

Initiative 2025-2026 #191
Graduated Income Tax

Received by Legislative Council Staff
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Be it Enacted by the People of the State of Colorado:

SECTION 1. Legislative Declaration

(1) The People of the State of Colorado find, determine, and declare that:

(a) Colorado taxpayers are entitled to a fair and equitable tax system that recognizes the affordability challenges facing working families, promotes a vibrant statewide economy, and adequately supports our public education, health care, and child care systems and other essential public services available to all Coloradans;

(b) Colorado's current flat income tax system, unlike the graduated income tax system at the federal level and in 27 other states, taxes millionaires and corporations at the same rate as regular working people;

(c) Combining state income, sales, and property taxes, the wealthiest 1% of Coloradans—those making over \$850,000 per year—pay only 7% of their income in state and local taxes every year, whereas the 60% of Coloradans making between \$25,000 and \$150,000 per year pay between 9-10%.

(d) The 97% of Colorado taxpayers making less than \$500,000 would benefit from a tax cut to help them afford the high cost of living;

(e) The Taxpayer's Bill of Rights, or the TABOR amendment, has significantly limited the ability of state and local governments to invest in supporting teachers and care workers, building infrastructure, and keeping up with a changing economy;

(f) TABOR can be amended to allow a graduated income tax without impacting TABOR refunds or the voters' right to approve any future tax increases;

(g) As demonstrated by recent state-commissioned adequacy studies, Colorado's public schools have been underfunded for decades, and despite the elimination of the Budget Stabilization Factor in 2024, teacher wage competitiveness is still 50th in the country.

(h) Health care in Colorado is too expensive, and the cuts in the federal budget bill are expected to exceed \$2 billion per year by 2032, with rural hospitals and clinics facing the greatest risks for closing or limiting services;

(i) Child care in Colorado is too expensive, making it harder for parents to work while raising their families, and yet wages are so low that 46 percent of early childhood workers in the state rely on social welfare programs like Medicaid and SNAP;

(2) The People of the State of Colorado find, therefore, that:

(a) A graduated income tax system will:

(I) Better support Colorado's children and families, working people, and older adults by cutting taxes for individuals and small businesses making less than \$500,000 per year while only increasing taxes on individuals and corporations making more than \$500,000 per year;

(II) Increase Colorado's ability to adequately invest in our public schools, health care, and child care systems and programs to improve the affordability of health care and child care;

(b) A graduated income tax system will not:

(I) Change the Constitutional requirement that the state government cannot raise any tax rates without another vote of the people;

(II) Reduce or otherwise impact TABOR refunds, because any revenue raised from Colorado's current 4.4% flat income tax, 2.9% sales tax, and various other taxes and fees that exceeds the TABOR spending limit will be required to be refunded to taxpayers;

(c) All new revenue from graduated income tax that exceeds what would have otherwise been collected under Colorado's current tax rates will be transferred into the Colorado's Future Fund, with spending limited to the following purposes:

(I) Improving our public education system, increasing pay to attract and retain great teachers, reducing class sizes, supporting rural schools, and supporting affordable pathways to higher education and workforce training;

(II) Improving our health care system, making health care more affordable, replacing federal Medicaid funds that were cut by the federal budget bill, implementing new requirements in the federal budget bill, increasing access to mental and behavioral health care and primary care, supporting services for older adults and people with disabilities, increasing access to nutritious food, supporting our health care workforce, and supporting rural hospitals and clinics;

(III) Improving our early child care and education systems, helping families afford child care, and increasing pay to attract and retain great child care providers;

(d) New revenues are intended to supplement rather than supplant existing funding;

(e) Taxpayers will be able to monitor and assure responsible and effective usage of all new revenue based on the following requirements:

(I) The nonpartisan office of Legislative Council will produce an annual report on all spending of new revenue that will be accessible to the public in various formats including the

General Assembly's website with plain language descriptions and understandable data visualizations;

(II) The nonpartisan and independent Office of the State Auditor will annually audit this report and present findings to the Joint Budget Committee and the public;

SECTION 2 In the constitution of the state of Colorado, section 20 of article X, **amend** (8)(a) as follows:

(8) Revenue limits. (a) New or increased transfer tax rates on real property are prohibited. No new state real property tax or local district income tax shall be imposed. Neither an income tax rate increase nor a new state definition of taxable income shall apply before the next tax year. Any income tax law change after July 1, 1992 shall also require ~~all taxable net income to be taxed at one rate, excluding refund tax credits or voter approved tax credits, with~~ no added tax or surcharge.

SECTION 3. In Colorado Revised Statutes, 39-22-104, **amend** (1.7) and (2); and **add** (1.8) as follows:

39-22-104. Income tax imposed on individuals, estates, and trusts - report - tax preference performance statement - legislative declaration - definitions - repeal. (1.7)(c) Except as otherwise provided in section 39-22-627, subject to subsection (2) of this section, with respect to taxable years commencing on or after January 1, 2022, BUT BEFORE JANUARY 1, 2027, a tax of four and forty one-hundredths percent is imposed on the federal taxable income, as determined pursuant to section 63 of the internal revenue code, of every individual, estate, and trust.

(1.8)(a) EXCEPT AS OTHERWISE PROVIDED IN SECTION 39-22-627, SUBJECT TO SUBSECTION (2) OF THIS SECTION, WITH RESPECT TO TAXABLE YEARS COMMENCING ON OR AFTER JANUARY 1, 2027, A GRADUATED TAX IS IMPOSED ON FEDERAL TAXABLE INCOME, AS DETERMINED BY SECTION 63 OF THE INTERNAL REVENUE CODE, OF EVERY INDIVIDUAL, ESTATE, AND TRUST, AS FOLLOWS:

(I) FOR FEDERAL TAXABLE INCOME LESS THAN OR EQUAL TO TWENTY FIVE THOUSAND DOLLARS, THE TAX IS THREE AND SEVENTY ONE-HUNDREDTHS PERCENT;

(II) FOR FEDERAL TAXABLE INCOME GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS, THE TAX IS (A) THREE AND SEVENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT UP TO AND INCLUDING TWENTY FIVE THOUSAND DOLLARS AND (B) FOUR AND TWENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS;

(III) FOR FEDERAL TAXABLE INCOME GREATER THAN ONE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO FIVE HUNDRED THOUSAND DOLLARS, THE TAX IS (A) THREE AND SEVENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT UP TO AND INCLUDING TWENTY FIVE THOUSAND DOLLARS, (B) FOUR AND TWENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS, AND (C) FOUR AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN ONE HUNDRED THOUSAND DOLLARS;

(IV) FOR FEDERAL TAXABLE INCOME GREATER THAN FIVE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO SEVEN HUNDRED FIFTY THOUSAND DOLLARS, THE TAX IS (A) THREE AND SEVENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT UP TO AND INCLUDING TWENTY FIVE THOUSAND DOLLARS, (B) FOUR AND TWENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS, (C) FOUR AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN ONE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO FIVE HUNDRED THOUSAND DOLLARS, AND (D) SEVEN AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN FIVE HUNDRED THOUSAND DOLLARS;

(V) FOR FEDERAL TAXABLE INCOME GREATER THAN SEVEN HUNDRED FIFTY THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE MILLION DOLLARS, THE TAX IS (A) THREE AND SEVENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT UP TO AND INCLUDING TWENTY FIVE THOUSAND DOLLARS, (B) FOUR AND TWENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS, (C) FOUR AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN ONE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO FIVE HUNDRED THOUSAND DOLLARS, (D) SEVEN AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT OVER FIVE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO SEVEN HUNDRED FIFTY THOUSAND DOLLARS, AND (E) SEVEN AND NINETY ONE-HUNDREDTHS PERCENT ON THE AMOUNT OVER SEVEN HUNDRED FIFTY THOUSAND DOLLARS; AND

(VI) FOR FEDERAL TAXABLE INCOME GREATER THAN ONE MILLION DOLLARS, THE TAX IS (A) THREE AND SEVENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT UP TO AND INCLUDING TWENTY FIVE THOUSAND DOLLARS, (B) FOUR AND TWENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS, (C) FOUR AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN ONE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO FIVE HUNDRED THOUSAND DOLLARS, (D) SEVEN AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN FIVE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO SEVEN HUNDRED FIFTY THOUSAND DOLLARS, (E) SEVEN AND NINETY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN SEVEN HUNDRED FIFTY THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE MILLION DOLLARS; AND (F) EIGHT AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN ONE MILLION DOLLARS.

(b) FOR PURPOSES OF SUBSECTION (a) OF THIS SECTION, INCOME FROM THE SALE OR EXCHANGE OF A PRINCIPAL RESIDENCE EXCEEDING THE AMOUNT EXCLUDED FROM FEDERAL TAXABLE INCOME UNDER SECTION 63 OF THE INTERNAL REVENUE CODE SHALL BE SUBJECT TO TAX UNDER THIS SECTION AT THE RATE OF FOUR AND FORTY ONE-HUNDREDTHS PERCENT.

(2) Prior to the application of the rate of tax prescribed in subsection (1), (1.5), ~~or~~(1.7), OR (1.8) of this section, the federal taxable income shall be modified as provided in subsections (3) and (4) of this section.

SECTION 4. In Colorado Revised Statutes, 39-22-301, **amend** (1)(d)(I)(K) and **add** (1)(d)(I)(L) and (M) as follows:

39-22-301. Corporate tax imposed – repeal. (1)(d)(I)(K). Except as otherwise provided in section 39-22-627, for income tax years commencing on or after January 1, 2022, BUT BEFORE JANUARY 1, 2027, four and forty one-hundredths percent of the Colorado net income.

(1)(d)(I)(L) EXCEPT AS OTHERWISE PROVIDED IN SECTION 39-22-627, FOR INCOME TAX YEARS COMMENCING ON OR AFTER JANUARY 1, 2027, A GRADUATED TAX IS IMPOSED ON COLORADO NET INCOME, AS DETERMINED UNDER THIS SECTION, OF EVERY DOMESTIC C CORPORATION, FOREIGN C CORPORATION, AND COMBINED GROUP, AS DEFINED IN SECTION 39-22-303(12)(a.3) DOING BUSINESS IN COLORADO ANNUALLY IN AN AMOUNT OF THE NET INCOME OF SUCH C CORPORATION DURING THE YEAR DERIVED FROM SOURCES WITHIN COLORADO AS SET FORTH IN THE FOLLOWING SCHEDULE OF RATES, AS FOLLOWS:

(i) FOR COLORADO NET INCOME LESS THAN OR EQUAL TO TWENTY FIVE THOUSAND DOLLARS, THE TAX IS THREE AND SEVENTY ONE-HUNDREDTHS PERCENT;

(ii) FOR COLORADO NET INCOME GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS, THE TAX IS (I) THREE AND SEVENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT UP TO AND INCLUDING TWENTY FIVE THOUSAND DOLLARS AND (II) FOUR AND TWENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS;

(iii) FOR COLORADO NET INCOME GREATER THAN ONE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO FIVE HUNDRED THOUSAND DOLLARS, THE TAX IS (I) THREE AND SEVENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT UP TO AND INCLUDING TWENTY FIVE THOUSAND DOLLARS, (II) FOUR AND TWENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS, AND (III) FOUR AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN ONE HUNDRED THOUSAND DOLLARS;

(iv) FOR COLORADO NET INCOME GREATER THAN FIVE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO SEVEN HUNDRED FIFTY THOUSAND DOLLARS, THE TAX IS (I) THREE AND SEVENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT UP TO AND INCLUDING TWENTY FIVE THOUSAND DOLLARS, (II) FOUR AND TWENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS, (III) FOUR AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN ONE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO FIVE HUNDRED THOUSAND DOLLARS, AND (IV) SEVEN AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN FIVE HUNDRED THOUSAND DOLLARS;

(v) FOR COLORADO NET INCOME GREATER THAN SEVEN HUNDRED FIFTY THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE MILLION DOLLARS, THE TAX IS (I) THREE AND SEVENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT UP TO AND INCLUDING TWENTY FIVE THOUSAND DOLLARS, (II) FOUR AND TWENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS, (III) FOUR AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN ONE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO FIVE HUNDRED THOUSAND DOLLARS, (IV) SEVEN AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT OVER FIVE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO SEVEN HUNDRED FIFTY THOUSAND DOLLARS, AND (V) SEVEN AND NINETY ONE-HUNDREDTHS PERCENT ON THE AMOUNT OVER SEVEN HUNDRED FIFTY THOUSAND DOLLARS; AND

(vi) FOR COLORADO NET INCOME GREATER THAN ONE MILLION DOLLARS, THE TAX IS (I) THREE AND SEVENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT UP TO AND INCLUDING TWENTY FIVE THOUSAND DOLLARS, (II) FOUR AND TWENTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN TWENTY FIVE THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE HUNDRED THOUSAND DOLLARS, (III) FOUR AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN ONE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO FIVE HUNDRED THOUSAND DOLLARS, (IV) SEVEN AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN FIVE HUNDRED THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO SEVEN HUNDRED FIFTY THOUSAND DOLLARS, (V) SEVEN AND NINETY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN SEVEN HUNDRED FIFTY THOUSAND DOLLARS BUT LESS THAN OR EQUAL TO ONE MILLION DOLLARS; AND (VI) EIGHT AND FORTY ONE-HUNDREDTHS PERCENT ON THE AMOUNT GREATER THAN ONE MILLION DOLLARS.

SECTION 5. In Colorado Revised Statutes, **add** 24-77-103.3 as follows:

24-77-103.3. Voter approved revenue change – retention and use of revenue – accountability. (1) NOTWITHSTANDING ANY PROVISION OF LAW TO THE CONTRARY, FOR EACH TAXABLE YEAR COMMENCING ON OR AFTER JANUARY 1, 2027, ALL REVENUE COLLECTED UNDER THE INCOME TAX RATES ESTABLISHED BY SECTION 39-22-104(1.8) AND SECTION 39-22-301(1)(d)(I)(L) IN EXCESS OF THE REVENUE THAT WOULD BE GENERATED IN ANY SUCH TAXABLE YEAR BY APPLYING THE INCOME TAX RATE THAT EXISTED AS OF DECEMBER 31, 2026 (“EXCESS

REVENUE”), SHALL CONSTITUTE A VOTER APPROVED REVENUE CHANGE UNDER SECTION 20(7)(d) OF ARTICLE X OF THE COLORADO CONSTITUTION, AND MAY BE COLLECTED, KEPT, AND SPENT NOTWITHSTANDING ANY OTHER LIMITS IN THAT SECTION.

(2) FOR PURPOSES OF ADMINISTERING THE DEDICATION OF THE EXCESS REVENUE SPECIFIED IN SUBSECTION (1) OF THIS SECTION, THERE IS HEREBY CREATED IN THE DEPARTMENT OF TREASURY THE COLORADO FUTURE’S FUND. THE EXCESS REVENUE SPECIFIED IN SUBSECTION (1) OF THIS SECTION SHALL BE COLLECTED, RETAINED, TRANSFERRED INTO THE COLORADO’S FUTURE FUND, AND SPENT FROM THAT FUND FOR THE FOLLOWING PROGRAMS AND PURPOSES AND MUST SUPPLEMENT AND NOT SUPPLANT CURRENT LEVELS OF APPROPRIATIONS THERETO:

- (a) K-12 PUBLIC SCHOOL EDUCATION, INCLUDING:
 - (I) IMPROVING KINDERGARTEN THROUGH 12TH GRADE;
 - (II) INCREASING ACCESS TO CAREER AND TECHNICAL EDUCATION PROGRAMS;
 - (III) INCREASING TEACHER PAY;
- (b) HEALTH CARE, INCLUDING:
 - (I) PROGRAMS TO HELP FAMILIES AFFORD HEALTH CARE;
 - (II) REPLACING MEDICAID FUNDING LOST DUE TO RECENT FEDERAL LEGISLATION, AND PAYING FOR IMPLEMENTATION OF NEW FEDERAL REQUIREMENTS;
 - (III) INCREASING FUNDING FOR PRIMARY CARE, BEHAVIORAL HEALTH AND RURAL HEALTH CARE;
 - (IV) SUPPORTING HEALTH CARE, LONG-TERM CARE, AND OTHER SUPPORTS FOR OLDER ADULTS AND PEOPLE WITH DISABILITIES;
 - (V) PROGRAMS THAT INCREASE ACCESS TO NUTRITIOUS FOOD; AND
- (c) EARLY CHILD CARE AND EDUCATION, INCLUDING:
 - (I) PROGRAMS TO HELP FAMILIES AFFORD CHILD CARE;
 - (II) INCREASING PAY AND SUPPORT FOR THE CHILD CARE WORKFORCE;
 - (III) IMPROVING ACCESS TO HIGH-QUALITY EARLY CHILDHOOD EDUCATION PROGRAMS;

(3) FOR EACH FISCAL YEAR COMMENCING ON OR AFTER JANUARY 1, 2026, THAT THE STATE RECEIVES EXCESS REVENUE AS DEFINED IN SUBSECTION (1) OF THIS SECTION, THE DIRECTOR OF RESEARCH OF THE NONPARTISAN STAFF OF THE LEGISLATIVE COUNCIL SHALL PREPARE A REPORT, TO BE TRANSMITTED TO THE GENERAL ASSEMBLY AND MADE PUBLICLY AVAILABLE AND EASILY ACCESSIBLE ON OR VIA A LINK FROM THE GENERAL ASSEMBLY’S WEBSITE, SPECIFYING THE USES TO WHICH SUCH REVENUE HAS BEEN PUT AND TO ENSURE THAT SUCH REVENUE IS APPROPRIATED AND SPENT, AS DIRECTED BY THE PEOPLE OF COLORADO, IN ACCORDANCE WITH THIS SECTION. THE OFFICE OF THE STATE AUDITOR SHALL AUDIT THE REPORT, WHICH MUST AT A MINIMUM CONTAIN THE FOLLOWING INFORMATION:

- (a) THE AMOUNT OF SUCH EXCESS REVENUE; AND
- (b) A SPECIFICATION AND DESCRIPTION OF THE AMOUNTS, PROGRAMS AND PURPOSES TO WHICH SUCH REVENUE HAS BEEN ALLOCATED AND APPROPRIATED.

THE REPORT SHALL INCLUDE A PLAIN LANGUAGE SUMMARY AND, WHERE POSSIBLE, EASILY UNDERSTANDABLE VISUALIZATIONS OF THIS INFORMATION, AND SHALL BE MADE REASONABLY AVAILABLE IN OTHER FORMATS WHEN REQUESTED.