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This Week in State Tax (TWIST)

September 8, 2025

Colorado: Special session enacts measures to offset OB3 effects

A special session of the Colorado legislature has passed, and Governor Polis has signed, several measures to address an estimated $800 million budget deficit for FY 2026 attributable in significant part to the One Big Beautiful Bill (OB3) signed by President Trump on July 4, 2025. The measures enacted include:

- House Bill 1001 makes permanent the existing addback for the federal qualified business income (QBI) deduction provided for owners of certain passthrough entities. Under current Colorado law, the addback was set to expire for income tax years before January 1, 2026.
- House Bill 1002 requires an addback to federal taxable income for foreign-derived deduction eligible income (FDDEI) under IRC Section 250. In addition, it expands the list of foreign jurisdictions for which there is a rebuttable presumption that an entity incorporated in such a "listed jurisdiction" is for tax avoidance purposes. Specifically, these countries to the roster of "listed jurisdiction:" Hong Kong, Ireland, Liechtenstein, Netherlands, and Singapore. Finally, the bill amends the subtraction modification for Section 78 dividends by doing away with the exclusion for Section 78 dividends from a corporation incorporated in a listed jurisdiction. The bill applies to tax years beginning on or after January 1, 2026.
- House Bill 1004 authorizes the Department of Treasury (Department) to sell insurance premium tax credits and corporate income tax credits to qualified taxpayers. Specifically, the Department may issue tax credit certificates up to the lesser of a total face value of up to $125 million or total sales proceeds of up to $100 million for both premium taxes and corporate income taxes. The credit certificates may then be used by qualified taxpayers to offset their premium income tax liabilities in subsequent years. A bidding process will be used to accept offers for the purchase of tax credit certificates. If payment is not made within the specified time, a penalty of 10 percent of the remaining purchase price unpaid will be due within 30 days unless the certificate is transferred to a new or existing qualified taxpayer. For certificates issued in Fiscal Year 2025-2026, the Department may determine the tax years in which the certificates may be applied against a tax liability. Credits in excess of liabilities are nonrefundable and may be carryforward and applied through tax years 2033. The effect of the measure is to accelerate receipts to FY 2026 at a discounted rate.
- HB 1005 repeals the vendor allowance previously accorded to certain retail sales taxpayers. Vendors with less than $1 million in retail sales per period were previously allowed to retain an allowance of up to $1,000. The measure is effective for sales made on or after January 1, 2026.

For information or questions on the Colorado legislation, please contact Amanda Bennett.

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