

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 these income tax rate changes 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 that increases revenue 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 constitutional requirement for a 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 lowers taxes for taxable income below \$500,000 and raises taxes for taxable income above \$500,000. It requires that the additional money collected from this change be spent on K-12 education, health care, and early childhood care and education, and exempts this money from the constitutional revenue limit. The state must produce an audited annual report on how much additional revenue was collected and how it was spent.

What is the state's current income tax structure?

Currently, Colorado has a flat income tax rate, in which all taxpayers pay the same income tax rate regardless of income. The state's flat income tax rate is 4.4 percent for both individuals and corporations. Income tax is paid on a portion of a household's income, which is called taxable income. For example, a married couple earning \$42,000 in income per year may have about \$10,000 in taxable income and owe \$440 in taxes annually. A married couple earning \$130,000

in income per year may have about \$100,000 in taxable income and owe \$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 rate, in which taxpayers, including individuals, corporations, and non-corporate businesses pay the same percentage tax on their income. The Taxpayer's Bill of Rights (TABOR) amendment of the state constitution requires that income be taxed at a single rate.

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

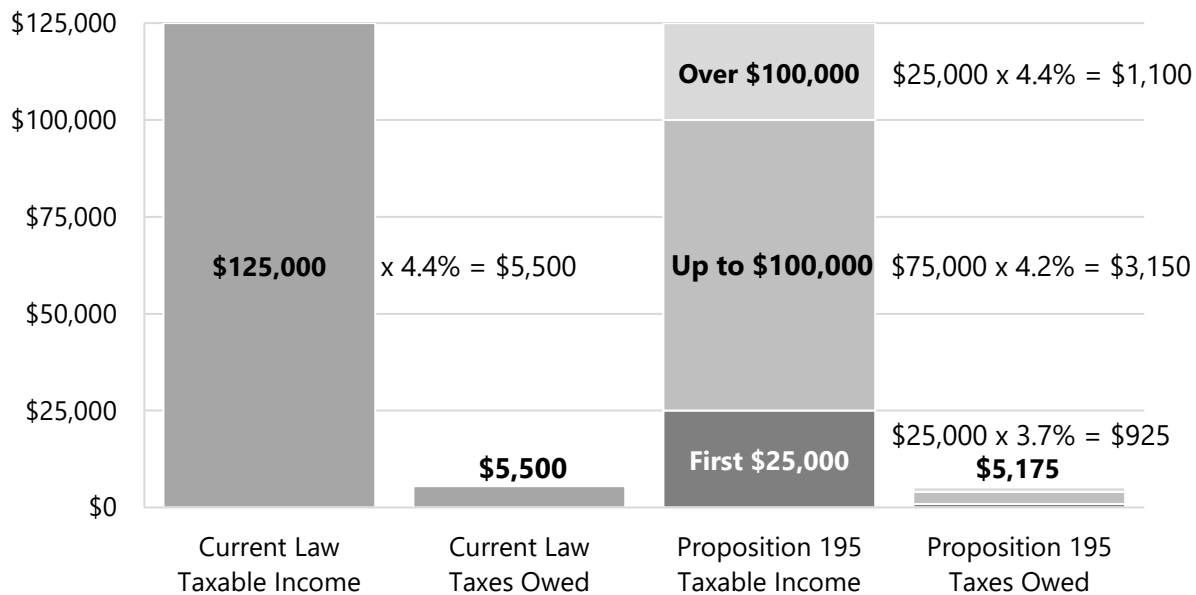
Initiative 195 removes the constitutional requirement that income be taxed at a single rate and creates a graduated income tax starting in 2027. In this graduated tax system, an individual or corporation's income is split into six ranges, called brackets, with the lowest income tax bracket taxed at the 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, except the new state income tax brackets are not adjusted for inflation over time. Each tax rate is only applied to the portion of taxable 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 taxable 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 taxable 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
\$550,000	\$24,200	\$25,375	+\$1,175
\$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 an estimated \$2 billion in the first full year and more in later years.

However, actual revenue collections may be more or less than this estimate depending on economic conditions and other factors. The measure exempts this money from the state's constitutional revenue limit. See the Fiscal Impact section below for additional detail.

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.

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 tax rates for income 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. If Initiative 195 receives more votes than Initiative 232, Initiative 195 would likely take effect in full. If Initiative 232 receives more votes, it is unclear whether the tax rate decreases in Initiative 195 would take effect, while the tax rate increases in Initiative 195 likely would not take effect. The state legislature or a court will need to determine how to resolve any conflicts.

Arguments For Initiative 195

- 1) Initiative 195 cuts taxes for 97 percent of taxpayers, including most households and small businesses, 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 most households and small businesses, 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. Crucial programs are at risk of further cuts because of changes in federal policy. Revenue from the graduated tax will fund education, health care, and child care, public services that so many Colorado households rely on. 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) The measure is a significant tax increase and 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. Because the brackets do not increase with inflation, more and more taxpayers will pay these higher taxes each year. 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 the fair and predictable tax system that TABOR currently guarantees. The state's current flat tax is fair because everyone has equal access to state services, and high-income people already pay more taxes than low-income people. The measure targets a small number of taxpayers and takes billions of dollars for the state to spend with little oversight. The state should better prioritize the tens of billions it already collects, rather than switch to a new, complicated tax system.

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

Taxpayer Impacts

Initiative 195 will decrease the amount of income tax owed by taxpayers with Colorado taxable income of less than \$510,834 and increase the amount of income tax owed by taxpayers with Colorado taxable income of \$510,834 and above. State law requires Legislative Council Staff to estimate the potential tax burden on affected taxpayers within specified federal adjusted gross income categories. Federal adjusted gross income is total income from all sources, with certain adjustments, as determined when filing federal income taxes. Colorado taxable income, calculated when filing state income taxes, is based on federal adjusted gross income with additional adjustments required or allowed under state law. Table 3 shows the expected change in tax burden by federal adjusted gross income category. The measure has no impact on current TABOR refunds or TABOR refund mechanisms.

Table 3
Estimated Impact on Taxpayers by Income

Income Category	Estimated Number of Taxpayers	Total Change in Tax Burden	Average Change in Tax Burden
\$14,999 or less	579,309	-\$638,951	-\$1
\$15,000 to \$29,999	408,924	-\$16,093,434	-\$39
\$30,000 to \$39,999	272,616	-\$29,611,480	-\$109
\$40,000 to \$49,999	238,539	-\$38,651,945	-\$162
\$50,000 to \$69,999	443,000	-\$85,925,358	-\$194
\$70,000 to \$99,999	408,912	-\$93,232,609	-\$228
\$100,000 to \$149,999	408,912	-\$115,554,178	-\$283
\$150,000 to \$199,999	238,532	-\$77,522,900	-\$325
\$200,000 to \$249,000	102,228	-\$33,224,100	-\$325
\$250,000 to \$499,999	204,456	-\$66,448,200	-\$325
\$500,000 to \$999,999	55,900	-\$15,893,609	-\$284
\$1,000,000 or more	46,328	\$1,208,468,497	+\$26,085

Income is federal adjusted gross income, not Colorado taxable income; therefore, the income ranges and tax rates do not align with those in Table 2. The estimated number of taxpayers column counts joint filers as one taxpayer. Estimates are based on Colorado Department of Revenue data for all residents for tax year 2023 and Legislative Council Staff estimates.

State Revenue

By replacing the state flat income tax with a graduated income tax, the measure increases revenue from income taxes by an estimated \$960 million in budget year 2026-27, \$1.97 billion in budget year 2027-28, and increasing amounts in future years based on income and population growth. The estimate for budget year 2026-27 represents a half-year impact for tax year 2027. The additional revenue will be credited to the Colorado Future's Account created in the measure. The increased revenue is exempt from TABOR as a voter-approved revenue change. The state budget year begins each July 1 and ends on June 30.

State law requires Legislative Council Staff to include an estimate of the maximum dollar amount of the change in state government revenue for the first full fiscal year of a proposed tax increase. This is the number that appears in the ballot question. The estimates in the previous paragraph represent the revenue impact of the measure under the current Legislative Council Staff revenue forecast. Based on forecast error that could occur, the maximum dollar amount of the change in state government revenue and fiscal year spending for budget year 2027-28 is estimated as an increase of \$2.7 billion.

157 **State Spending**

158 The measure increases the amount of state revenue available to spend for the purposes
159 identified in the measure, including K-12 education, health care, and early childhood care and
160 education, in FY 2026-27 and future fiscal years. To administer the tax rate change, the measure
161 is expected to increase one-time spending in the Department of Revenue by \$98,000.

162 **School District Revenue and Spending**

163 The measure increases available state funding to school districts. The exact amount distributed
164 to school districts will depend on decisions made by the General Assembly when allocating
165 money from the Colorado Future's Account.