

**#122 - Tax and Fee Cuts**

1 The proposed amendment to the Colorado Constitution:

- 2       ♦       cuts annual income taxes by between \$25 and \$125, depending on the  
3               amount of a taxpayer's taxable income, and increases the amount of the  
4               cut by between \$25 and \$125 each year thereafter;
- 5       ♦       cuts *every* property, utility, television, occupation, drainage, and local  
6               vehicle registration tax and fee bill by \$25 and increases the amount of  
7               the cut by \$25 each year thereafter;
- 8       ♦       cuts *every* vehicle sales and ownership tax, real estate transfer tax and  
9               fee bill by \$25 for each \$20,000 of taxable value, and increases the  
10              amount of the cut by \$25 per \$20,000 of taxable value each year  
11              thereafter; and
- 12      ♦       allows taxpayers and governments to lower, cancel, or delay the tax cuts  
13              under certain conditions.

14 **Background**

15       The proposal provides for an initial \$25 cut for each of several state and local taxes  
16       and fees. The amount of each tax and fee cut increases by \$25 per year, up to the amount  
17       owed. For example, if an annual tax bill is \$70, the amount owed will be reduced \$25 in the  
18       first year and \$50 in the second year. No tax will be owed in the third and following years  
19       because the tax cut is greater than the amount owed. Tax and fee cuts are effective in 2005,  
20       but taxpayers will begin receiving the tax cuts for property and income taxes in 2006 when  
21       their 2005 tax bill is paid. The following paragraphs describe the major categories of tax and  
22       fee cuts contained in the proposal.

23       ***State income tax.*** The amount of the income tax cut depends on the taxable income  
24       of each household or business. Table 1 shows the amount of the tax cut in the first three years  
25       and in the tenth year for different levels of taxable income. The amount of the tax cuts  
26       continues to increase every year into the future. For example, in 2015, the income tax cuts  
27       will range from \$250 to \$1,250, but income taxes for most taxpayers will never be completely  
28       eliminated.

29 **Table 1. Tax Cut for Income Tax By Level of Income**

Taxable Income Category	2006	2007	2008	2015
Under \$20,000	\$25	\$50	\$75	\$250
\$20,001 to \$40,000	\$50	\$100	\$150	\$500
\$40,001 to \$60,000	\$75	\$150	\$225	\$750
\$60,001 to \$80,000	\$100	\$200	\$300	\$1,000
Over \$80,000	\$125	\$250	\$375	\$1,250

1       **Property taxes.** All counties and school districts, and most cities, towns, and special  
2 districts impose a property tax. Homeowners and businesses pay property taxes to multiple  
3 local governments and will receive a tax cut from each government. Owners of multiple  
4 properties will receive a tax cut for each property. Within a few years, most property tax bills  
5 from governments with low property tax rates will be eliminated unless the tax cuts are  
6 lowered, cancelled, or delayed. Drainage taxes and fees charged by some local governments  
7 to cover the cost of flood control services will be eliminated within the first few years.

8  
9       **Utility and television taxes and fees.** Taxes and fees on every utility, cable, and  
10 satellite television bill will be reduced or eliminated in the first year. Most counties, cities,  
11 and towns charge taxes and fees on these items. Affected utility services include gas,  
12 electricity, and telephone services.

13       **Professional licenses, business registration fees, and occupation taxes.** License fees  
14 for occupations regulated by the state will be cut each year. Examples include licenses for  
15 teachers, professional engineers, nurses, lawyers, and barbers. Business registration fees will  
16 also be cut. Additionally, cities and towns that charge an occupation tax on employees and  
17 businesses to work and operate in their community will have this revenue source greatly  
18 reduced or eliminated.

19       **Vehicle taxes and fees.** The state, special districts such as RTD and the football  
20 stadium district, and most counties, cities, and towns charge a sales tax when a motor vehicle  
21 is purchased. The tax cut of \$25 per \$20,000 of taxable value applies to the state sales tax and  
22 each local sales tax. In addition to sales taxes, this tax cut also applies to the vehicle  
23 ownership tax that is paid annually when a vehicle is registered. Local vehicle registration  
24 fees, such as the fee imposed by the E-470 Authority, will be eliminated in the first year.

25       **Real estate transfer tax.** The fee that is paid to counties to record a change in real  
26 estate ownership will be eliminated for most transactions. Some cities and towns charge a tax  
27 similar to a sales tax on the purchase of real estate. Each real estate transfer tax and fee bill  
28 is reduced by \$25 for every \$20,000 of the sales price and increases by \$25 per \$20,000 of the  
29 sales price each year thereafter.

30       **Exceptions to the tax and fee cuts.** The proposal allows governments to give  
31 taxpayers the option to refuse each tax and fee cut and allows three additional options to  
32 lower, cancel, or delay the cuts. The first option allows voters to reduce or cancel future cuts  
33 for up to two years. The second option allows governments to reduce property taxes on real  
34 estate by \$5, rather than by \$25, if the government receives more than half of its revenue from  
35 real estate property taxes. The third option allows a government to postpone any part of the  
36 tax and fee cuts when its total revenue increases by less than inflation. A government must  
37 refund double the amount of the reduced tax and fee cuts if the conditions required by the  
38 options are violated.

39       **Enforcement.** The proposal requires the state to audit and enforce the tax cuts at all  
40 levels of government.

## 1     **Arguments For**

2           1) Government should not tax the basic needs of its citizens or charge more than one  
3 type of tax or fee on the same item. Taxes and fees on many basic needs such as heating,  
4 lighting, and telephone service will be eliminated by the proposal. Taxes and fees on other  
5 items such as buying a home, cable television, and occupational licenses will also be  
6 eliminated over time. The proposal will eliminate or reduce some forms of double taxation  
7 such as the sales tax paid when a vehicle is purchased and the ownership tax paid each year  
8 on the value of the vehicle. In addition, tax and fee bills will be simplified and will be easier  
9 to understand.

10          2) State and local taxes and fees are too high. The proposal will not do away with  
11 government, but rather slow its growth. The tax and fee cuts will force government to  
12 prioritize services, become more efficient, and eliminate unnecessary spending. State income  
13 tax and local property tax revenue will never be completely eliminated. In addition, the  
14 proposal provides options to lower, cancel, or delay the cuts under certain conditions so that  
15 governments can continue to provide vital services to its citizens.

16          3) Tax and fee cuts are good for the economy. Colorado will be in a stronger position  
17 to compete with other states to attract new business. Furthermore, the proposal saves the  
18 typical family \$xxx in 2006, and higher amounts in following years. These taxpayers will  
19 have more money to spend or save as they choose.

## 20     **Arguments Against**

21           1) Taxes and fees are necessary to meet the needs of Coloradans and to improve the  
22 quality of life in local communities. Taxes and fees pay for fire protection, law enforcement,  
23 education, health care, roads, parks, and economic development. These services not only  
24 improve the well-being of those that receive them, but also benefit the entire community.  
25 State and local governments have already prioritized services and eliminated unnecessary  
26 spending. In fact, Colorado ranks 48<sup>th</sup> in the nation on K-12 education spending, 50<sup>th</sup> on  
27 childhood immunizations, and 50<sup>th</sup> in spending on parks.

28          2) The tax and fee cuts in the proposal are unnecessary. The state constitution already  
29 limits the amount of money that governments can use to provide services. Taxes and fees  
30 collected above these limits are refunded back to the taxpayers, lowering their overall tax  
31 bills. Colorado taxpayers already pay less of their income in state and local taxes than  
32 taxpayers in 41 other states.

33          3) Voters will have less control and fewer choices under this proposal. Tax increases  
34 previously approved by voters in local communities to fund desired services will be undone  
35 by this proposal, causing many services to be reduced or eliminated. The proposal prevents  
36 voters from re-authorizing funding for current services for more than two years at a time.  
37 Voters could face significant fee increases to pay for services that were once supported by  
38 taxes. Finally, passage of the proposal means that voters statewide will be limiting the options  
39 of local communities to provide the services desired by its citizens.

1     **Estimate of Fiscal Impact**

2             The proposal affects state and local government revenues and expenditures by cutting  
3 various taxes and fees and requiring the state to audit itself and each local government  
4 annually for full compliance.

5             ***Impact on state government.*** The tax and fee cuts will reduce state revenues and  
6 correspondingly reduce state services by an estimated \$xxx million in budget year 2004-05,  
7 \$xxx million in 2005-06, and \$xxx million in 2006-07. The amount of the cuts resulting in  
8 reduced state revenue will continue to increase each year into the future. In order to reimburse  
9 school districts for the loss of specific ownership taxes, the state will be required to pay school  
10 districts an additional \$xx million in budget year 2005-06, \$xx million in 2006-07, and \$xx  
11 million in 2007-08.

12             The Department of Revenue, the Department of Local Affairs, and the State Auditor's  
13 Office will require additional resources to implement the tax changes of the proposal and to  
14 comply with the audit requirements.

15             ***Impact on local government.*** Counties, cities and towns, school districts, and special  
16 districts will lose revenue from taxes and fees such as property taxes, utility sales taxes and  
17 franchise fees, sales and use taxes on motor vehicles, specific-ownership taxes, and  
18 occupation taxes. As a result, local government services will be cut an equal amount. The  
19 cuts to local government revenue and services will increase each year thereafter.

20             ***Impact on taxpayers.*** The estimated savings for a typical household that owns a  
21 home, has taxable income over \$45,000, two cars, average monthly utility expenses of \$xxx,  
22 and one individual working in Denver is estimated to be \$xxx in 2005, \$xxx in 2006, and  
23 \$xxx in 2007, and will increase each year thereafter. The actual tax and fee reductions will  
24 depend on several factors, including the number and age of vehicles owned; actual utility  
25 expenses; the number of property tax districts and their mill levies; whether a taxpayer owns  
26 property and pays income taxes; and whether an occupation tax is imposed by the city where  
27 the taxpayer is employed.