



Fiscal Impact Statement

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

INITIATIVE 195: GRADUATED INCOME TAX

Analyst: Elizabeth Ramey, elizabeth.ramey@coleg.gov, 303-866-3522

Date: March 9, 2026

Summary Information

Overview. The measure creates a graduated income tax beginning in tax year 2027 and uses the new tax revenue to provide funding for K-12 education, health care, and early child care and education. The measure also results in additional revenue for state food assistance programs.

Types of impacts. The measure is projected to affect the following areas:

- State Revenue
- State Expenditures
- School Districts

Disclaimer. This initial fiscal impact statement has been prepared for an initiative approved for petition circulation by the Secretary of State. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the ballot information booklet (Blue Book) if new information becomes available. Any appropriations required to implement this measure will be addressed through the annual or supplemental budget process if this measure is approved by voters.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year FY 2026-27	Out Year FY 2027-28
State Revenue	\$963.2 million	\$1,981.1 million
State Expenditures	\$0	\$98,000
Transferred Funds	\$0	\$0
Change in TABOR Refunds	\$0	\$0
Change in State FTE	0.0 FTE	0.0 FTE

Initiative 195

**Table 1A
 State Revenue**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund	\$0	\$0
Cash Funds – Colorado Future’s Account	\$931.6 million	\$1,916.9 million
Cash Funds – Healthy School Meals for All Cash Fund	\$31.6 million	\$64.2 million
Total Revenue	\$963.2 million	\$1,981.1 million

**Table 1B
 State Expenditures**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28
General Fund	\$0	\$98,000
Cash Funds	\$0	\$0
Federal Funds	\$0	\$0
Total Expenditures	\$0	\$0
Total FTE	0.0 FTE	0.0 FTE

Summary of Measure

The measure creates a state graduated income tax starting in tax year 2027. Under current law, individual and corporate taxpayers are taxed at a single rate of 4.40 percent. The measure amends the state constitution to allow for different levels of taxable income to be taxed at different rates.

Tax rates under Initiative #195 and current law are shown in Table 2. The new tax rates apply to both individual and corporate taxpayers. The tax rate is graduated. For example, a taxpayer with taxable income of \$600,000 would pay a tax of 3.7 percent on the taxpayer’s first \$25,000 in taxable income, 4.2 percent on the next \$75,000, 4.4 percent on the next \$400,000, and 7.4 percent on the last \$100,000.

Table 2
Income Tax Rates Under Current Law and Initiative #195

Taxable Income	Income Tax Rate Under Current Law	Tax Rates Under Initiative #195
Up to \$25,000	4.40%	3.70%
\$25,001 to \$100,000	4.40%	4.20%
\$100,001 to \$500,000	4.40%	4.40%
\$500,001 to \$750,000	4.40%	7.40%
\$750,001 to \$1,000,000	4.40%	7.90%
\$1,000,000 and above	4.40%	8.40%

Increased income tax revenue is credited to the Colorado Future's Account, created in the measure. The new tax revenue will be used for the following purposes:

- K-12 public school education, including improving kindergarten through 12th grade, increasing access to career and technical education programs, and increasing teacher pay;
- health care, including programs to help families afford health care, replacing Medicaid funding previously provided by the federal government and to pay for the implementation of new federal requirements, increasing funding for primary care, behavioral health and rural health care, supporting health care, long-term care, and other supports for older adults and people with disabilities; and
- early child care and education, including programs to help families afford child care, increasing pay and support for the child care workforce, and improving access to high-quality early childhood education programs.

If the measure is approved, the increased income tax rates for taxpayers with incomes over \$500,000 will generate additional revenue for food assistance programs, as discussed below in the Background section.

Background

Under current law enacted in Proposition FF and Proposition MM, taxpayers with adjusted gross income of at least \$300,000 are required to add back a portion of their federal standard or itemized deductions when computing their Colorado taxable income. Deductions over \$1,000 (\$2,000 if filing jointly) are required to be added back. Income tax collected on the deductions required to be added back under Proposition FF and Proposition MM is credited to the Healthy School Meals for All Cash Fund. Money in the fund is spent for food assistance programs, including the Healthy School Meals for All (HSMA) program and the Supplemental Nutrition Assistance Program (SNAP).

State Revenue

By replacing the state flat income tax with a graduated income tax, the measure increases state income tax revenue by \$963.2 million in FY 2026-27 and by \$1,981.1 million in FY 2027-28, and increasing amounts in future years based on income and population growth. The estimate for FY 2026-27 represents a half-year impact for tax year 2027. Additional revenue will be credited to the Colorado Future's Account and the Healthy School Meals for All Cash Fund, as shown in Table 1A. The revenue estimate does not account for the impacts of 2025 H.R. 1, the One Big Beautiful Bill Act, due to insufficient data. The increased revenue is exempt from TABOR as a voter-approved revenue change.

Maximum Dollar Change

The estimates in the previous paragraph represent the revenue impact of the measure under the current LCS revenue forecast. Based on forecast error that could occur, the maximum dollar amount of the increase in state government revenue and fiscal year spending for FY 2027-28 is estimated to be \$2.7 billion.

State Expenditures

The measure requires new General Fund expenditures in the DOR of \$98,000 in FY 2027-28 and \$27,600 ongoing in later years to implement the graduated income tax. These impacts are detailed below.

Table 3
State Expenditures
Department of Revenue

Cost Component	Budget Year FY 2026-27	Out Year FY 2027-28
Computer Programming and Form Changes	\$0	\$60,000
Research and Analysis	\$0	\$38,000
Total Costs	\$0	\$98,000

The measure requires computer programming and form changes estimated at \$60,000 in FY 2027-28 and \$10,000 ongoing in later years for annual updates for DOR to program, test, and update the GenTax software system and to update forms for taxpayers. Expenditures in the Office of Research and Analysis are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated \$38,000 in FY 2027-28, representing 1,000 hours, and \$7,600 ongoing in later years, representing 200 hours for data management and reporting at \$38 per hour.

School District

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

Effective Date

If approved by voters at the 2026 general election, this measure takes effect upon proclamation of the Governor, no later than 30 days after the official canvass of the vote is completed.

State and Local Government Contacts

Revenue

Revisions from Fiscal Summary

Estimates were revised from those in the fiscal summary due to updated data and the addition of estimates for impacts to the Healthy School Meals for All Cash Fund.