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COLORADO INITIATIVE 232: INCOME TAX RATE CAP

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CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit of academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

TABLE OF CONTENTS

INTRODUCTION

Proposed 2026 ballot initiatives include two competing measures, Initiative 195 and Initiative 232. Initiative 195 would establish a graduated income tax system, which would increase taxes for earners over $500,000, and slightly decrease taxes for earners under $100,000. Initiative 232 is an income tax cap that would keep the state's rate at 4.4%.

If both measures pass, the future of Colorado's income tax will be decided by which initiative garners more "yes" votes. Should Initiative 232 have a higher "yes" vote total, not only will the top tax rate remain at 4.4%, but the tax cuts proposed by Initiative 195 on earners making $100,000 or less would also take effect. On net, Colorado taxpayers would see an income tax reduction. Should 195 get more "yes" votes, the graduated income tax structure will pass in full.

Supporters of Initiative 232's flat income tax rate argue that it allows for simplicity and that a graduated income tax would harm rather than help Colorado's economy. Supporters of Initiative 195's graduated income tax argue that higher income earners should pay a larger percentage of their income in taxes and that the additional revenue collected would be valuable for funding areas such as education, healthcare, and childcare.

KEY FINDINGS

- Initiative 232 passing alone would keep Colorado's income tax rate at the current rate of 4.4%, preventing the state's top income tax rate from rising above that level.
- The initiative is in opposition to a proposed progressive tax, Initiative 195, which would create a graduated income tax system in which individuals would be taxed at different rates based on their income levels.
- If both initiatives pass and Initiative 232 receives more votes, only the tax cuts from 195 are implemented, and the state's top tax rate remains at 4.4%.[i]
- Initiative 195 is projected to generate approximately $2.7 billion in additional revenue, while Initiative 232 focuses on preventing changes to the current tax system.
- Under Initiative 195, new revenue generated by the measure would be exempt from TABOR restrictions.

COLORADO'S HISTORICAL TAX STRUCTURE

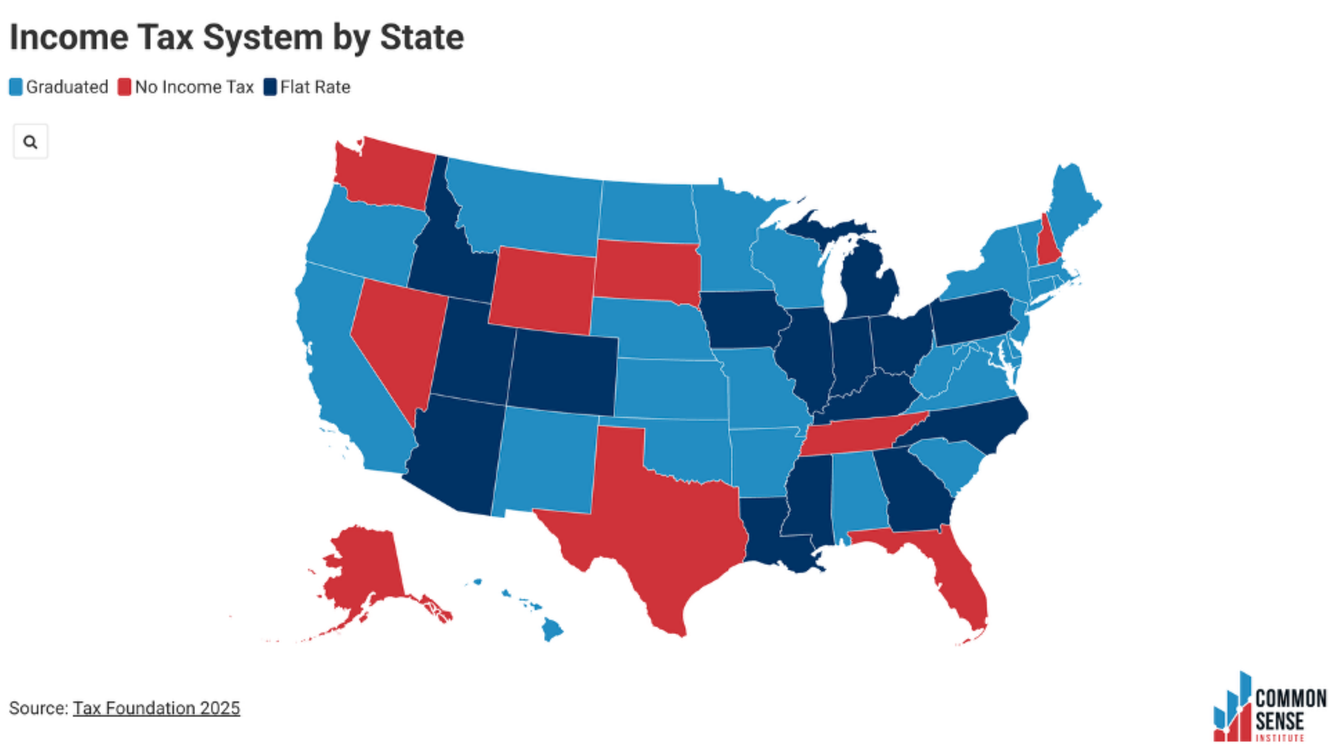
Colorado's income tax system has changed significantly over time. Beginning in 1937, the state used a graduated income tax system with multiple tax brackets; under this system, individuals with higher income paid larger shares of their income in taxes. Colorado later became one of the first states to move away from a graduated income tax structure. In 1987, the state adopted a flat rate income tax system, meaning that all taxpayers are subject to the same income tax rate regardless of how much they earn.

When the flat income tax system was adopted in 1987, the rate was set at 5%. Since then, there have been two legislative rate cuts. One occurred in 1999, lowering the rate to 4.75%, and another followed in 2000, reducing it to 4.63%.

In 2020, voters approved Proposition 116, which cut the income tax rate from 4.63% to 4.55%. In 2022, voters approved Proposition 121, bringing the rate down to its current level of 4.4%.

Today, Colorado has a 4.4% flat income tax rate and is one of 15 states that use a flat income tax system. The majority of states, 26, use a graduated income tax system, similar to what's proposed by Initiative 195. Only 9 states have no income tax at all.

FIGURE 1.



COMPETING MEASURES OUTCOME

Initiative 232 was proposed as a direct response to Initiative 195, and the two measures would move Colorado's income tax system in opposite directions.[ii] Initiative 195 would remove Colorado's constitutional requirement for a flat income tax and allow the state to adopt a graduated income tax system with different rates for different income levels. Initiative 232 is a statutory measure that would set a maximum state income tax rate of 4.4%, prohibiting higher tax rates like those proposed under Initiative 195.

Although the measures are different types, both require just a simple majority vote to pass. Initiative 195 includes both constitutional and statutory changes, but its constitutional amendment only removes existing language, so it does not require the 55% approval that applies to constitutional amendments that add language.[iii] Initiative 232 changes state law rather than the Colorado Constitution and therefore also requires a simple majority. If both initiatives pass, and 232 receives more votes, only the tax cuts from 195 are implemented, and tax rates remain capped at 4.4%. However, if both measures pass and 195 receives more votes, the progressive tax structure is implemented.[iv] This means the total number of yes votes, rather than the percentage of approval, determines which measure takes effect.

TABLE 1: COLORADO INCOME TAX RATES UNDER INITIATIVES 195 AND 232

Marginal rates by taxable income bracket and election outcome

POTENTIAL TAX RATES UNDER FOUR BALLOT OUTCOMES				
Taxable income bracket	Tax rates under 232 alone	Tax rates under 195 alone	Tax rates if both pass: 232 receives more yes votes	Tax rates if both pass: 195 receives more yes votes
$25,000 or less	4.40%	3.70%	3.70%	3.70%
$25,001 to $100,000	4.40%	4.20%	4.20%	4.20%
$100,001 to $500,000	4.40%	4.40%	4.40%	4.40%
$500,001 to $750,000	4.40%	7.40%	4.40% cap	7.40%
$750,001 to $1,000,000	4.40%	7.90%	4.40% cap	7.90%
More than $1,000,000	4.40%	8.40%	4.40% cap	8.40%

Note: Rates are marginal and apply only to income within each bracket. The scenario in which Initiative 232 receives more yes votes assumes its 4.4% cap supersedes only Initiative 195's rates above 4.4%, while Initiative 195's lower, nonconflicting rates remain in effect. This specific outcome has not been adjudicated and could face a legal challenge.

DEBATE OVER INCOME TAX STRUCTURES

Supporters of Initiative 232 believe that maintaining a flat income tax system keeps Colorado economically competitive. Under a flat tax system, high-income individuals are more likely to move to the state than under a graduated tax system.[v] Likewise, a flat tax encourages higher-income earners to remain in Colorado rather than relocate.

A flat tax system is typically easier for taxpayers to understand and more straightforward to calculate. Supporters argue that it creates a more transparent and predictable tax structure.

In recent years, some states have moved toward flatter income tax systems. Supporters of Initiative 232 argue that shifting toward a progressive tax system would make Colorado less economically competitive and put the state at a disadvantage compared to others. States surrounding Colorado such as Utah and Arizona have flat-rate taxes, while Wyoming has no income tax at all. Nebraska, New Mexico, and Oklahoma have graduated income taxes, and Kansas has a planned transition toward a flat income tax. Eight states replaced their graduated income taxes with flat rates between 2021 and 2025. In earlier decades, only a few states transitioned to flat tax systems, but now states are moving toward flat rates at a much faster pace.[vi]

Colorado is already one of the most expensive states to live in. Higher taxes on businesses and high-income earners could drive away residents and make the state even less affordable. Colorado has the fourth-highest cost of living in the United States.[vii]

Initiative 195 would increase state taxes by approximately $2.7 billion annually, with revenue directed to fund healthcare, education, and childcare programs.

TABOR IMPLICATIONS

The purpose of the Taxpayer's Bill of Rights (TABOR) is to limit the amount of revenue the state government can keep and spend.[viii] When the state collects more money than the TABOR limit allows, the excess amount is returned to the taxpayers unless voters approve its retention.

If Initiative 195 passes, TABOR will remain in Colorado's Constitution. However, the additional revenue received by the new tax system would not count toward the state's TABOR revenue cap. As a result, the state could collect and spend this additional revenue without it counting toward the amount that must be returned under TABOR.

BOTTOM LINE

Initiative 232 would establish a maximum state income tax rate of 4.4%, preserving Colorado's current flat income tax rate and preventing the adoption of higher rates. In contrast, Initiative 195 would create a graduated income tax system that lowers rates on income below $100,000 and raises rates on income above $500,000.

If both measures pass, the number of "yes" votes each receives will determine how their conflicting provisions take effect. If Initiative 232 receives more votes, the 4.4% cap would remain while Initiative 195's lower, nonconflicting rates could still take effect, although that outcome could face a legal challenge. If Initiative 195 receives more votes, its graduated tax structure would take effect in full.

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