

Initiative 195: Graduated Income Tax

Placed on the ballot by citizen initiative • Passes with a majority vote

Initiative 195 proposes amending the Colorado Constitution and Colorado statutes to:

- remove the constitutional requirement that the state income tax be set at a single rate;
- replace the current flat income tax with a graduated state income tax that sets lower rates for lower incomes and higher rates for higher incomes; and,
- spend the additional revenue collected from income taxes on K-12 education, health care, and early childhood care and education, and exempt the new revenue from the state's constitutional revenue limit.

What Your Vote Means

YES

A "yes" vote on Initiative 195 creates a graduated state income tax and uses the additional money for K-12 education, health care, and early childhood care and education.

NO

A "no" vote on Initiative 195 keeps the current flat state income tax rate.

Summary and Analysis of Initiative 195

What does Initiative 195 do?

The measure replaces the state's current flat income tax rate with a graduated income tax that sets lower rates for lower incomes and higher rates for higher incomes. It requires that the money be spent on certain programs, and exempts new revenue from the constitutional revenue limit.

What is the state's current income tax structure?

Currently, Colorado's flat income tax rate is 4.4 percent for both individuals and corporations. For example, a household earning \$10,000 in taxable income owes \$440 in taxes annually. A household earning \$100,000 in taxable income owes \$4,400 in taxes annually.

The majority of state income tax revenue is used for general state programs and services. Since 1987, Colorado has used a flat income tax, in which taxpayers, including individuals, corporations, and non-corporate businesses pay the same percentage tax on their income. The state constitution requires that income be taxed at a single rate and that voters must approve any increase in taxes or tax rates.

What is the graduated income tax structure proposed in Initiative 195?

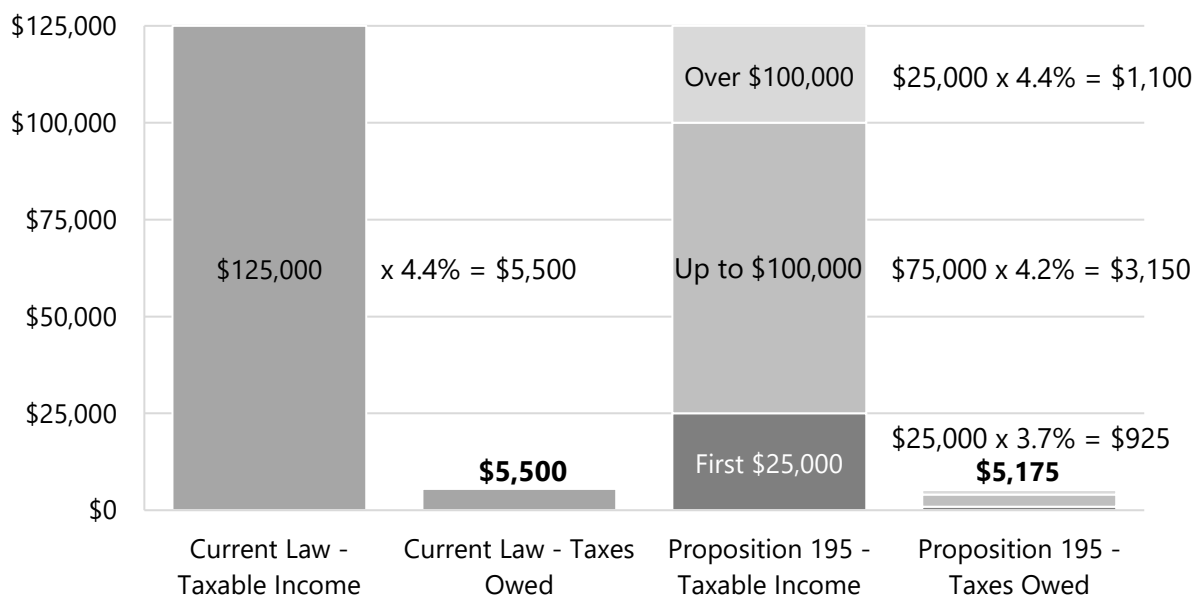
Initiative 195 removes the constitutional requirement that income be taxed at a single rate and creates a graduated income tax starting in 2027. In this graduated tax system, an individual or corporation's income is split into six ranges, called brackets, with the lowest income tax bracket taxed at the lowest rate and each higher bracket taxed at increasing rates, as shown in Table 1. This is similar to how the federal income tax works. Each tax rate is only charged for the portion of income that falls into that bracket.

Table 1
Graduated Income Tax Rates by Income Bracket Under Initiative 195

Taxable Income Bracket	Current Tax Rate	Initiative 195 Tax Rate	Difference
\$25,000 or less	4.4%	3.7%	-0.7
\$25,001 to \$100,000	4.4%	4.2%	-0.2
\$100,001 to \$500,000	4.4%	4.4%	0.0
\$500,001 to \$750,000	4.4%	7.4%	+3.0
\$750,001 to \$1,000,000	4.4%	7.9%	+3.5
More than \$1,000,000	4.4%	8.4%	+4.0

For example, as shown in Figure 1, an individual or corporation earning \$125,000 a year in taxable income is taxed at a rate of 3.7 percent for the first \$25,000. The next portion of income between \$25,000 and \$100,000 is taxed at a rate of 4.2 percent. The remaining \$25,000 is taxed at the rate of 4.4 percent. The total tax owed under the measure would be \$5,175, or \$325 less than the \$5,500 they would owe under current law.

Figure 1
Tax Rates and Taxes Owed for a Taxpayer with \$125,000 in Taxable Income



How does Initiative 195 change the amount of taxes owed?

For individual and corporate taxpayers with incomes of less than \$500,000, the measure decreases the amount of income taxes owed. For taxpayers with incomes of about \$500,000 and above, the measure increases the amount of income taxes owed.

Table 2 shows an example of taxes owed under the measure and under current law for seven hypothetical taxpayers with different levels of taxable income.

Table 2
Taxes Owed Under Current Law and Initiative 195

Example Taxable Income	Current Income Tax Owed	Initiative 195 Income Tax Owed	Difference in Income Tax Owed
\$25,000	\$1,100	\$925	-\$175
\$62,500	\$2,750	\$2,500	-\$250
\$125,000	\$5,500	\$5,175	-\$325
\$300,000	\$13,200	\$12,875	-\$325
\$625,000	\$27,500	\$30,925	+\$3,425
\$875,000	\$38,500	\$50,050	+\$11,550
\$2,000,000	\$88,000	\$143,925	+\$55,925

How does Initiative 195 change state revenue?

By changing tax rates for individuals and corporations, Initiative 195 is expected to increase state income tax revenue by about \$2 billion per year. The measure exempts this money from the state's constitutional revenue limit.

How will the additional revenue be spent?

The increased revenue collected under Initiative 195 must be spent on K-12 education, health care, and early childhood care and education. It must add to, not replace, spending on those services. The Colorado legislature will decide what specific programs the revenue gets spent on within those three areas.

How will the spending be monitored?

The state must produce an annual report on how much additional revenue was collected and how this revenue was spent. That report must be audited by the State Auditor, and published.

What happens if Initiative 195 and Initiative 232 both pass?

Initiative 232 limits the state income tax rate at the current law rate of 4.4 percent. If both Initiatives 195 and 232 are approved by voters, the proposed rate for incomes over \$500,000 in Initiative 195 would be higher than the 4.4 percent limit in Initiative 232. Generally, when parts of voter-approved measures conflict, the policy outcome is determined by the measure that received more votes. However, if both measures are approved by voters, the exact outcome is unclear.

Arguments For Initiative 195

- 1) Initiative 195 cuts taxes for 97 percent of taxpayers while increasing taxes only for top earners who have the ability to pay. A graduated income tax is more equitable than a flat tax because it recognizes a fundamental economic reality: each dollar taxed on someone earning \$30,000 imposes a far greater hardship than each dollar taxed on someone earning \$1 million. By aligning tax rates with taxpayers' financial means, a graduated tax distributes the burden more justly across all income levels, lowers taxes for small businesses and most households, and puts more money in the hands of working families who will spend it in their local communities.
- 2) The measure funds critical services at a time when additional funding is desperately needed. Revenue from the graduated tax will fund education, health care, and child care, which benefit every Colorado household. Colorado public schools are significantly underfunded, and constraints on the state budget make Medicaid cuts increasingly likely. Additional funding will provide more security for the people who depend on these services.

Arguments Against Initiative 195

- 1) Hiking taxes on higher incomes will harm Colorado's economy. Higher tax rates make Colorado a less competitive place to start and grow a business, and may encourage some high earners to leave the state entirely. When businesses and individuals relocate and take their businesses and jobs with them, this drains the tax base that funds our state and slows economic growth. Colorado can't risk high earners leaving the state because our taxes are too high. Keeping taxes competitive for everyone fuels economic activity and builds a stronger, more prosperous Colorado for all.
- 2) The measure is an attack on Colorado's fair tax system and a large expansion of state government. It targets a small number of taxpayers and takes billions of dollars for the state to spend with little oversight. The state's current flat tax is fair, easy to understand, and treats all taxpayers equally. The state should better prioritize the tens of billions it already collects, rather than switch to a new, complicated tax system. Taxpayers know best how to spend their own money.

Information about the organizations supporting and opposing this measure is available on the Colorado Secretary of State's website:

www.coloradosos.gov/pubs/elections/Initiatives/ballot/contacts/2026.html

Fiscal Impact of Initiative 195

The fiscal impact will be included in the second draft.