



Fiscal Summary

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Measure: Initiative 119 – STATE TAX ON TIPS AND OVERTIME PAY

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Fiscal Summary of Initiative 119

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

The measure exempts income from overtime compensation and tips from state income tax. The fiscal summary assumes the exemption will begin in tax year 2026. The measure reduces General Fund revenue from income taxes by an estimated \$60 million FY 2025-26 and \$155 million in FY 2027-28, with ongoing reductions in future years. Revenue reductions will increase starting in tax year 2029 when the federal deduction for up to \$25,000 in annual tip income expires under current law. The estimate for FY 2026-27 represents a half-year impact for tax year 2026.

State Expenditures

The measure reduces the amount of state General Fund revenue available to spend or save beginning in FY 2025-26 and future fiscal years. Based on current forecasts the measure is expected to decrease the amount available for the General Fund budget in FY 2025-26, and to reduce the obligation for refunds to taxpayers under TABOR in FY 2026-27. A forecast of state revenue subject to TABOR is not available beyond FY 2026-27.

To administer the tax changes, the measure is expected to increase General Fund expenditures for the Department of Revenue by \$2.6 million in FY 2026-27 and by lower amounts in future years.

Economic Impacts

Taxpayers will have more after-tax income available to spend, save, or invest elsewhere in the economy while the state government will have less revenue available. Any overall change in economic activity will depend on the net economic impact of higher after-tax household income and reduced investment in public services.