

What is a Tax Credit?

- A **tax credit** directly reduces the amount of income tax a taxpayer owes.
 - Example: If you owe \$2,000 in state taxes and qualify for a \$500 credit, your tax bill becomes \$1,500.
 - **Refundable credits**: If the credit is larger than your tax bill, the state refunds you the difference.
 - **Nonrefundable credits**: Reduce your tax bill to zero but cannot result in a refund.
 - Credits are a **policy tool**: They encourage actions such as supporting affordable housing, adopting clean energy, or helping working families.
 - In the state budget, credits are treated as a form of **expenditure** — reducing revenue the state would otherwise collect.
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Why is This Bill Needed?

- Colorado's **Taxpayer's Bill of Rights (TABOR)** caps the amount of revenue the state can keep and spend.
 - When revenues exceed the TABOR limit, the state must refund the difference.
 - Multiple tax credits complicate this balance, creating **unpredictable budget impacts**.
 - This bill creates tools to **pause, prorate, or sell tax credits** so the state can comply with TABOR and protect core services without raising taxes.
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Key Features of the Bill

1. Suspension or Proration of Tax Credits

- Beginning in **December 2025**, the state will run two revenue forecasts:
 - One with all tax credits fully available.
 - One with no credits available.
- Whichever forecast leaves the state with the **least TABOR excess** determines credit availability:
 - If "no credits" reduces excess most → credits are suspended for that year.
 - If "all credits" reduces excess most → credits are available but **prorated** among taxpayers.

2. Protected Credits

- The bill **does not affect**:
 - The **Colorado Affordable Housing Tax Credit**.
 - The **Earned Income Tax Credit (EITC)**.

3. Changes to Other Credits

- **Family Affordability Tax Credit** → becomes nonrefundable in 2025.
- **Electric-powered lawn equipment, heat pumps, and e-bike credits** → end after 2025 in their current form.

4. Sale of Tax Credits

- In FY 2025–26, the Department of Revenue may **sell up to \$40 million in tax credit certificates**.
 - Qualified taxpayers purchase at a discount, providing **immediate revenue for the General Fund**.
 - Credits can be claimed beginning in tax year 2030, and carried forward until 2050.
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What This Bill Does Not Do

- ✗ It does **not raise taxes**.
 - ✗ It does **not increase taxpayer burden**.
 - ✗ It does **not violate TABOR**.
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What This Bill Achieves

- ✓ Ensures **fiscal stability** and TABOR compliance.
- ✓ Maintains **essential credits** for housing and working families.
- ✓ Provides **flexibility** to adjust credits in high-revenue years.
- ✓ Strengthens the General Fund without creating debt.