

2026 Four Bill Tax Package: Impacts to small and large business

(HB26-1221; HB26-1222; HB-1223; and HB26-1289)

Summary: This proposed tax package would decouple Colorado tax law from the Federal law. Currently, taxpayers that receive deductions and other measures when filing Federally, carry those deductions into their Colorado taxes. These four bills would mandate that many deductions granted in the Federal tax code would now have to be added back and taxed as income when filing with the State. **The initial estimates are that Colorado business taxes would increase by 50% or about \$580 million, if the bills are enacted.**

All revenue from these changes to the State code would then be used to establish the "Family Affordability Tax Credit" and therefore doesn't trigger TABOR. This language is in 3 of the 4 bills.

Problematic provisions include

Business Net Operating Losses (NOL): Current law allows for an 80% deduction of NOLs over 20 years in taxable income. For Colorado businesses, the new bill would reduce that to a 70% deduction over 10 years when a business files its taxes. It also eliminates the ability to carry forward any prior year losses.

Estimated cost of NOL when implemented: \$167.4 million.

Business Interest Deductions: Current law allows business to deduct up to 30% of their interest expenses. The new legislation would only allow 1/5th of the interest expense deduction be applied to a Colorado business' taxes over the next 5 years.

Expensing of Business Property (100% bonus depreciation): Current law allows businesses to deduct 100% of certain business property in its first year of service. The pending bill would eliminate the 100% deduction for Colorado businesses and allow only a 1/10th over 10 years to be claimed.

R&D Expenditures: Current Federal law allows businesses to deduct 100% of their R&D expenses in their first year. Pending bill would require Colorado businesses to add that amount to their income taxes and limits the deduction to 1/5th of the expenditure over 5 years to be claimed. This is particularly harmful to new businesses because they can't claim losses before making a profit.

Estimated cost when implemented for interest deductions, depreciations and R & D expenditures: \$392.2 million.

Downloadable Software: Downloadable software is currently exempt from taxes. For all taxpayers without negotiable license agreements, users would be subjected to a sales and use tax beginning in January 2027. This includes: software used over the internet (cloud computing); software installed by a vendor; software developed by a user; downloaded software. This tax would apply to phones, desktops, applications and tablets. Current estimate is for 2026-2027, this would be approximately \$43.7 million in the state of Colorado.

Estimated cost when fully implemented: \$90.7 million.

80/20 Rule: Current tax law exempts an international company that makes 80% of its profit internationally from including these proceeds when filing Colorado taxes. The legislation would require businesses to add these profits to their Colorado taxes.



The Southern Colorado Women's Chamber of Commerce Public Policy Committee is currently reviewing all bill details with tax and accounting professionals and will post more information or an opinion in the future.

Bill links to do your own research:

<https://leg.colorado.gov/bills/HB26-1221>

<https://leg.colorado.gov/bills/HB26-1222>

<https://leg.colorado.gov/bills/HB26-1223>

<https://leg.colorado.gov/bills/HB26-1289>

Contact your representatives today:

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Talking Points on Business Impacts

*If enacted, these bills increase the complexity of tax filing for businesses and tax professionals, increasing filing costs and requiring additional expense tracking.

*Business environment is less attractive to local and international businesses which makes Colorado less competitive on the national stage.

*Disincentivizes businesses to stay in Colorado, particularly if other states have a smaller tax burden.

*Complicates the sale and use of software programs in our state—the backbone of today's business operations, large or small.

*Makes the opening of both small businesses, or a major employer, less attractive with higher start up and operating costs.