$4m midpoint estimate)**
 - **FY 2027-28: +\$1m to \$18m (+\$10m midpoint estimate)**

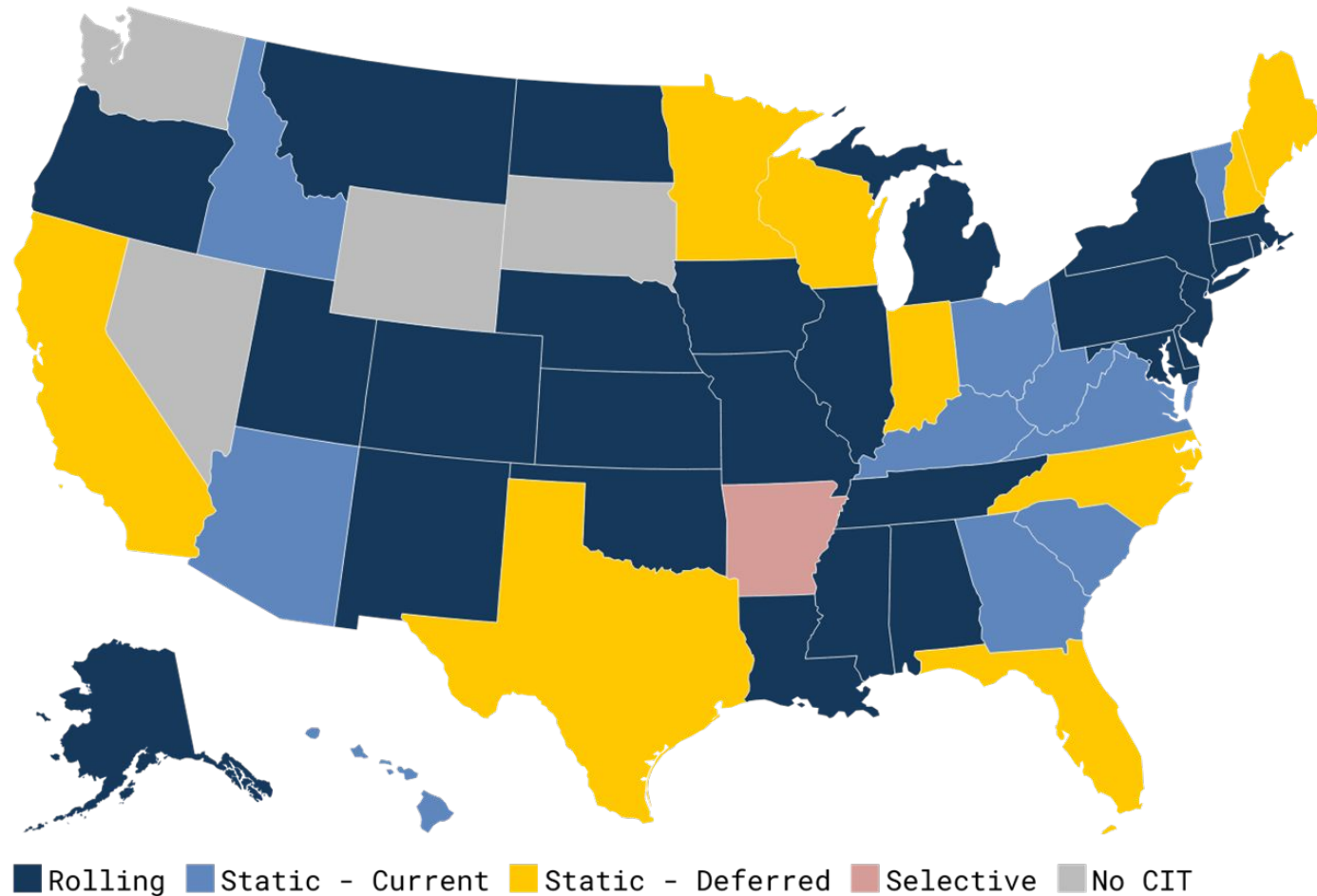
- For illustrative purposes, OSPB takes the midpoint estimate of the range to show the new individual income revenue forecast after accounting for impacts of the reconciliation bill.
- The negative revenue impact takes place in FY 2025-26 largely from expected revenue losses due to the overtime deduction still linked to the state tax code in Tax Year 2025 and creation of the senior personal exemption, with other provisions also playing a smaller role.

Table: Updated Individual Income Tax Revenue Estimates following H.R. 1, in \$m

| (\$millions) | FY 2024-25 | FY 2025-26 | FY 2026-27 |
|---------------------------|-------------|------------|------------|
| June 2025 OSPB Forecast | \$10,026.3 | \$10,991.5 | \$11,502.9 |
| H.R. 1 Tax Policy Impacts | \$0 | -\$376 | +\$4 |
| Updated Revenue Estimate | \$10,002.7* | \$10,615.5 | \$11,506.9 |

*Updated revenue estimate for FY 2024-25 includes June revenue actuals received after the June 2025 forecast publication.

Corporate Income Tax Alignment with Federal Tax



In addition to rolling corporate income alignment, starting with FTI as well leaves the state especially exposed to H.R. 1 policy changes

Definitions:

Rolling: automatically updated alongside Federal changes

Static-Current: State legislature has voted to update to recent Federal Tax Policy Changes

Static-Deferred: state legislatures have not voted to remain updated with recent Federal Policy Changes

Selective: Specific adoption or exclusion of individual IRC provisions

No CIT: No Corporate Income Tax

Source: Tax Foundation

Corporate Income Tax Provision Impacts, in \$m

| Provision | FY26 impact | FY27 Impact | FY28 Impact | Appendix Slide |
|--|------------------|------------------|------------------|----------------|
| Full expensing for certain business property | -\$315 to -\$225 | -\$250 to -\$175 | -\$230 to -\$170 | 36 |
| Full expensing of domestic research and experimental expenditures* | -\$305 to -\$225 | -\$90 to -\$40 | -\$60 to -\$45 | 37 |
| Special depreciation allowance for qualified production property | -\$95 to -\$70 | -\$130 to -\$70 | -\$130 to -\$95 | 36 |
| Currently Decoupled From through TY25 | | | | |
| Extension of Passthrough Deduction for Qualified Business Income and Permanent Enhancement | -\$150 to -\$130 | -\$260 to -\$220 | -\$305 to -\$260 | 38 |

*Note: R&E expensing includes retroactive expensing for expenditures between TY21 and TY25

Corporate Income Tax Provision Impacts, in \$m, continued...

| Provision | FY26 impact | FY27 Impact | FY28 Impact | Appendix Slide |
|---|----------------|----------------|----------------|----------------|
| Modification of limitation on business interest | -\$50 to -\$40 | -\$30 to -\$25 | -\$25 to -\$20 | 37 |
| Renewal and enhancement of Opportunity Zones | \$0 | -\$30 to -\$20 | -\$50 to -\$40 | 38 |
| Increased dollar limitations for expensing of certain depreciable business assets | -\$25 to -\$15 | -\$15 to -\$5 | -\$15 to -\$10 | 36 |
| Changes to Foreign Income Treatment | \$0 to -\$25 | \$0 to -\$60 | \$0 to -\$70 | 39 |

Corporate Income Tax Provisions, continued...

- Other provisions with no or minor fiscal impacts include:
 - Extension and enhancement of paid family and medical leave credit
 - Enhancement of advanced manufacturing investment credit
 - Energy tax credits
 - The state has its own tax credits and OSPB is not considering second order impacts from taxpayer behavior
 - State Housing Credits
 - The state housing tax credits have its own caps and is not tied directly to federal changes

Impacts to corporate income revenue forecast

- Overall, OSPB expects the following ranges of corporate income tax revenue impacts:
 - **FY 2025-26: -\$695m to -\$956m (-\$825m midpoint estimate)**
 - **FY 2026-27: -\$535m to -\$831m (-\$683m midpoint estimate)**
 - **FY 2027-28: -\$616m to -\$849m (-\$733m midpoint estimate)**

- For illustrative purposes, OSPB takes the midpoint estimate of the range to show the new corporate income revenue forecast after accounting for impacts of the reconciliation bill.
- Due to expected revenue loss from the bill, corporate income revenue in FY 2025-26 is projected to contract 36% from the June forecast, with revenue falling to its lowest level since FY 2020-21.

Table: Updated Corporate Income Tax Revenue Estimates following H.R. 1, in \$m

| (\$millions) | FY 2024-25 | FY 2025-26 | FY 2026-27 |
|---------------------------|-------------------|-------------------|-------------------|
| June 2025 OSPB Forecast | \$2,642.1 | \$2,264.9 | \$2,377.0 |
| H.R. 1 Tax Policy Impacts | \$0 | -\$825 | -\$683 |
| Updated Revenue Estimate | \$2,619.5* | \$1,439.9 | \$1,694.0 |

*Updated revenue estimate for FY 2024-25 includes June revenue actuals received after the June 2025 forecast publication.

Other Notable Impacts

- Repeal of clean energy provisions
 - Largely do not directly impact state tax revenue, but may indirectly decrease demand for state level energy incentives
- Reduction in IRS capacity and increased risk of tax fraud
 - While not directly related to the passage of H.R. 1, the IRS has seen significant reductions in its workforce, as much as 25% according to the US Treasury Inspector General
 - This may reduce audits and threat of audits at the federal level, potentially reducing individuals' compliance to tax laws and reducing reported income
 - This could reduce state taxable income by an unknowable amount, and the Colorado Department of Revenue is not well-equipped to audit reported federal taxable income in the absence of IRS enforcement

OSPB's midpoint estimate of individual income revenue loss in FY26 is \$326m, with de minimis impacts in the outyears. Meanwhile, the midpoint estimate of corporate revenue loss is \$825m in FY26 with roughly \$700m in losses in both FY27 and FY28. Therefore, due to H.R. 1, the previously balanced budget in FY26 has turned into a sizable budget deficit.

OSPB's June Revenue Forecast estimated TABOR refunds and a balanced budget this FY

- The June forecast took place prior to passage of H.R. 1 and therefore the tax policy impacts to Colorado income tax revenue were not incorporated in June.
- During that forecast, the year-end General Fund balance is estimated to be \$40.9m below the 15% statutory reserve prior to GF reversions in FY25 or FY26.
- On average, during the previous decade, GF reversions and accounting adjustments improved the state's balancing position each FY by \$81m, more than enough to end FY26 with available GF in excess of the required 15% reserve.

June Forecast balancing expectations, in \$m

| | Forecast FY 2024-25 | Forecast FY 2025-26 |
|---|------------------------|------------------------|
| Revenue | | |
| Beginning Reserve | \$3,153.5 | \$2,334.0 |
| Gross General Fund Revenue | \$17,113.9 | \$17,797.0 |
| <i>Transfers to the General Fund</i> | \$517.2 | \$112.9 |
| TOTAL GENERAL FUND AVAILABLE | \$20,784.7 | \$20,244.0 |
| Expenditures | | |
| Appropriation Subject to Limit | \$15,621.8 | \$16,538.1 |
| Spending Outside Limit | \$2,814.1 | \$1,807.4 |
| TOTAL GENERAL FUND OBLIGATIONS | \$18,435.9 | \$18,345.4 |
| <i>Percent Change (from prior year)</i> | 9.3% | -0.5% |
| Reversions and Accounting Adjustments | \$14.7 | \$0.0 |
| Reserves | | |
| Year-End General Fund Balance | \$2,334.0 | \$2,398.6 |
| <i>General Fund Statutory Reserve</i> | \$2,358.5 | \$2,439.5 |
| <i>Year-End General Fund as a % of Appropriations</i> | 14.9% | 14.5% |
| <i>Above/Below Statutory Reserve</i> | -\$24.5 | -\$40.9 |

Note: FY25 currently includes \$14.7m in accounting adjustments related to HSMA and SB25-243 but no reversions

TABOR surplus and budget balancing compared to OSPB June Forecast

Table: Updated TABOR Surplus Estimates following H.R. 1, in \$m

| (\$millions) | FY 2024-25 | FY 2025-26 | FY 2026-27 |
|---|-----------------|-----------------|-----------------|
| June 2025 OSPB Forecast Tabor Surplus | +\$224.0 | +\$289.0 | +\$536.4 |
| H.R. 1 Tax Policy Impacts (midpoint) | \$0 | -\$1,203 | -\$679 |
| Change in FATC/EITC Triggers from June Forecast | \$0 | \$0 | +487.8 |
| Updated Tabor Surplus Estimate w/ impact of H.R. 1 | +\$283.2 | -\$914.0 | +\$345.2 |

*Updated Tabor surplus estimate for FY 2024-25 includes June revenue actuals received after the June 2025 forecast publication.

- In the June forecast, the General Fund in FY 2025-26 was estimated to be in a deficit position of \$40.9m. This estimate would have likely led to a balanced budget after considering reversions, which are ~\$80m in a 'normal' year. Due to revenue impacts from H.R. 1, FY 2025-26 is now projected to be in a deficit position of \$954.9m, after combining the prior position with \$914.0m less GF retained by the state
- Family Affordability and Expanded Earned Income tax credits were assumed to be fully available in Tax Year 2027 in the June forecast, but the revenue loss from H.R. 1 turns these off, mitigating the revenue loss in FY 2026-27

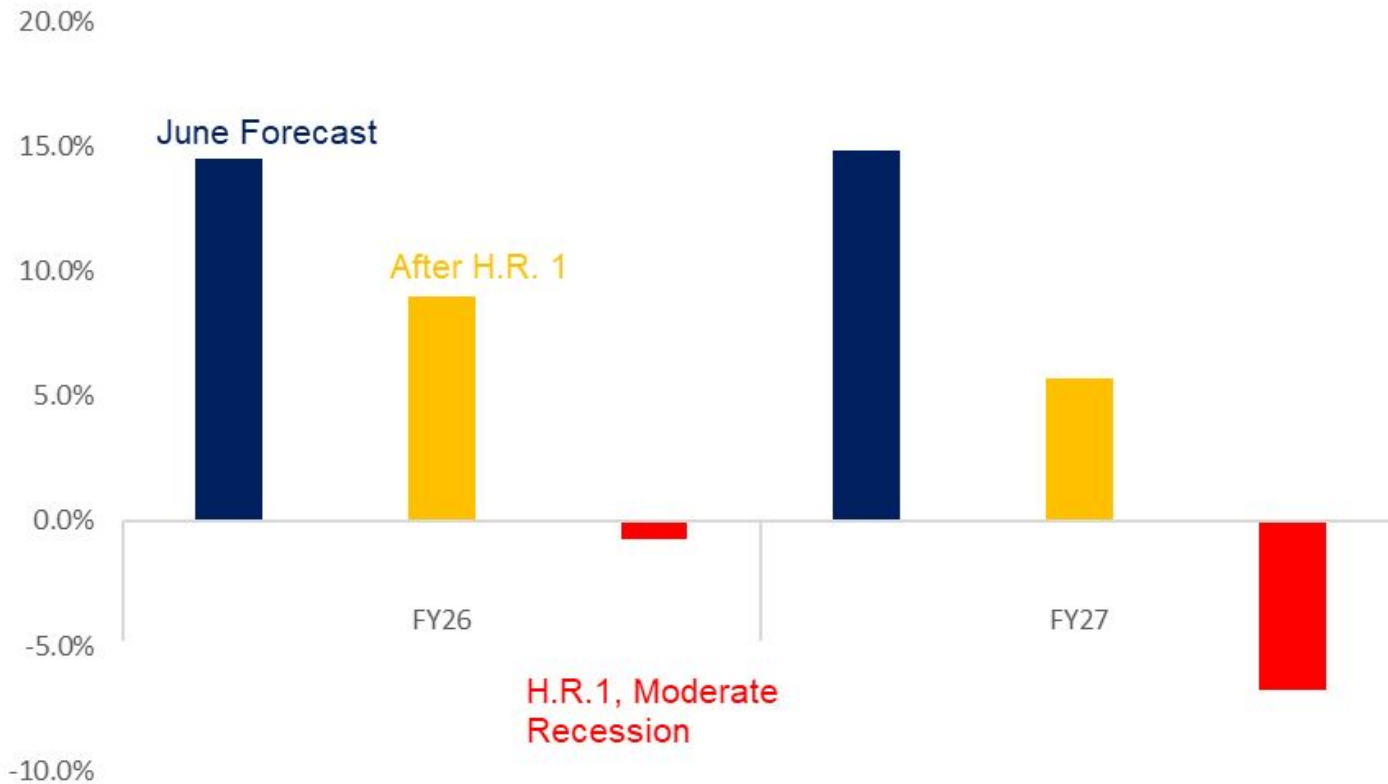
Updated FY26 GF Reserve after incorporating revenue impacts from reconciliation

| FY 2025-26 (\$ m) | |
|--|-----------------|
| June Forecast TABOR Refund (above TABOR cap) | \$289.0 |
| June Forecast GF Deficit (below 15% reserve) | -\$40.9 |
| H.R.1 Tax Revenue Impacts | -\$1,203.0 |
| Updated FY26 GF Deficit (below 15% reserve) | -\$954.9 |
| Updated Reserve % | 9.0% |

- To sum up, in the June forecast, there was an anticipated \$41m budget shortfall for the current fiscal year, which would likely be covered by reversions.
- However, based on changes to federal tax policy, OSPB now expects a 9.0% GF reserve this year, \$955m short of the 15% statutory reserve, without action. The remaining reserve is insufficient to cover the impacts of the moderate recession OSPB illustrated in the June forecast. This carries forward and thereby negatively impacts the FY27 ending balance as well.
- Additionally, note that since FY26 is now expected to be below the TABOR cap, there will be an estimated \$233m GF in FY27 required to cover the cost of backfilling local governments for homestead exemptions.

After incorporating H.R. 1's impacts, there is not sufficient reserve to cover a moderate recession

Reserve as a Share of GF Appropriations



- OSPB estimates that the revenue impacts of H.R. 1 results in an estimated 9.0% reserve in FY26 and 5.7% in FY27 if no actions are taken to address impacts.
- Sufficient reserve is needed in case of a downturn in the economy. In the June forecast, OSPB estimated a 50% chance of a recession. Additionally in June, OSPB provided a moderate recession scenario with a 25% chance of occurring that would lower the reserve by \$1.6b this FY.
- Therefore, under a moderate recession, the remaining 9.0% reserve in FY26 would be insufficient to cover the revenue shortfall this year.

Questions?



Appendix: More detail on Specific Provisions



Individual Income Tax Provisions

Extend TCJA Tax Rates and Brackets (Sec. 70101):

- The lower TCJA marginal tax rates (**ranging from 10% to 37%**) were made permanent.
- The TCJA adjustments to the brackets eliminating most of the “marriage penalty” were also made permanent.

Extend Increased Standard Deduction and Eliminate Personal Exemptions (Secs. 70102 & 70103):

- The higher TCJA standard deductions were made permanent.
 - For 2025, the standard deduction will be **\$15,750 for single filers, \$31,500 for joint filers, and \$23,625 for heads of household.**
- Personal exemptions were also permanently eliminated, except a temporary (2025 through 2028) **\$6,000 personal exemption** is allowed for taxpayers who are 65 or older.
- Expected \$ GF net impact range: +\$100m to \$175m
 - Standard Deduction Range: -\$500m to -\$875m
 - Personal Exemption Range: +\$600m to +\$1,050m

Individual Income Tax Provisions

Deductions for Tips and Overtime (Secs. 70201 and 70202):

- Temporary (2025 through 2028) new deductions are allowed to non-itemizers for up to **\$25,000 in qualified tips** and **\$12,500 in overtime compensation** (\$25,000 for joint filers).
- Starting in 2026, Colorado taxpayers add back the overtime deduction pursuant to HB25-1296. Colorado is one of only four states that will newly allow the deduction of overtime due to H.R. 1.
- The taxpayer (and spouse if filing jointly) must have a social security number.
- Expected \$ impact range for OT: -\$180m to -\$290m until decoupled
- Expected \$ impact range for Tips: -\$45m to -\$90m

Deduction for Auto Loan Interest (Sec. 70203):

- A temporary (2025 through 2028) new deduction allowed to non-itemizers for up to **\$10,000 in qualified passenger vehicle loan interest**.
- Expected \$ impact range: -\$30m to -\$50m

Changes for Itemizers

Increased State and Local Tax (SALT) Deduction (Sec. 70120):

- The limit on the deduction for state and local taxes is increased from \$10,000 to **\$40,000** for 2025.
- The limit will continue to increase until 2030, when it will return to \$10,000.
- This higher cap will phase down for taxpayers with a modified adjusted gross income (MAGI) over \$500,000.
- Expected \$ GF impact range: -\$25 to -\$45m
- Expected \$ HSMA impact range: +\$7 to \$15m

New Limit to Replace “Pease Limit” (Sec. 70111):

- Generally, taxpayers in the 37% bracket must reduce itemized deductions by 2/37 of the lesser of the amount of the deductions or the amount by which their income exceeds the bracket threshold.
- Expected \$ GF Impact: -\$70m to -\$90m

Other Changes

- TCJA changes to qualified residence interest, casualty loss, wagering losses, moving expenses, and miscellaneous itemized deductions were generally made permanent.
- Expected \$ GF Impact: +\$60m to \$80m

Changes for Families

Child Tax Credit (CTC) (Sec. 70104):

- The CTC is increased to **\$2,200 per child** indexed for inflation.
- The TCJA changes to the additional child tax credit are made permanent.
- In addition to requiring an SSN for the qualifying child, the taxpayer (and spouse if filing jointly) must have an SSN.

Child and Dependent Care Expenses Tax Credit (Sec. 70405):

- The percentage of expenses that qualify for the credit is increased from 35% to **50%**.
- The phase out calculation has two floors
 - 35% for AGI between \$15,000 and \$75,000; and
 - 20% for AGI in excess of \$75,000.
- Expected \$ GF impact -\$1m to -\$3m

Charitable Contributions

Permanent Deduction for Non-Itemizers (Sec. 70424):

- The temporary deduction for contributions by non-itemizers allowed in 2021 is reinstated beginning with tax year 2026.
- The limit is increased from \$300 (\$600 for joint filers) to **\$1,000 (\$2,000 for joint filers)**.
- Since 2001, Colorado has allowed a deduction to non-itemizers for charitable deductions in excess of \$500.
- Expected GF \$ Impact: -\$30m to -\$40m

New Charitable Contribution Deduction Floors (Secs. 70425 and 70426):

- Individual deductions will generally be allowed only to the extent that charitable contributions exceed 0.5% of the taxpayer's AGI.
- Expected GF \$ Impact: +\$25m to \$35m
- Corporate deductions will generally be allowed only to the extent that charitable contributions exceed 1% of the taxpayer's taxable income.

Accelerated Depreciation

Permanent Bonus Depreciation (Sec. 70301):

- **100% deduction** for qualified property in the year the property is placed in service.
- Expected \$ impact range: FY26: -\$225m to -\$315m, FY27: -\$170m-250m per year, but trending towards zero in out years (expected ~\$50m revenue loss in FY34)

Increased Limits for Section 179 Elections (Sec. 70306):

- The limit on the total cost subject to the election is increased from \$1 million to **\$2.5 million**.
- The threshold for phasing down the limit is increased from \$2.5 million to **\$4 million**.
- Expected \$ GF impact range: -\$7 to -\$15m

Special Depreciation for Qualified Production Property (Sec. 70307):

- Taxpayers may **deduct 100%** of their adjusted basis in property constructed in the U.S. between January 20, 2025 and December 31, 2028, in the year the property is placed in service.
- The property must be used to manufacture or produce tangible personal property other than food or beverage sold on site.
- Expected \$ impact range: -\$70m to -\$130m but trending to zero

Other Business Deductions

Full Expensing for Research and Development (Sec. 70302):

- **Full expensing** is allowed for domestic research and experimental expenditures paid or incurred during the tax year is restored.
- Foreign research and experimental expenditures must continue to be capitalized and amortized over 15 years.
- Expected \$ impact range: -\$220m to -\$300m in FY26, up to -\$90m and trending to zero in out years

Modification of Business Interest Deduction Limitation (Sec. 70303):

- Restored and made permanent the exclusion of depreciation, amortization, and depletion from the calculation of “adjusted taxable income.”
- The deduction of business income is limited to the sum of 30% of adjusted taxable income plus business interest income and floor plan financing interest.
- Made other adjustments to the adjusted taxable income definition, floor plan financing and capitalized interest provisions (see also secs. 70341 and 70342).
- Expected \$ impact range: -\$17 to -\$25m

Business Ownership Provisions

Extension and Modification of Qualified Business Income Deduction (Sec. 70105):

- The deduction for qualified business income allowed by section 199A is made permanent.
- Expected \$ impact range: -\$260m to -\$300m on-going

Permanent Renewal of Opportunity Zones (Sec. 70421):

- Makes permanent the TCJA Opportunity Zone program, which allows taxpayers to defer and potentially exclude the realization of capital gains invested in qualified opportunity funds.
- Adds a decennial (10-year) process for designating zones.

Expansion of the Qualified Small Business Stock Gain Exclusion (Sec. 70431):

- Taxpayers may **exclude up to 100% of the gain** on qualified small business stock acquired after July 4, 2025 and held for 5 years or more.
- The limit on the aggregate amount of gain from dispositions of a particular corporation's stock that may be excluded is increased and indexed for inflation

Multinational Businesses

Modifications to GILTI (Secs. 70311, 70321, and 70323):

- TCJA created a new category of income called “global intangible low-tax income.” HR 1 renames this category “net CFC (controlled foreign corporation) tested income” (NCTI).
- Taxpayers are required to **include all NCTI** in taxable income.
- HR 1 also **limited the deductions** that may be allocated against NCTI.
- The deduction for now NCTI is reduced from 50% (of GILTI) to **40% of NCTI**.
- The amount of deemed paid foreign taxes NCTI is increased from 80% to **90% of foreign tax** attributable to tested income.
- Interest and R&D expenses are no longer allocable to NCTI for purposes of the foreign tax credit.
- Expected \$ GF impact range: de minimis to -\$70m

Modifications to FDII (Secs. 70321 and 70322)

- The bill renamed FDII to foreign-derived deduction eligible income (FDDEI) and made base changes similar to those made to GILTI.
- The **deduction rate is reduced to 33.34%** from 37.5%.