



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Memorandum

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TO: Interested Persons

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SUBJECT: Treatment of Tax Credit Triggers in Fiscal Notes

Summary

Legislative Council Staff (LCS) fiscal notes estimate a bill's fiscal impact relative to current law. There are four tax credits in current law, known as triggered tax credits, whose availability or amounts are dependent on state revenue conditions. Bills that affect state revenue subject to TABOR may affect the availability or level of these triggered tax credits. If a bill impacts state revenue subject to TABOR such that it is expected to change the availability or level of a triggered tax credit, the bill's fiscal note will show revenue impacts that result from that change.

Based on the December 2025 LCS forecast, bills that **increase revenue by at least \$71.9 million** or **decrease revenue by at least \$52.7 million** in FY 2026-27 will impact the availability of triggered tax credits. For FY 2027-28, bills that **increase revenue by at least \$142.9 million** or **decrease revenue by at least \$28.1 million** will impact the availability of triggered tax credits. These thresholds will be updated with the March 2026 forecast.

Triggered Tax Credits

A triggered tax credit is a credit whose availability or amount depends on some other condition. There are four triggered tax credits in current state law:

- the **family affordability tax credit (FATC)** created in [House Bill 24-1311](#) and the expanded **earned income tax credit (expanded EITC)** created in [House Bill 24-1134](#) depend on a complicated trigger mechanism, described below;
- the **decarbonization tax credits** created in [House Bill 23-1272](#) are reduced by half in years when the June forecast from LCS or the Office of State Planning and Budgeting (OSPB) expects that state revenue subject to TABOR will grow by less than 4 percent; and
- the maximum amount for the **workforce shortage tax credit** created in [House Bill 24-1365](#) is reduced by half in years when the September forecast from LCS or OSPB expects that state revenue subject to TABOR will grow by less than 4 percent.



Table 1 presents approximate maximum state revenue impacts for each tax credit if fully triggered on for FY 2026-27, and the December 2025 LCS forecast of the state revenue impacts of the credits expected under current law for FY 2026-27.

Table 1
Maximum and Current Estimated Revenue Impacts Triggered Tax Credits

Tax Credit	Estimated Revenue Impact if Triggered Fully On FY 2026-27	Estimated Revenue Impact under Current Forecast FY 2026-27
Family Affordability Tax Credit	-\$905.5 million	-\$247.0 million
Expanded Earned Income Tax Credit	-\$221.6 million	-\$60.8 million
Decarbonization Tax Credits	-\$70.5 million	-\$58.6 million
Workforce Shortage Tax Credit	-\$15.0 million	-\$11.3 million

Source: LCS December 2025 forecast.

Trigger for the FATC and the Expanded EITC

For tax years 2026 through 2033, the availability and amounts of the FATC and the expanded EITC are determined by an adjustment factor. The adjustment factor is calculated as the compound annual growth rate in state revenue subject to TABOR in any fiscal year, excluding the amounts of the FATC and the expanded EITC, in relation to OSPB's March 2024 forecast for FY 2024-25 revenue subject to TABOR. The adjustment factor is calculated using the December update of the quarterly forecast selected by the Joint Budget Committee for preparation of the state budget in the preceding March. Each credit's availability and amount for the tax year immediately following the December forecast is determined by the adjustment factor for the fiscal year that begins during that tax year.

For example, the availability and amount of the FATC and the expanded EITC for tax year 2027 will depend on the adjustment factor for FY 2027-28. The adjustment factor will be calculated using the December 2026 forecast prepared by the agency (LCS or OSPB) whose March 2026 forecast is selected to prepare the FY 2026-27 budget.

If the adjustment factor is at least 3.75 percent, the income tax credits are fully available. If it is less than 3.00 percent, credits are not available. There are four tiers of partial availability for adjustment factors between 3.00 percent and 3.75 percent, as shown in Table 2.



Table 2
FATC and Expanded EITC Availability by Adjustment Factor

Adjustment Factor	FATC Availability	Expanded EITC Availability
3.75% and up	Maximum credit \$3,200	50% of federal EITC
3.56% to 3.75%	Maximum credit \$3,200; phaseout accelerated by 32% for taxpayers with income over \$15,000 (single) or \$25,000 (joint)	45% of federal EITC
3.37% to 3.56%	Maximum credit \$3,200; phaseout accelerated by 98% for taxpayers with income over \$15,000 (single) or \$25,000 (joint)	40% of federal EITC
3.18% to 3.37%	Maximum credit \$2,600; phaseout accelerated by 180% for taxpayers with income over \$15,000 (single) or \$25,000 (joint)	35% of federal EITC
3.00% to 3.18%	Maximum credit \$1,650; phaseout accelerated by 341% for taxpayers with income over \$15,000 (single) or \$25,000 (joint)	30% of federal EITC
Less than 3.00%	Unavailable	No expanded EITC (25% of federal EITC)

Tax Year 2026

Based on the December 2025 OSPB forecast, the adjustment factor for FY 2026-27 is less than 3.00 percent, and the FATC and expanded EITC are unavailable for tax year 2026. Under current law, this trigger has resolved and availability will not change based on future legislation.

Tax Year 2027

For tax year 2027, the adjustment factor will depend on the December 2026 forecast for FY 2027-28 revenue subject to TABOR. The current LCS projection for the adjustment factor is 3.45 percent. A revenue reduction of \$52.7 million, before accounting for the credit triggers, would cause the projected adjustment factor to fall below 3.37 percent and push the credits into a lower availability tier. A revenue increase of \$71.9 million, before accounting for the credit triggers, would cause the projected adjustment factor to exceed 3.56 percent and push the credits into a higher availability tier.

Tax Year 2028

For tax year 2028, the adjustment factor will depend on the December 2027 forecast for FY 2028-29 revenue subject to TABOR. The current LCS projection for the adjustment factor is 3.21 percent. A revenue reduction of \$28.1 million, before accounting for the credit triggers,



would cause the projected adjustment factor to fall below 3.18 percent and push the credits into a lower availability tier. A revenue increase of \$142.9 million, before accounting for the credit triggers, would cause the adjustment factor to exceed 3.37 percent and push the credits into a higher availability tier.

Tax Years 2029 through 2033

A forecast of credit availability is not yet available for these years.

Trigger for the Decarbonization Credits and Workforce Development Credit

These credits are reduced in years when state revenue subject to TABOR is expected to grow by less than 4.0 percent. Both credits have already been reduced for tax year 2026, and are expected to be fully triggered on for tax years 2027 and 2028 under current law. Bills that reduce revenue by at least \$446.7 million in FY 2026-27 or by at least \$329.4 million for FY 2027-28 would cause these credits to be reduced for tax years 2027 and 2028, respectively.

Impacts of Triggered Tax Credits in Fiscal Notes

For bills that are projected to cause tax credit triggers to resolve differently than they would under current law, LCS fiscal notes show a revenue impact attributable to the different resolution of the trigger. For example, a bill that reduces revenue subject to TABOR by \$52.7 million or more in FY 2027-28 will cause the FATC and expanded EITC trigger to make the credits available at a lower level. A fiscal note would show a revenue increase attributable to the reduced credits, which would offset some or all of the bill's revenue decrease.

Issue for Consideration—Forecast Accuracy

The amounts in this memorandum reflect the December 2025 LCS forecast. Normal forecast error is great enough that actual state revenue subject to TABOR for FY 2027-28 and FY 2028-29 could differ sufficiently to cause the current law triggers to resolve differently than anticipated in the forecast, even with no change to federal or state tax policy, and even with no deviation from expected economic conditions. Those factors could cause even further deviations from the forecast. Accordingly, estimating the effect of a bill on tax credit triggers is necessarily imprecise, and actual circumstances can differ significantly from the fiscal note's expectations. Policymakers should consider forecast imprecision when making fiscal policy decisions, as different circumstances than those expected could amplify or reduce the estimated impacts presented in a fiscal note.