



Fiscal Summary

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Measure: Initiative 135 – COLORADO INCOME TAX REPEAL

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Fiscal Summary of Initiative 135

This fiscal summary, prepared by the nonpartisan Director of Research of the Legislative Council, contains a preliminary assessment of the measure's fiscal impact. A full fiscal impact statement for this initiative is or will be available at leg.colorado.gov/bluebook. This fiscal summary identifies the following impact.

State Revenue

By reducing the individual income tax rate from 4.40 percent to 3.96 percent in tax year 2027, to 3.56 percent in tax year 2028, and by increments of 10 percent of the previous tax year's rate until 2036, when the individual income tax is repealed, the measure reduces General Fund revenue from individual income taxes by an estimated \$595 million in FY 2026-27 and \$1.9 billion in FY 2027-28. These amounts are expected to increase in future years as the individual income tax rate phases down, and as population and incomes rise. The estimate for FY 2026-27 represents a half-year impact for tax year 2027. The estimate for FY 2027-28 represents a half-year impact for tax year 2027 (3.96 percent rate) and a half-year impact for tax year 2028 (3.56 percent rate). In FY 2027-28, the first full fiscal year in which the measure reduces revenue, it reduces the state individual income tax rate by 14.5 percent, the average of the rate reductions for tax years 2027 and 2028.

A forecast of individual income tax revenue is not available beyond FY 2027-28. However, assuming 3 percent annual growth in income tax collections, the measure would reduce General Fund revenue from individual income taxes by about \$17 billion in FY 2036-37, when the individual income tax is repealed.

State Expenditures

The measure reduces the amount of state General Fund revenue available to spend, save, or refund to taxpayers in FY 2026-27, FY 2027-28 and future fiscal years. The three largest areas of program expenditures are Health Care Policy and Financing, Education, and Higher Education. Based on current forecasts for FY 2026-27 and FY 2027-28, the measure is expected to eliminate projected TABOR refunds for all taxpayers and reduce the amount available for the General Fund budget. A forecast of state revenue subject to TABOR is not available beyond FY 2027-28.

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To administer the tax rate change, the measure is expected to increase General Fund expenditures for the Department of Revenue by \$15,500 in FY 2027-28, with similar costs each year through FY 2036-37, when the individual income tax is repealed. Starting in FY 2036-37, Department of Revenue expenditures are expected to ramp down by \$1.5 million and 25 FTE each year over a four-year period, with a permanent decrease of 100 FTE and \$6.1 million by FY 2039-40, as the department winds down most of its administrative functions related to the individual income tax.

Economic Impacts

Taxpayers will have more after-tax income available to spend or save, increasing their consumption of goods and services. Any overall change in economic activity will depend on the net economic impact of higher after-tax household and business income and reduced spending on public services.

Taxpayer Impacts

The table below shows the estimated decrease in state income tax owed for individual income taxpayers with different levels of adjusted gross income if the income tax rate changes to 3.96 percent and if the income tax rate changes to 0.00 percent. These changes reflect the measure's initial impact in tax year 2027 and the measure's fully phased-in impact in tax year 2036.

Table 1 - Initiative 135
Change in Income Taxes Owed by Income Category
Tax Year 2027

Income Categories	Current Average Income Tax Owed	Proposed Average Income Tax Owed	Proposed Change in Average Income Tax Owed
\$25,000 or less	\$53	\$48	-\$5
\$25,001 - \$50,000	\$727	\$654	-\$73
\$50,001 - \$100,000	\$1,879	\$1,691	-\$188
\$100,001 - \$200,000	\$4,109	\$3,698	-\$411
\$200,001 - \$500,000	\$9,367	\$8,430	-\$937
\$500,001 - \$1,000,000	\$19,211	\$17,290	-\$1,921
\$1,000,001 - \$2,000,000	\$29,379	\$26,441	-\$2,938
\$2,000,001 - \$5,000,000	\$45,788	\$41,209	-\$4,579

Income categories reflect adjusted gross income reported to the Internal Revenue Service.

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Table 2 – Initiative 135
Change in Income Taxes Owed by Income Category
Tax Year 2036

Income Categories	Current Average Income Tax Owed	Proposed Average Income Tax Owed	Proposed Change in Average Income Tax Owed
\$25,000 or less	\$53	\$0	-\$53
\$25,001 - \$50,000	\$727	\$0	-\$727
\$50,001 - \$100,000	\$1,879	\$0	-\$1,879
\$100,001 - \$200,000	\$4,109	\$0	-\$4,109
\$200,001 - \$500,000	\$9,367	\$0	-\$9,367
\$500,001 - \$1,000,000	\$19,211	\$0	-\$19,211
\$1,000,001 - \$2,000,000	\$29,379	\$0	-\$29,379
\$2,000,001 - \$5,000,000	\$45,788	\$0	-\$45,788

Income categories reflect adjusted gross income reported to the Internal Revenue Service. Dollar amounts are in 2024 dollars and are not adjusted for inflation.