



Legislative Council Staff

June 2025 Forecast Update

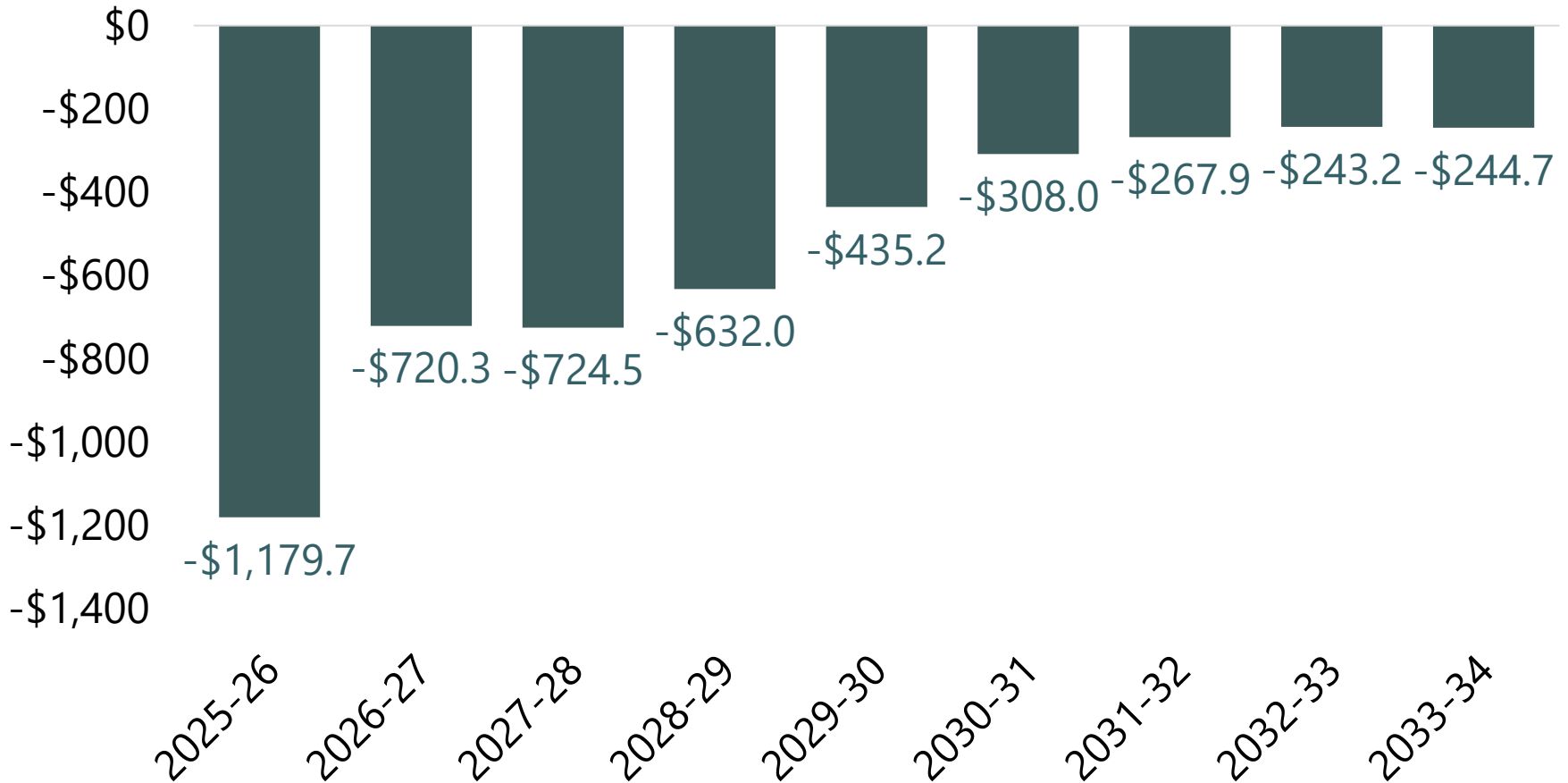
Presentation to the Executive Committee
July 30, 2025

State Revenue Impacts of H.R.1 – The One Big Beautiful Bill Act (OBBBA)



The OBBBA is expected to reduce income tax revenue by \$1.2 billion in FY 2025-26

Millions of Dollars, State Fiscal Year Basis



Source: Legislative Council Staff June 2025 Forecast Update Note: Estimates are on an accrual accounting basis so that FY 2024-25 impacts are added to FY 2025-26 estimates. Estimates are preliminary and subject to change with additional information or data.³

The OBBBA is expected to impact both individual and corporate income tax revenue

- Individual income tax revenue impacts include impacts on **individuals** and on **non-corporate businesses**
- Impacts of the OBBBA's business provisions are apportioned between both **corporate** and **non-corporate** businesses

General Fund Revenue Stream	FY 2025-26	FY 2026-27	FY 2027-28
Individual Income Tax	-\$843.4	-\$569.0	-\$574.9
Corporate Income Tax	-\$336.3	-\$151.3	-\$149.7
Total	-\$1,179.7	-\$720.3	-\$724.5

Source: Legislative Council Staff June 2025 Forecast Update Note: Estimates are on an accrual accounting basis so that FY 2024-25 impacts are added to FY 2025-26 estimates. Estimates are preliminary and subject to change with additional information or data.

Colorado Income Tax Revenue Begins with Federal Taxable Income



Federal Income Tax

Gross Income (All sources) - "Above-the-Line" Deductions = Adjusted Gross Income

Adjusted Gross Income - Standard or Itemized Deductions - Qualified Business Income Deduction = **Federal Taxable Income**

Federal Taxable Income × Tax Rates - Tax Credits = **Net Federal Taxes Owed**



Colorado State Income Tax

Federal Taxable Income + State Additions - State Subtractions = **Colorado Taxable Income**

Colorado Taxable Income × Tax Rate - State Tax Credits = **Net Colorado Taxes Owed**

How Does LCS Estimate State Impacts of the OBBBA?

LCS estimates begin with the Joint Committee on Taxation **current policy baseline** estimates, then generally follow a four-step process:

1. estimate total federal taxable income for all U.S. taxpayers;
2. estimate the share of federal taxable income attributable to Colorado filers;
3. apply the state tax rate; and
4. adjust for state-specific tax provisions.



Impacts of business depreciation and interest provisions are significant, but expected to decline over time

	FY 2025-26	FY 2026-27	FY 2027-28
Business depreciation and interest	-\$769.8 million	-\$414.3 million	-\$331.9 million
Changes to standard and itemized deductions and personal exemptions	-\$243.2 million	-\$211.1 million	-\$211.8 million
No tax on tips and overtime	-\$143.9 million	-\$38.7 million	-\$37.3 million
Qualified business income deduction	-\$39.7 million	-\$79.6 million	-\$79.6 million
Total, Selected Provisions	-\$1.2 billion	-\$743.8 million	-\$660.7 million

Source: Legislative Council Staff June 2025 Forecast Update Note: Estimates are on an accrual accounting basis so that FY 2024-25 impacts are added to FY 2025-26 estimates. Estimates are preliminary and subject to change with additional information or data.

Estimates of state impacts of federal tax policy carry a high degree of risk

- There may be unanticipated shifts in **taxpayer behavior**
- JCT does not provide a **margin of error** for estimates
- **Data are limited**, while OBBBA tax provisions are myriad and complex
- Shifts in other factors, such as the **business cycle or other federal or state policies** will also impact income tax revenue
- There may be unanticipated interactions with **state-level policies or conditions**, or assumed relationships may change over time

The OBBBA is expected to increase Proposition FF revenue

- Taxpayers with adjusted gross incomes of \$300,000 and above add back a portion of standard and itemized deductions for Colorado taxes
- Revenue is used for the Healthy School Meals for All Program created in Proposition FF
- Increased standard and itemized deductions are expected to increase Proposition FF revenue by **\$28 million in FY 2025-26** and **\$46 million in FY 2026-27**

Revenue & Budget Forecast Update



Updates since the June Forecast

Fiscal impacts of OBBBA

- Reduced revenue in FY 2025-26 (18 month impact) and FY 2026-27
- Added expenditures to Scenario B for FY 2026-27

Tax credit revenue triggers

- Family affordability tax credit (FATC) and expanded earned income tax credit (EITC) expected to be unavailable in 2026 and 2027

FY 2024-25 revenue updated with new data



Certain tax credits depend on revenue forecasts

Unchanged from the June forecast:

- Electric vehicle, E-bike, and heat pump credits (**HB 23-1272**) and Workforce shortage tax credit (**HB 24-1365**)
 - Credits reduced by 50% in TY 2026, fully available in TY 2027

Changed from the June forecast:

- Family affordability tax credit (**HB 24-1311**) and expanded earned income tax credit (**HB 24-1134**)
 - Credits expected to be unavailable in TY 2026 and TY 2027
 - Actual credit amounts will be determined by the preceding **December** forecast

Tax Year	June Forecast	Forecast Update
Tax Year 2026	Credit amounts reduced	Credits unavailable
Tax Year 2027	Credits fully available	Credits unavailable

General Fund revenue revised down in FY 2025-26, up in FY 2026-27

Changes to the Revenue Forecast Compared to June
Millions of Dollars

Components of Change	FY 2024-25	FY 2025-26	FY 2026-27
New Revenue Data	\$138.1	-\$2.0	\$0.0
OBBBA – Individual Income	\$0.0	-\$815.0	-\$523.4
OBBBA – Corporate Income	\$0.0	-\$336.3	-\$151.3
OBBBA – Diversion to SEF*	\$0.0	-\$101.4	-\$58.4
OBBBA – Diversion to Kids Matter Account*	\$0.0	\$0.0	-\$11.4
OBBBA – Diversion for Affordable Housing*	\$0.0	-\$30.4	-\$17.5
OBBBA – Diversion for Healthy School Meals for All*	\$0.0	\$28.4	\$45.5
Tax Credit Revenue Triggers	\$0.0	\$304.6	\$867.7
Total Change to General Fund Revenue	\$138.1	-\$745.2	\$234.7

*Note: Changes to diversions out of the General Fund are subtracted from the total General Fund revenue impact.

General Fund revenue expected to fall in FY 2025-26 and rebound in FY 2026-27

Gross General Fund Revenue

Billions of Dollars

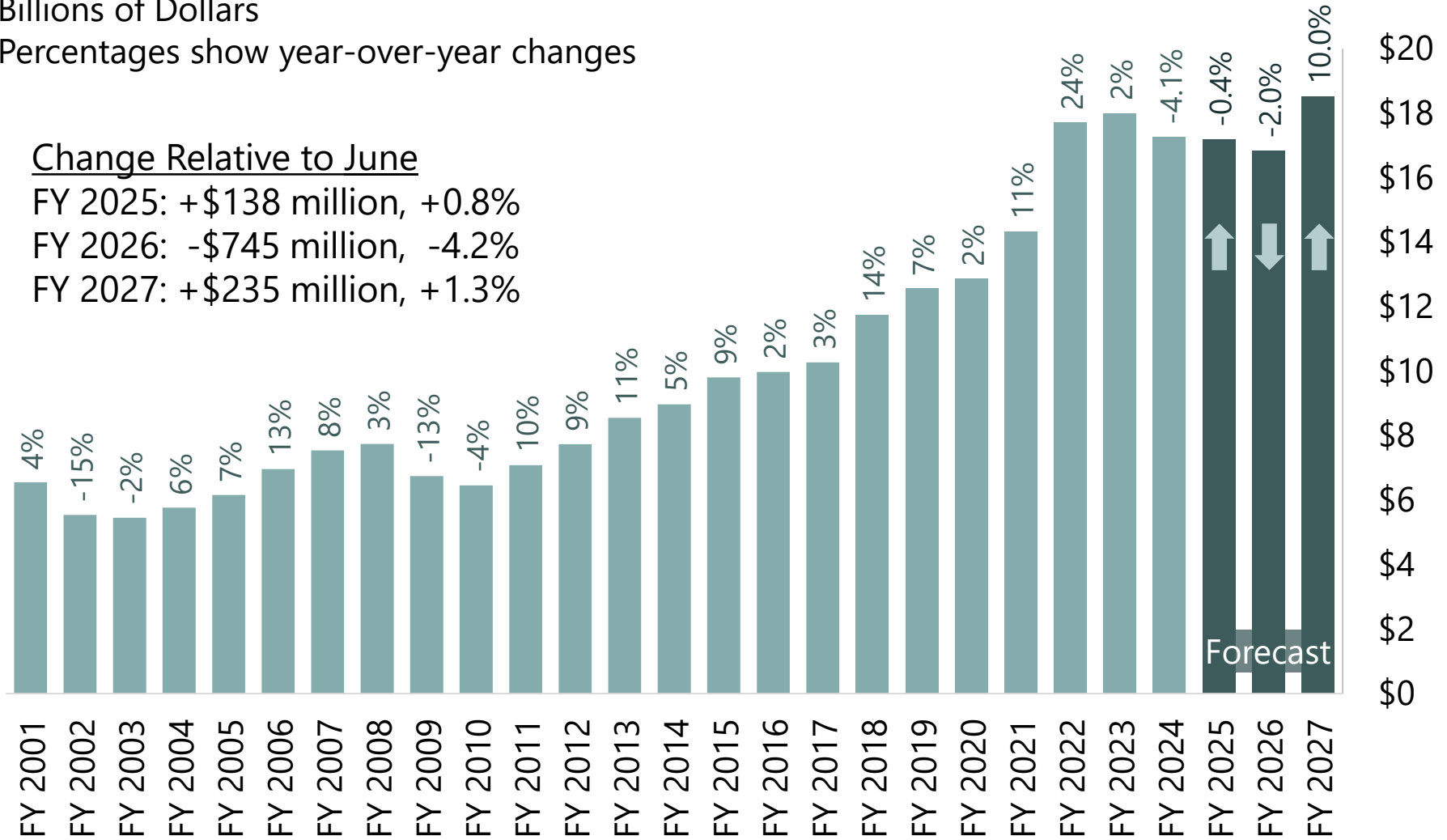
Percentages show year-over-year changes

Change Relative to June

FY 2025: +\$138 million, +0.8%

FY 2026: -\$745 million, -4.2%

FY 2027: +\$235 million, +1.3%



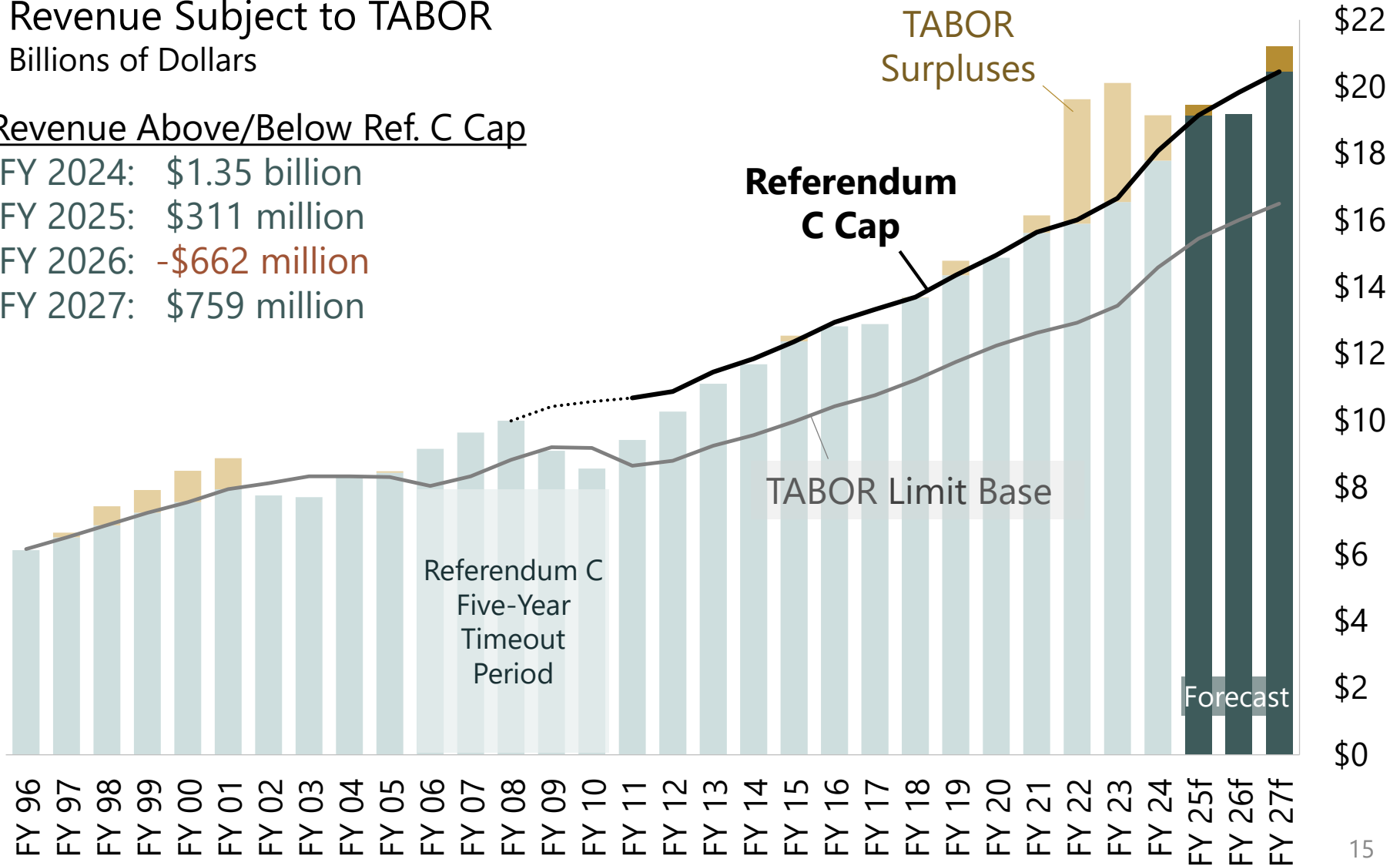
Source: Colorado Office of the State Controller and Legislative Council Staff June forecast update.

Revenue expected to fall below Referendum C Cap in FY 2025-26

Revenue Subject to TABOR
Billions of Dollars

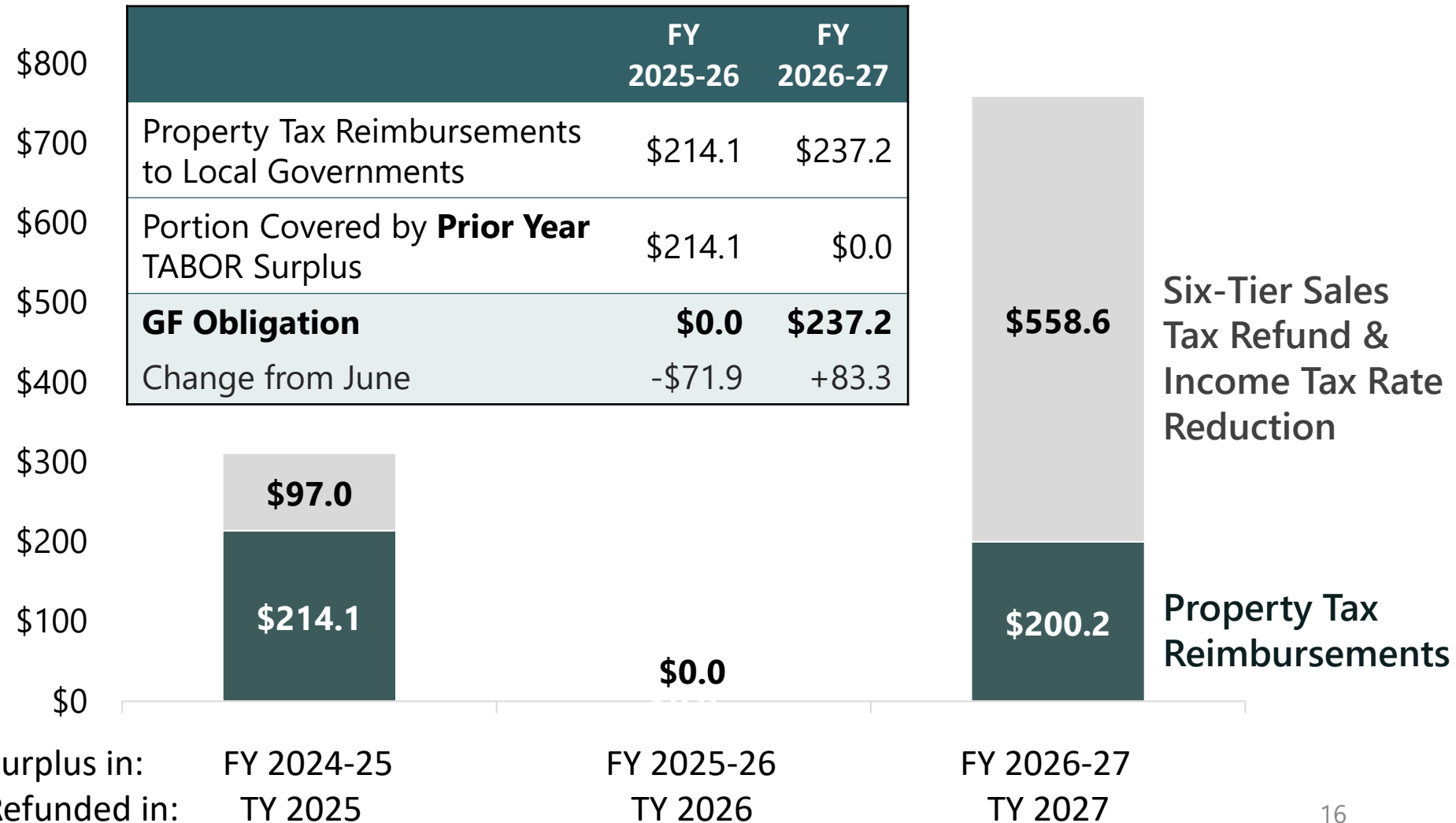
Revenue Above/Below Ref. C Cap

FY 2024: \$1.35 billion
 FY 2025: \$311 million
 FY 2026: **-\$662 million**
 FY 2027: \$759 million



TABOR refund obligation not expected to fund property tax exemptions in FY 2026-27

TABOR Refund Mechanisms, Millions



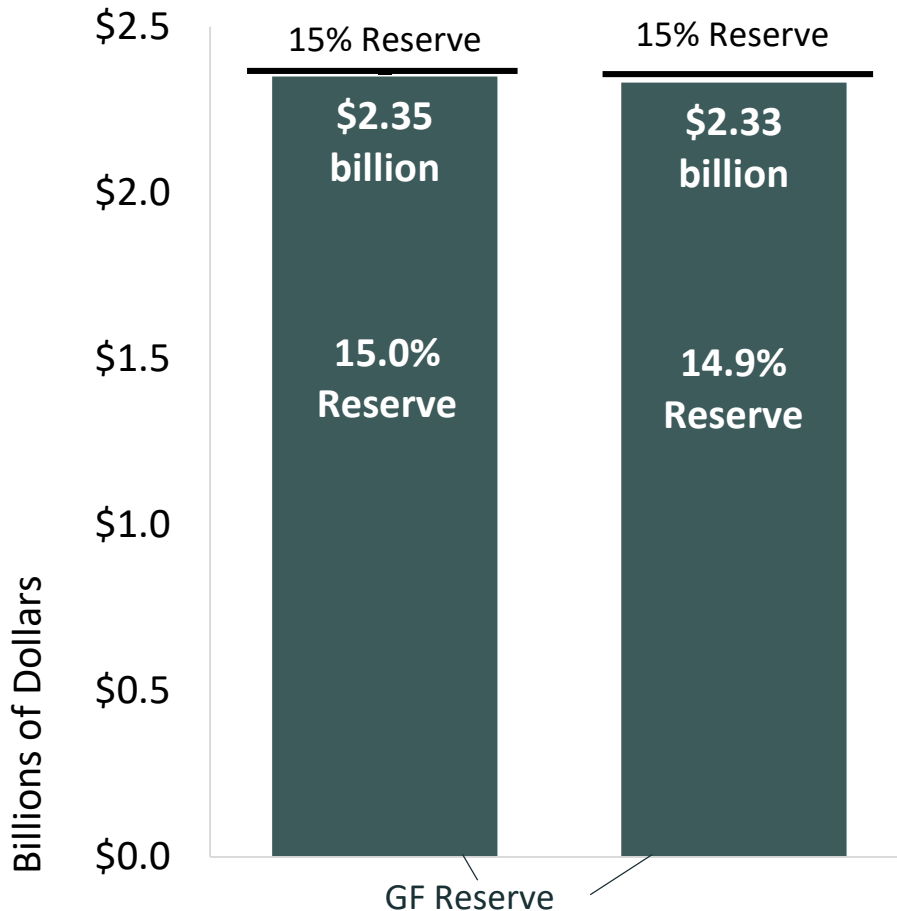
Prior Year | FY 2024-25 **General Fund Reserve**

June Forecast

June Forecast Update

Excess Reserve: **-\$8.6 million**

Excess Reserve: **-\$27.0 million**



Change since the June forecast:

Net **-\$18.4 million** change in GF reserve relative to requirement

What Changed?

Increased Cash Fund revenue	-\$48 million
Increase in exempt General Fund revenue	+\$17 million
Reduced rebates and expenditures (old age pension fund)	+\$17 million

Current Year | FY 2025-26 **General Fund Reserve**

June Forecast

Excess Reserve: **-\$83.6 million**

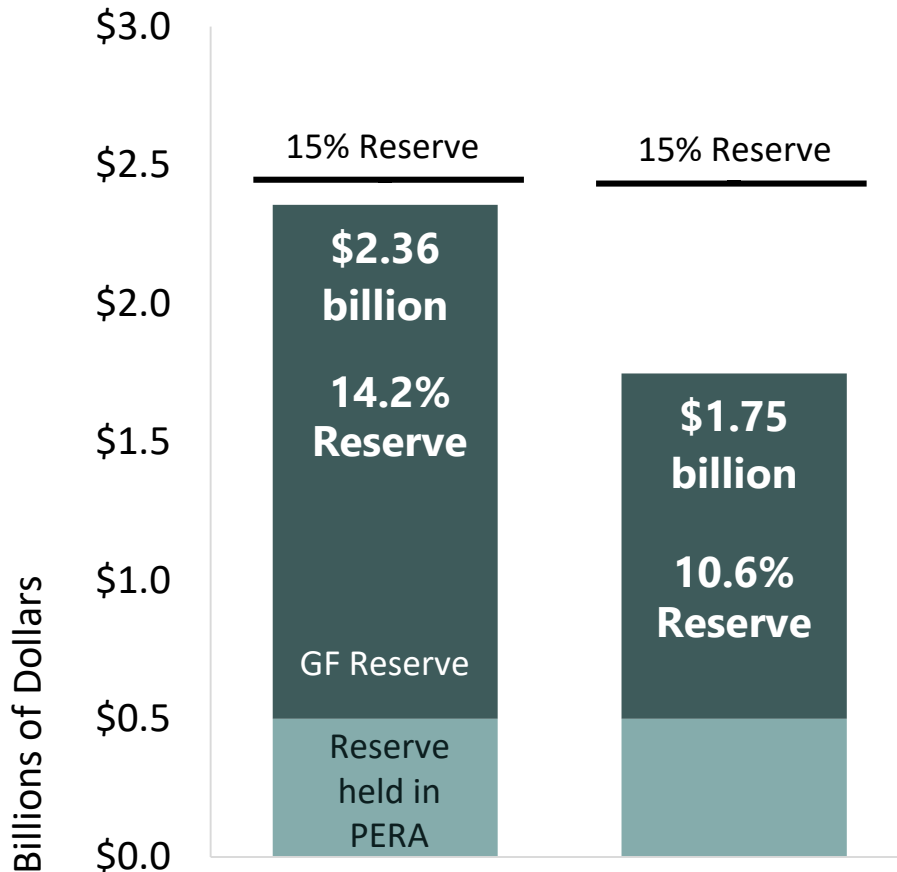
June Forecast Update

Excess Reserve: **-\$691.9 million**

Change since the June forecast

Net **-\$608.3 million** change in GF reserve relative to requirement

What Changed?



Downward Revision to **GF revenue forecast** **-\$745 mil.**

Reduced **beginning balance** **-\$18 mil.**

Reduced GF obligation for **property tax reimbursements** **+\$72 mil.**

Reduced **TABOR refund obligation** **+\$83 mil.**

Budget Year | FY 2026-27 **Scenario A**

**June
Forecast**

**June
Forecast Update**

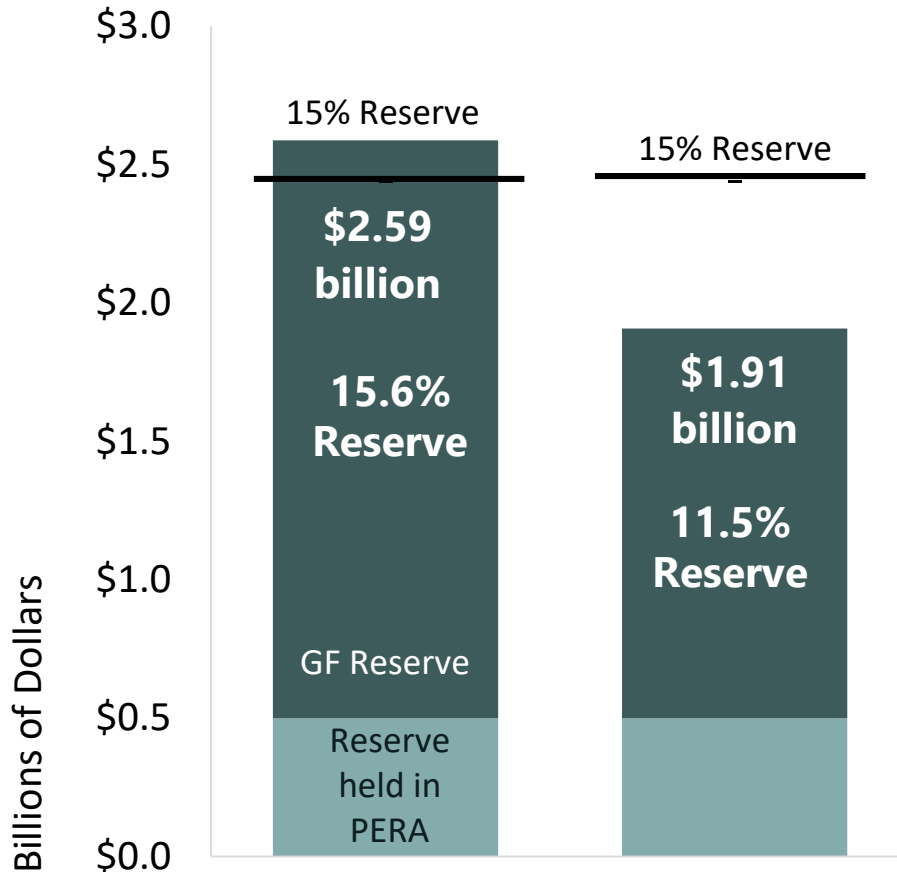
Change since the
June forecast

Excess Reserve: \$148.2 million

-\$532.1 million

Net **-\$680.3 million** change in GF
reserve relative to requirement

What Changed?



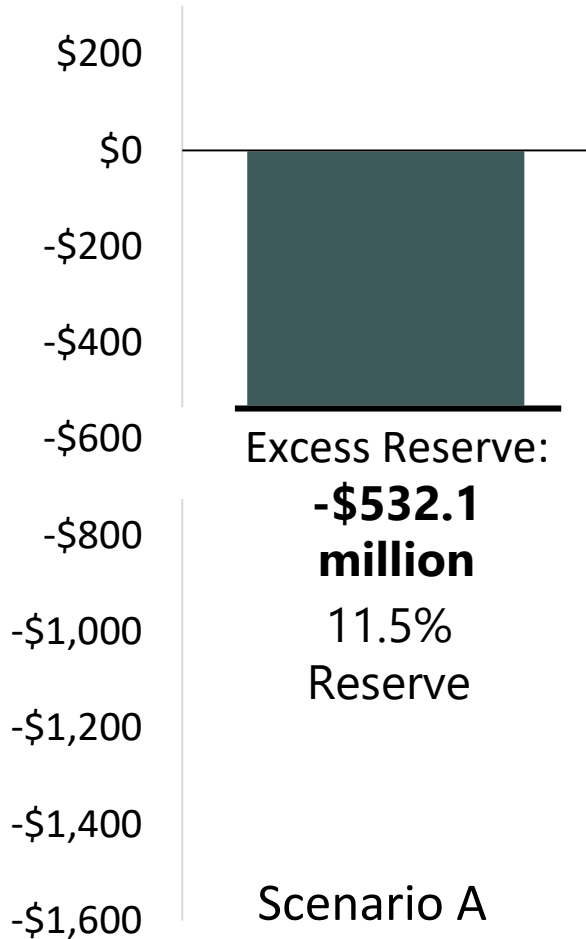
Reduced **beginning balance** **-\$608 mil.**

Increased GF obligation for
property tax reimbursements **-\$83 mil.**

Reduced diversion to the
Kids Matter Account **+\$11 mil.**

Budget Year | FY 2026-27 **Scenario A**

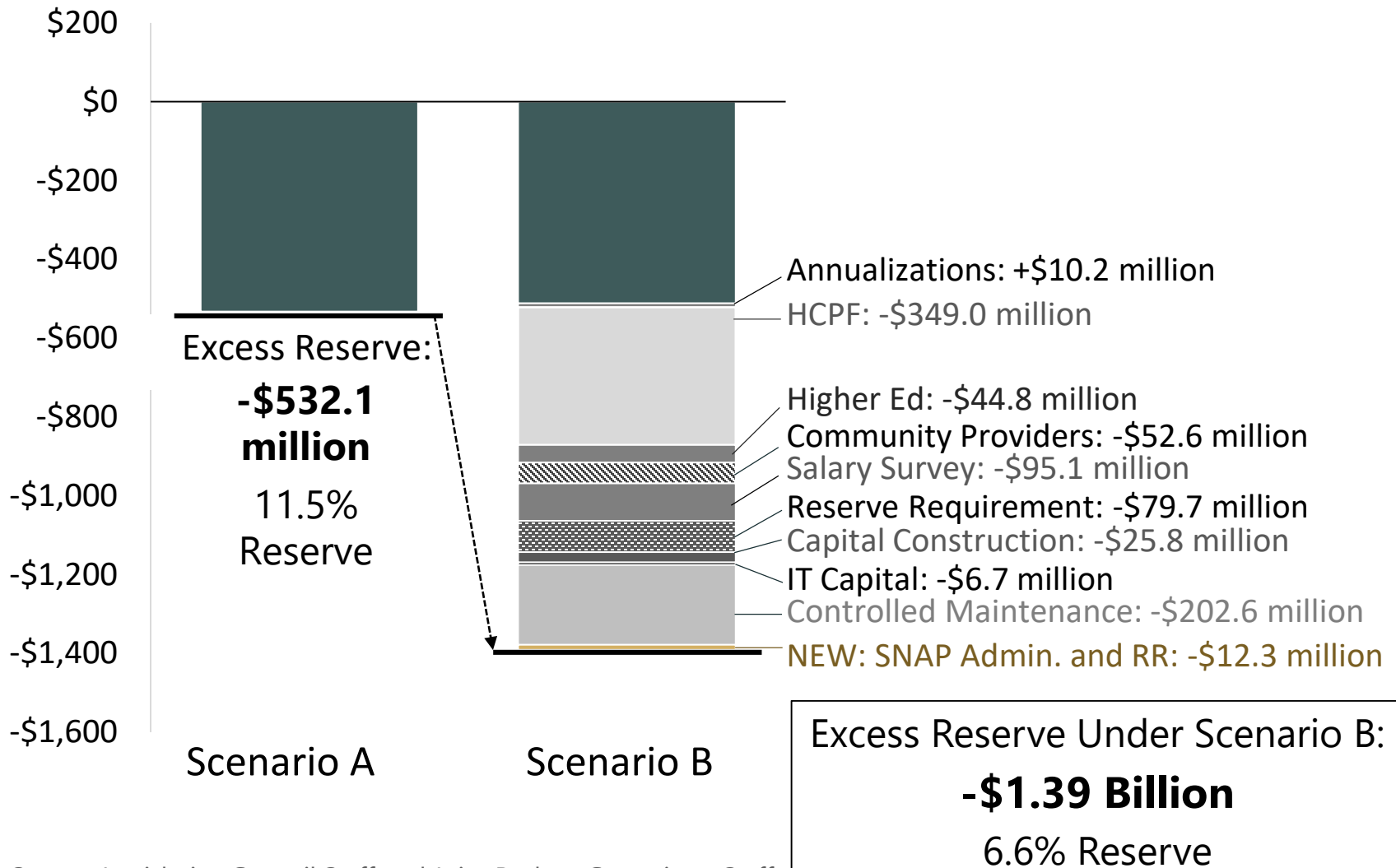
General Fund Reserve Above/Below the 15% Reserve Requirement
Dollars in Millions



Budget Year | FY 2026-27 **Scenarios A and B**

General Fund Reserve Above/Below the 15% Reserve Requirement

Dollars in Millions



Forecast Takeaways

- **The OBBBA** expected to have large, negative revenue impacts, particularly for FY 2025-26
- **FATC and expanded EITC** are expected to be unavailable in tax years 2026 and 2027, boosting state revenue
- **FY 2025-26 GF reserve** expected to end the year \$692 million below the 15% reserve requirement
- Having a lower GF reserve in FY 2025-26 carries forward into **FY 2026-27**



Questions?

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