



Fiscal Summary

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Measure: Initiative 21 – INCOME TAX RATE

Analyst: Louis Pino, louis.pino@coleg.gov, 303-866-3556

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Fiscal Summary of Initiative 21

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

For tax year 2027, the measure reduces the state income tax rate from 4.40 percent to 4.20 percent resulting in decreased General Fund revenue from income taxes by an estimated \$312.5 million in FY 2026-27 (a half-year impact). Beginning in tax year 2028, the measure removes the state income tax rate listed in state statute, effectively setting the state income tax at zero percent, which will reduce revenue by \$7.1 billion in FY 2027-28 (a half-year impact) and by \$14.6 billion in FY 2028-29, with similar ongoing reductions in future years. Revenue decreases will affect the General Fund, State Education Fund, State Affordable Housing Fund, and Healthy School Meals for All Program Cash Fund, all of which receive revenue from income taxes.

State Expenditures

The measure reduces the amount of state General Fund revenue available to spend or save beginning in FY 2026-27 and future fiscal years.

The measure specifies that its revenue decrease must not reduce spending in the Department of Education or the Department of Health Care Policy and Financing. However, state General Fund revenue derived from sources other than income tax is insufficient to fund these departments at their current law level, so this requirement cannot be satisfied without raising revenue from other sources. To administer the tax rate change, the measure is expected to increase General Fund expenditures for the Department of Revenue by \$10,000. Beginning in FY 2028-29, Department of Revenue expenditures will decrease as many taxpayers will no longer be required to file income taxes. However, the measure does not repeal the income tax in law, and taxpayers are expected to be able to continue to claim refundable state income tax credits even with a zero tax rate. For this reason, it is expected that some Department of Revenue expenditures for income tax administration will still be required.

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Economic Impacts

Taxpayers will have more after-tax income available to spend or save, increasing their consumption of goods and services. Any overall change in economic activity will depend on the net economic impact of higher after-tax household and business income and reduced investment in public services.

Taxpayer Impacts

Table 1 below shows the estimated decrease in state income tax owed for individual income taxpayers with different levels of adjusted gross income for tax year 2028, the first year in which the full tax rate change under the bill is in effect.

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Change in Income Taxes Owed by Income Category (Tax Year 2028)

Income Categories*	Current Average Income Tax Owed	Proposed Average Income Tax Owed	Proposed Change in Average Income Tax Owed + or -
\$25,000 or less	\$58	\$0	-\$58
\$25,001 - \$50,000	\$758	\$0	-\$758
\$50,001 - \$100,000	\$1,897	\$0	-\$1,897
\$100,001 - \$200,000	\$4,137	\$0	-\$4,137
\$200,001 - \$500,000	\$9,248	\$0	-\$9,248
\$500,001 - \$1,000,000	\$18,028	\$0	-\$18,028
\$1,000,001 - \$2,000,000	\$26,419	\$0	-\$26,419
\$2,000,001 - \$5,000,000	\$40,671	\$0	-\$40,671

*Adjusted Gross Income reported to the federal Internal Revenue Service.