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MULTISTATE INCOME/FRANCHISE TAX

# Colorado enacts tax changes in response to OBBBA

Tax Alert

## Overview

On August 28, 2025, several Colorado bills making changes to the state's business tax landscape were enacted into law after a special legislative session was called in response to the enactment of Public Law 119-21, 139 Stat. 72, commonly known as the One, Big, Beautiful Bill Act ("OBBBA"), enacted on July 4, 2025. The new Colorado laws extend indefinitely the existing state law provisions requiring certain taxpayers to add back qualified business income ("QBI") deductions and grant the state expanded authority to tax income from foreign subsidiaries. Additional provisions enacted during the special legislative session authorize the sale of insurance premium tax credits to insurance companies and income tax credits to C corporations operating in Colorado and eliminate the state sales tax vendor fee beginning January 1, 2026.

This Tax Alert focuses on key provisions of House Bills 25B-1001 and 25B-1002 ("H.B. 1001 and H.B. 1002").

## Summary of H.B. 1001 and H.B. 1002

- H.B. 1001 permanently extends the requirement for certain taxpayers—primarily sole proprietors, pass-through entity owners, and eligible trusts and estates—to add back their federal QBI deduction when calculating Colorado taxable income.
- H.B. 1002 expands Colorado's authority to tax business income derived from foreign subsidiaries. Effective for tax years beginning on or after January 1, 2026, the bill:
    - Requires corporations to add back the federal deduction for foreign-derived income (FDDEI) to their Colorado taxable income,
    - Adds Hong Kong, Ireland, Liechtenstein, Netherlands, and Singapore to Colorado's list of specified foreign jurisdictions presumed to be used for tax avoidance,
    - Grants the Colorado Department of Revenue's Executive Director discretion to determine a corporation is incorporated in a listed jurisdiction for reasons that meet the economic substance doctrine described in Internal Revenue Code section 770 I (o); and

- Repeals the exclusion that prevented corporations from subtracting federal dividend amounts from specified foreign jurisdictions presumed to be used for tax avoidance.

## Get in touch

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