Colorado: Combined Reporting Changes Pass Legislature

Colorado House Bill 24-1134, which has passed both chambers of the legislature, would make changes to Colorado's combined reporting rules. if enacted, effective for tax years beginning from and after January 1, 2026, the current "three out of six test" for combination would be repealed. Under this test, the combined group includes only those members of an affiliated group of C corporations as to which any three of six enumerated criteria have been in existence in the tax year and the two preceding tax years. The bill notes that this test has been difficult for taxpayers and the Department of Revenue to apply and has created unnecessary tax compliance challenges. From the effective date forward, an affiliated group of C corporations, wherever incorporated or domiciled, that are members of a unitary business would file a combined report as a combined group. Another section of the law that is not revised provides that a combined report does not include any C corporation that conducts business outside the United States if 80 percent or more of the C corporation's property and payroll is assigned to locations outside the United States. However, recall that effective for tax years beginning on or after January 1, 2022, a combined group includes any C-corporation member that is incorporated in a foreign jurisdiction for the purpose of tax avoidance.

House Bill 24-1134 also reaffirms that Colorado has required the use of the so-called "Finnigan" rule since 2022. The bill provides that the numerator of the combined group apportionment factor includes amounts sourced to the state for the combined group's unitary business, regardless of the separate entity to which those factors may be attributed, and the denominator of the factor includes amounts associated with the combined group's unitary business wherever located. Please contact **Amanda Bennett** with questions.

Learn about us: in | kpmg.com

The following information is not intended to be "written advice concerning one or more federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.