



This Week in State Tax (TWIST)

June 15, 2026



Colorado: Legislature changes software and corporate income tax rules as it adjourns *sine die*

Governor Polis recently signed two tax bills that were adopted by the Colorado legislature shortly before the close of its 2026 regular session.

H.B. 26-1223 narrows the state sales tax exemption for sales of computer software, effective January 1, 2027. Under the updated provisions, “computer software” is tangible personal property and is redefined to include software delivered by any means, including tangible medium, download, or remote access through the internet, as well as applications installed on phones, tablets, and mobile devices. Prior to the law change, Colorado effectively taxed prewritten software only when packaged for repeated sale and delivered to the customer in a tangible medium, thus excluding electronically downloaded and remotely accessed software. The new law retains an exemption for computer software if it is governed by a negotiable license agreement, as defined, or is developed for use by a specific user.

H.B. 26-1289 changes combined reporting rules for the Colorado corporate income tax for years beginning on or after January 1, 2027. The bill removes the state exception of 80/20 companies from inclusion in the combined group. This effectively means all taxpayers will default to a worldwide reporting method (i.e., including overseas members of the combined group on the group’s return) unless the taxpayer makes the following election. The bill adds an option for taxpayers to make a water’s edge election, which must be made on a timely filed original return for an income tax year, and the election is binding for that year and the following nine income tax years. An election made on the first return after that ten-year period has passed will be binding for an additional ten years. In addition to the combined reporting changes, for tax years beginning on and after January 1, 2027, the bill also removes the Colorado deduction for wages disallowed by Internal Revenue Code (IRC) section 280C (relating to wages used to determine certain employment credits) and requires an addition for certain capital gains from opportunity zones outside Colorado excluded from federal taxable income by IRC section 1400Z.

For questions about [H.B. 26-1223](#) and the taxation of computer software in Colorado, please contact [Steve Metz](#). Please contact [Amanda Bennett](#) with questions about the combined reporting and corporate provisions of [H.B. 26-1289](#).

Learn about us:



[kpmg.com](https://www.kpmg.com)

INTERNAL USE ONLY

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS039001

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.