



AUGUST 2025

THE ECONOMIC IMPACT OF FIVE TAX BILLS IN COLORADO'S SPECIAL SESSION

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ABOUT THE AUTHOR



Dr. Thomas Young – Senior Economist

Thomas brings a wealth of eclectic experience at the touch points of economics including economic forecasting, econometrics, finance, investing, public economics, survey research, and cost-benefit analyses to name a few. He received his Ph.D. from the University of Utah with fields in Business Economics, Industrial Organization, Econometrics, and Finance.

ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of our economy. As a leading voice for free enterprise, CSI's mission is to examine the fiscal impacts of policies and laws and educate voters on issues that impact their lives.

CSI's founders were a concerned group of business and community leaders who observed that divisive partisanship was overwhelming policy-making and believed that sound economic analysis could help people make fact-based and *common sense* decisions.

CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the Colorado economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. CSI's work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit of academic freedom. The CSI team's work is informed by data-driven research and evidence.

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INTRODUCTION

In May 2025, Colorado's elected officials adopted a budget that, in theory, closed a budget hole stemming from (mostly) a \$1.2 billion income tax shortfall. In August 2025, there is a "new" reference to \$1.2 billion. The new \$1.2 billion stems (mostly) from the impact to the state's revenue from the federal government's One Big Beautiful Bill Act (OBBBA).

Of the top issues on the docket for August's Special Legislative Session, for most participants and observers, the budget likely takes top spot. According to the Colorado Office of State Planning and Budgeting (OSPB), the federal government's H.R. 1 (commonly referred to as OBBBA), may have an "immediate and significant ... **\$1.2 billion negative impact on state revenues in FY 2025-26**." The preliminary estimates carry a high degree of risk. Looking forward, the OSPB forecasted that the revenue impact may be approximately \$700 million in fiscal years 2027 and 2028 (Figure 1).

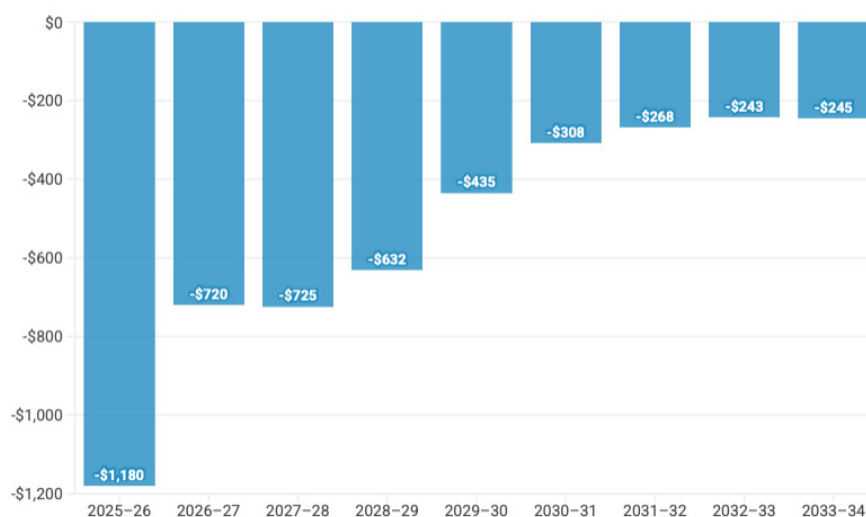
Interestingly, the \$1.2 billion budget hole is in addition to the \$1.2 billion income tax-related budget hole lawmakers debated and addressed during the 2025 General Session.ⁱⁱ In April of this year, CSI released a **more realistic revenue forecast that suggested at least another \$800 million in revenue downside for the 2026 budget year on top of the official May 2025 \$1.2 billion budget hole.**ⁱⁱⁱ That tip of the iceberg estimate turned out to be accurate.

In addition to the static estimate on the revenue side of the balance sheet (e.g., \$1.2 billion), the state also faces risk on the spending side—to the tune of an additional \$1 billion pressure on spending in future fiscal years. The FY 2025-26 spending-side estimate is small at first—nowhere near the \$1 billion—but the spending pressure grows over time, eventually reaching the \$1 billion estimate in a few years.

Budget discussions have now shifted to how to respond to a highly uncertain revenue picture.

FIGURE 1.

Estimated Static Revenue Impact from OBBBA



Source: Legislative Council Staff, Economics Section

KEY FINDINGS

- In May 2025, Coloradan lawmakers took action to address an estimated \$1.2 billion shortfall in state income tax revenue. However, the state now faces a **separate and additional** \$1.2 billion revenue shortfall, this time stemming from the fiscal impacts of federal legislation - specifically H.R. 1, known as the One Big Beautiful Bill Act (OBBBA).
- The projected \$1.2 billion lawmakers addressed in May 2025 turned out to be too conservative, with the state ending FY 2024-25 0.8% above the June General Fund forecast (\$138.1 million in better-than-expected insurance and income tax revenue). There is a risk that the state may raise taxes by more than is needed, especially if lawmakers consider the dynamic economic impact of the federal legislation.
- As of writing, five tax bills appear to be the most likely to receive significant consideration in the special session, with **the tax increase from the five bills totaling almost \$1 billion in increased taxes over the coming three years.**
- The economic impact of the five main tax bills under consideration during the August 2025 Special Session comes to:
 - > Job losses of **1,343** in 2026, **2,885** in 2027, and **3,256** in 2028.
 - > Lower GDP growth of **\$100 million** in 2026, **\$263 million** in 2027, and **\$354 million** in 2028.
 - > Lower Personal Income of **\$140 million** in 2026, **\$320 million** in 2027, and **\$387 million** in 2028.
 - > Lower Disposable Personal Income of **\$120 million** in 2026, **\$272 million** in 2027, and **\$331 million** in 2028.

THE BUDGET PICTURE

Tax Increase Ideas on the Table

In response to the projected budget deficit, Colorado policymakers are evaluating a range of tax policy changes aimed at increasing state revenue. Among the proposals under consideration are: restricting the sale of tax credits; reducing or eliminating incentives for insurance companies to maintain home offices within the state; eliminating the sales tax vendor fee; decoupling from federal tax provisions that allow companies to claim the Qualified Business Income (QBI) deduction; and implementing measures to address the use of foreign tax jurisdictions. Additional proposals include imposing a state income tax on employee tips and expanding efforts to decouple Colorado's income tax system more broadly from federal tax law. (Figure 2).

These five bills result in **increased tax revenue of approximately \$253 million in FY 2026, \$391 million in FY 2027, and \$354 million in FY 2028, or almost \$1 billion across the three years.**

FIGURE 2.

Options for Increasing Tax Revenue During the August 2025 Special Session

Bill/Issue	Purpose	Current Year, FY 2025-26 (millions \$)	Budget Year, FY 2026-27 (millions \$)	Out Year, FY 2027-28 (millions \$)
HB25B-1004 – Sale of Tax Credits	Reform how tax credits are transferred/sold	+\$100	-\$75	-\$25
HB25B-1003 – Insurance Premium Tax for Home Offices	Adjust tax rate applied to home-office business activity	+\$44.1	+\$91.1	+\$97
HB25B-1005 – Eliminate Sales Tax Vendor Fee	Remove small retailer fee, increasing revenue remittance	+\$27.6	+\$56.8	+\$56.9
HB25B-1001 - Qualified Business Income Deduction Add-Back	Permanently require certain businesses to add back their QBI deduction	+\$45.9	+\$95.5	+\$101.6
HB25B-1002 - Corporate Income Tax Foreign Jurisdictions	Increases corporate income tax by expanding corporate taxable income additions for certain foreign-derived income deductions	+\$35.6	+\$72.2	+\$73.0
Additional ideas: Tax income from tips; broader decoupling from the federal government	Pursue increasing taxes via new taxable categories and reverse federal cuts			

Source: Colorado General Assembly, CSI Research



The Economic Impact of the Five Bills Raising Tax Revenue

The five main bills likely to receive the most attention have an economic impact. Using Regional Economic Models Incorporated's Tax-PI modeling software, the almost \$1 billion in tax increases from FY 2026 through FY 2028 result in the following economic impact:

- Job losses of 1,343 in 2026, 2,885 in 2027, and 3,256 in 2028.
- Lower GDP growth of \$100 million in 2026, \$263 million in 2027, and \$354 million in 2028.
- Lower Personal Income of \$140 million in 2026, \$320 million in 2027, and \$387 million in 2028.
- Lower Disposable Personal Income of \$120 million in 2026, \$272 million in 2027, and \$331 million in 2028.

FIGURE 3.

Economic Impact of the Five Main Tax Bills Under Consideration During the August 2025 Special Session

Year	Total Employment	Gross Domestic Product (millions \$)	Output (millions \$)	Personal Income (millions \$)	Disposable Personal Income (millions \$)
2026	-1,344	-\$100	-\$172	-\$140	-\$120
2027	-2,885	-\$263	-\$449	-\$320	-\$272
2028	-3,256	-\$354	-\$603	-\$387	-\$331

Source: Colorado General Assembly, CSI Research, REMI



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