

Law's extensive impact

Policy unleashes tax breaks, but state's revenue could fall by \$800M

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The tax bill signed into law by President Donald Trump will have seismic implications for Colorado — ranging from its tax-cutting provisions to the axe it will drop on Medicaid and food assistance.

The bill, ushered through Congress by Republican leadership and signed by Trump on Friday, includes \$4.5 trillion in tax cuts, slashes spending on Medicaid, and creates temporary tax deductions for overtime and tipped income. It includes \$170 billion for immigrant detention and for new personnel for Immigration and Customs Enforcement.

Planned Parenthood faces a prohibition on receiving Medicaid payments for a year. New parents can set up a new type of children's savings account.

The federal government will dramatically roll back clean energy tax credits — including those that help people buy electric vehicles — while expanding another credit for a certain kind of coal.

The tax breaks will translate to savings for most earners, with the largest benefits skewing toward the wealthiest residents.

*The bill makes tax reductions passed during Trump's first term permanent. But tens of thousands of people are at risk of losing Medicaid and food assistance in the next few years.

For Colorado, the bill means drastic changes to state finances that may require lawmakers to return to the Capitol in the coming months to deal with the fallout. State revenue is projected to fall by as much as \$800 million by the end of its 2025 fiscal year.

"It's going to be really hard," Sen. Judy Amabile, a Boulder Democrat who sits on the legislature's Joint Budget Committee, said of the task facing policymakers. "We are going to have to come together and figure out what (to do). An \$800 million cut to our revenue is enormous."

Here's a look at how the tax bill will impact Colorado in different ways.

For taxpayers

The bill institutes a variety of tax cuts. Some are permanent, while others are temporary.

On the permanent side, the bill enshrines current tax rates and brackets that were rejiggered under the first Trump administration, preventing an increase at year's end when those cuts were set to expire. It includes scores of business-related tax cuts, including allowing businesses to immediately write off 100% of the cost of equipment and research.

As for temporary reductions: The bill creates new tax deductions for tips, overtime and auto loans for the next four years. Workers can deduct up to \$25,000 in tipped income on their taxes; up to \$12,500 in overtime income; and \$10,000 on loan interest for cars assembled in the United States, according to Fidelity.

For Colorado state tax purposes, the overtime provision applies only for the current tax year, Gov. Jared Polis' office said. Earlier this year, the legislature passed a law requiring the state to continue taxing that income, should the federal government shift gears, but it takes effect for the 2026 tax year.

The federal bill also creates a temporary \$6,000 deduction each year for people 65 and older. That will also expire by tax year 2028.

For families, the bill increases the child tax credit from \$2,000 to \$2,200 for most taxpayers, and the bill creates a new children's savings program, called Trump Accounts, with a potential \$1,000 deposit from the Treasury.

In Colorado, taxpayers would get total tax cuts of more than \$10.5 billion next year, according to estimates from the Institute on Taxation and Economic Policy. Those making between \$59,700 and \$103,000 a year would save about \$1,760 in 2026 from the tax provisions of the bill.

According to the University of Pennsylvania, the lowest-earning American households would lose about \$885 a year by 2030, largely because of cuts to Medicaid and food assistance. The top 10% of earners are set to receive roughly 80% of the bill's benefits, the school estimated, while noting those earners pay about 70% of federal taxes.

For state revenue

The tax bill doesn't just cut revenue for the federal government. Its passage means less money for the state, too.

For the remainder of this fiscal year, which began July 1, Colorado officials are projecting a loss of between \$500 million and \$800 million, Polis' office said Tuesday, and hundreds of millions of dollars each year after. Lawmakers already made \$1.2 billion in cuts earlier this year to balance the current budget.

The changes to overtime taxation account for as much as \$250 million in lost revenue projected this year for state income taxes. The other big slice comes from changes to business tax credits, particularly related to depreciation, Polis' office said. *

The bill will also shift new costs onto the state, and those will soon strain the budget from the other direction. The new costs include implementing Medicaid work and eligibility requirements and an increased expense to the state for overseeing food assistance. Those changes go into effect in the coming years — some of them after the 2026 midterm elections — so they won't have an immediate impact.

But all told, they'll likely require more than \$200 million in new, annual spending from the state. — Note

As for this year, the longer the state waits to sort out this latest financial gap, the governor's office said, the harder it will be to fill. Since Colorado's fiscal year just started, each day means there is less money to cut or room to maneuver to make up for lost revenue.

That, in turn, raises the specter of yet another special legislative session that would be the third in three years, ahead of the next regular convening in January. The governor's office said Polis is still evaluating the bill's impacts.

Amabile said she was bracing for a special session — and for the "painful" decisions it will bring.

"What scares me is that we are going to have to make some cuts," she said. "And the best way to make the cuts is to come together and decide what is it — what are our priorities? What are the most important things? And what are the most efficient ways to achieve the things that we all agree need to be protected?"

"What I already see happening is silos (of organizations and causes) starting, to want to protect their thing, without any other context."

For Medicaid

The tax bill includes more than \$1 trillion in cuts to planned Medicaid spending through 2034 at the national level. Most Medicaid changes won't take effect for more than a year, but the state may have to increase its spending before then to prepare.

Federal spending on Medicaid in Colorado will likely drop somewhere between \$11 billion and \$18 billion over 10 years, according to KFF, formerly known as the Kaiser Family Foundation, which is a nonprofit that studies the health system. The state, which shares Medicaid costs with the federal government, hasn't yet projected how its own spending will change. In the state's last fiscal year, total spending on Medicaid was about \$15 billion, including federal contributions. — Note

In some cases, such as when people no longer qualify for Medicaid, the state will spend less. In others, Colorado will have to decide whether to make up the lost federal dollars or make cuts to either services for recipients — who include about one in four

Coloradans — or payments to providers.

Starting in January 2027, the state will have to verify that about 377,000 people in the Medicaid expansion population under the Affordable Care Act — adults earning up to 138% of the poverty line, who don't qualify for Medicaid for another reason — either meet new work requirements or qualify for an exemption. That will put significantly more work on the state and on counties.

Many able-bodied recipients between ages 19 and 64 will have to show they worked, attended school or volunteered for 80 hours per month. Colorado will have to build infrastructure for people to report that information and to monitor their compliance.

In addition, recipients will have to go through the full eligibility process twice a year, instead of once. Colorado can complete that process automatically about three-quarters of the time, but when it can't, recipients will have to fill out a 16-page packet to keep their coverage.

KFF estimated that 150,000 people in Colorado would become uninsured if the bill passed, and an additional 40,000 would lose coverage if enhanced ACA subsidies in insurance exchanges expire this year, as scheduled. It made those calculations before the Senate amended the bill, increasing the Medicaid cuts, so the projections are likely higher now.

A clearer loss for the state budget is set to come in 2027. That's when the federal government will start reducing how much states can tax health care providers, such as hospitals. Colorado currently charges the maximum provider tax rate of 6%, but the threshold will drop by 0.5% per year, until it reaches 3.5%.

States use the money they collect from providers to claim federal matching funds, so reducing the tax has wider implications. The Colorado Hospital Association estimated the state could lose about \$10 billion over 10 years, leaving less money available to compensate facilities that treat larger numbers of poor patients. The state also uses the money to pay its 10% share of costs to cover the Medicaid expansion population (those earning up to 138% of the poverty line).

For food assistance

The tax bill will slash food assistance — the Supplemental Nutrition Assistance Program, or SNAP — by \$186 billion through 2034, according to the Congressional Budget Office. That's the biggest cut to the program since it began in 1939. It will do that by instituting new work requirements and by shifting new costs onto Colorado and other states.

Roughly 617,000 Coloradans, or more than 10% of the state's population, receive food assistance each month.

The program provides money for low-income people to buy food. In Colorado, a family of four with a maximum income of \$62,400 a year qualifies. The benefits can be spent on a variety of foods but not alcohol, hot foods or other household items.

The bill will require the state to pay for more of SNAP's administrative costs — about \$50 million in new spending annually. It will also require Colorado and other states to start paying for some of the program's cost, depending on the scale of each state's error rate. In Colorado, that would mean as much as \$140 million a year, according to the state Department of Human Services.

All of that translates to more Coloradans losing food assistance. According to the left-leaning Center for Budget and Policy Priorities, 55,000 Coloradans are at risk of losing SNAP benefits because of new work requirements that expand on existing work rules in the program.

For climate and energy

When it comes to the environment and natural resources, the bill rescinds a vast swath of Biden-era investments in clean energy, ends tax credits for consumers who buy climate-friendly products, and undoes regulations and fees on oil and gas production. It also rescinds \$267 million in Inflation Reduction Act money that's used to supplement National Park Service staffing.

The cuts reflect stark opposition from the majority of Republicans to many government efforts to address climate change.

The policy package will raise electricity costs for consumers, said Will Toor, the executive director of the Colorado Energy Office in the Polis administration. He called it a "remarkable act of national self-sabotage" that will allow China to lead the sector.

"We're talking about kneecapping advanced industries in the United States," he said. "It's as if somebody was designing a bill to try to assure that the future belongs to other countries and that the United States will weaken its competitiveness in almost every advanced industry."

Under the Biden administration's 2022 Inflation Reduction Act, companies building wind and solar farms could qualify for tax breaks of up to 30% of costs. Those tax breaks now end after 2026 for projects that have not yet begun construction.

Susan Nedell, a senior advocate for the West for Environmental Entrepreneurs — a nonpartisan group of climate-minded business leaders — expects the cancellation of big projects in Colorado and nationwide, along with layoffs and fewer investments in solar and wind projects,

The bill also ends a swath of tax credits for consumers:

- Tax deductions for energy-efficient lighting and HVAC systems used in construction, expiring June 30, 2026.
- A tax credit for new homes that meet energy efficiency standards, expiring June 30, 2026.
- A credit for home renovations that improve efficiency, expiring Dec. 31.
- Tax incentives for geothermal heat pumps and other home efficiency products, expiring Dec. 31.

Federal tax credits of up to \$7,500 for people buying new electric cars and a \$4,000 credit for used cars will now end Sept. 30.

On Dec. 31, a federal tax credit for homeowners of up to 30% of the cost of installing rooftop solar systems will end.

A provision opposed by a broad coalition of Coloradans that would have mandated the sale of public lands was struck from the bill. But other changes remained that make it cheaper for oil and gas companies to use public lands. *

The bill undoes the Biden administration's increase in royalty rates for oil and gas leasing and rescinds mandatory royalty payments on methane produced on public lands by oil and gas companies.

It also mandates quarterly lease sales for public lands in the West — a change that eliminates agency and local discretion on whether land should be leased. Industry leaders in the West applauded the bill, with Western Energy Alliance president Melissa Simpson saying it will "unleash the energy we need."

The Associated Press and The New York Times contributed to this story.