



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

SB 26-029: HEALTH SAVINGS ACCOUNT TAX CREDIT

Prime Sponsors:

Sen. Carson

Fiscal Analyst:

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Fiscal note status: The fiscal note reflects the introduced bill.

Summary Information

Overview. The bill creates a new tax credit for individuals contributing to a health savings account that supports a high deductible health plan.

Types of impacts. The bill is projected to affect the following areas on an ongoing basis:

- State Expenditures
- State Revenue
- TABOR Refunds

Appropriations. No appropriation is required.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year FY 2026-27	Out Year FY 2027-28
State Revenue	\$56.9 million	\$88.6 million
State Expenditures	\$0	\$282,093
Transferred Funds	\$0	\$0
Change in TABOR Refunds	\$56.9 million	\$88.6 million
Change in State FTE	0.0 FTE	2.1 FTE

Fund sources for these impacts are shown in the tables below. The revenue impact above reflects the net impact of reduced revenue from the new tax credit created by the bill and increased revenue from changes to existing tax credits that are triggered as a result of this bill. For more information, see the LCS memorandum on [Treatment of Tax Credit Triggers in Fiscal Notes](#).

Table 1A
State Revenue

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28
HSA Tax Credit (General Fund)	-\$67.5 million	-\$136.8 million
Triggered Tax Credits (General Fund)	\$124.4 million	\$225.4 million
Total Revenue	\$56.9 million	\$88.6 million

Table 1B
State Expenditures

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund	\$0	\$240,260
Cash Funds	\$0	\$0
Federal Funds	\$0	\$0
Centrally Appropriated	\$0	\$41,833
Total Expenditures	\$0	\$282,093
Total FTE	0.0 FTE	2.1 FTE

Summary of Legislation

Beginning in tax year 2027, the bill creates a new tax credit for resident individuals making contributions to health savings accounts (HSA) that support high deductible health plans. The credit is equal to 25 percent of the amount contributed to an HSA, except that the credit may not exceed \$500 for single filers and \$1,000 for joint filers, or \$1,500 for contributions to family health plans regardless of single or joint filing status. The credit is nonrefundable and may not be carried forward for future years.

Assumptions

Based on data from the U.S. Bureau of Labor Statistics, the fiscal note assumes that 18.6 percent of Colorado individual income tax filers have an HSA. Of that amount, 73.4 percent are expected to make a qualifying contribution each year based on the Plan Sponsor Council of America's 2024 HSA Survey. The fiscal note also assumes that 85 percent of those eligible will claim the credit. As a result, the fiscal note expects that the credit will be claimed by 384,000 taxpayers in tax year 2027, increasing with population growth each year.

The fiscal note assumes that the average single filer contributes approximately \$1,300 to an HSA in tax year 2027, resulting in an average tax credit of \$322 per single filer, and that 26.8 percent of credits will exceed claimants' tax obligation and will not be refunded. The fiscal note assumes that the average joint filer contributes approximately \$2,600 to an HSA in tax year 2027, resulting in an average tax credit of \$644 per joint filer, and that 10.8 percent of credits will exceed claimants' tax obligation and will not be refunded. Average contribution amounts are assumed to increase with inflation each year.

Lastly, to estimate expenditures for the Department of Revenue to administer the tax credit, the fiscal note assumes that information provided on the IRS form 1040 will be available to alleviate the need for manual review for electronic filers. Paper filers will still require manual review. If data from the IRS form is not available, the tax credit will be substantially more expensive to administer due to the need for manual reviews.

State Revenue

The bill is expected to increase General Fund revenue by \$56.9 million in FY 2026-27 and by \$88.6 million in FY 2027-28, on net. Decreased General Fund revenue from the HSA tax credit is offset by increased General Fund revenue from existing triggered tax credits. In future fiscal years when the bill has no impact on triggered tax credits, it is expected to reduce state revenue by about \$137 million annually.

HSA Tax Credit

The HSA tax credit is expected to reduce General Fund revenue by \$67.5 million in FY 2026-27 (representing a half-year impact) and \$136.8 million in FY 2027-28 and subsequent years. Revenue will be reduced by a final half-year impact in FY 2032-33, when the credit is repealed. The bill reduces individual income tax revenue, which is subject to TABOR.

The tax credit may incentivize more Colorado employees to enroll in a high deductible health plan to benefit from the tax credit in the bill. High deductible health plans generally have lower premiums. Therefore, the bill may decrease General Fund revenue from the insurance premium tax, which is assessed on insurance providers based on the amount of their policy premiums collected. Any revenue reduction from higher uptake of high deductible health plans is indeterminate and is not estimated in this fiscal note.

Triggered Tax Credits

The bill increases revenue by \$124.4 million in FY 2026-27 and \$225.4 million in FY 2027-28 by causing certain current law tax credits whose availability or amounts are dependent on state revenue conditions, known as triggered tax credits, to be available at a lower level than expected

under current law. Because the bill reduces revenue subject to TABOR by creating a new tax credit, the bill changes the adjustment factor used to determine the amounts of the family affordability tax credit and the expanded earned income tax credit. As a result, these credits are expected to be reduced relative to the December 2025 forecast. For more information, see the LCS memorandum on [Treatment of Tax Credit Triggers in Fiscal Notes](#).

State Expenditures

The bill increases state expenditures in the Department of Revenue by \$282,093 in FY 2027-28, and by smaller amounts in later years. These costs, paid from the General Fund, are summarized in Table 2 and discussed below.

Table 2
State Expenditures
Department of Revenue

Cost Component	Budget Year FY 2026-27	Out Year FY 2027-28
Personal Services	\$0	\$122,380
Operating Expenses	\$0	\$2,688
Capital Outlay Costs	\$0	\$21,000
GenTax Programming	\$0	\$10,050
User Acceptance Testing	\$0	\$2,665
Office of Research and Analysis	\$0	\$8,778
Document Management and Tax Form Changes	\$0	\$72,029
Postage	\$0	\$670
Centrally Appropriated Costs	\$0	\$41,833
Total Costs	\$0	\$282,093
Total FTE	0.0 FTE	2.1 FTE

Department of Revenue

The department will have staff, information technology, and legal services costs beginning in FY 2027-28 to implement the bill, as outlined below.

Tax Credit Administration

The department requires 2.4 FTE tax examiners to review tax credit documentation and communicate with taxpayers in the first year. Expenditures for FY 2027-28 are prorated to reflect an assumed October 2027 start date and reflect standard operating expenses and capital outlay costs. After the first year, only 1.0 FTE tax examiners are needed.

Computer Programming and Testing

This bill requires expenditures of \$12,715 to program, test, and update database fields in the DOR's GenTax software system in FY 2027-28 only. Programming costs are estimated at \$4,884, representing 20 hours of contract programming at a rate of \$244 per hour. Costs for testing at the department include \$5,166 for 126 hours of innovation, strategy, and delivery programming support at a rate of \$41 per hour, and \$2,665 for 65 hours of user acceptance testing at a rate of \$41 per hour.

Data Reporting

Expenditures in the Office of Research and Analysis are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$8,778, representing 231 hours for data management and reporting at \$38 per hour.

Document Management and Tax Form Changes

The bill requires one change to tax forms at a cost of \$72,029 for FY 2027-28. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated funds. Additionally, errors on returns automatically generate letters to taxpayers, which require postage. Postage costs are expected to be \$670 in FY 2027-28 and be paid via common policy.

Other Agency Impacts

The bill may incentivize more state of Colorado employees to elect a high deductible health plan with an HSA rather than a standard deductible plan. High deductible health plans are less expensive for the state than other plans, which may result in lower expenditures for state employee benefits. Any cost savings from higher uptake of high deductible health plans is indeterminate and is not estimated in this fiscal note.

Centrally Appropriated Costs

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are shown in Table 2 above.

TABOR Refunds

The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by \$56.9 million in FY 2026-27 and \$88.6 million in FY 2027-28. This estimate assumes the December 2025 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2027-28. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save in FY 2026-27 and any future years when the state is over its revenue limit.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State and Local Government Contacts

Personnel State Auditor
Revenue