

#122 - Tax and Fee Cuts

The proposed amendment to the Colorado Constitution:

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

Background

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

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

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

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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, and
11 towns charge taxes and fees on these items.

12 **Occupation taxes and charges.** Cities and towns that charge an occupation tax on
13 employees and businesses to work and operate in their community will have this revenue
14 source greatly reduced or eliminated. License and registration fees for occupations and
15 businesses will also be cut each year.

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

22 **Real estate transfer tax.** Some cities and towns charge a tax similar to a sales tax on
23 the purchase of real estate. Each real estate transfer tax is reduced by \$25 for every \$20,000
24 of the sales price and increases by \$25 per \$20,000 of the sales price each year thereafter.

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

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

36 **Arguments For**

37 1) Government should not tax the basic needs of its citizens or charge more than one
38 type of tax or fee on the same item. Taxes and fees on many basic needs such as heating,
39 lighting, and telephone service will be eliminated by the proposal. Taxes and fees on other

1 items such as buying a home, cable television, and occupations will also be eliminated over
2 time. The proposal will eliminate or reduce some forms of double taxation such as the sales
3 tax paid when a vehicle is purchased and the ownership tax paid each year on the value of the
4 vehicle. In addition, tax and fee bills will be simplified and will be easier to understand.

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

11 3) Tax and fee cuts are good for the economy. Colorado will be in a stronger position
12 to compete with other states to attract new business. Furthermore, the proposal saves the
13 typical family about \$500 in 2006, and higher amounts in following years. These taxpayers
14 will have more money to spend or save as they choose.

15 **Arguments Against**

16 1) Taxes and fees are necessary to meet the needs of Coloradans and to improve the
17 quality of life in local communities. Taxes and fees pay for fire protection, law enforcement,
18 education, health care, roads, parks, and economic development. These services not only
19 improve the well-being of those that receive them, but also benefit the entire community. State
20 and local governments have already prioritized services and eliminated unnecessary spending.

21 2) The tax and fee cuts in the proposal are unnecessary. The state constitution already
22 limits the amount of money that governments can spend to provide services. Except when
23 voters say otherwise, money collected above these limits is refunded back to the taxpayers,
24 lowering their overall tax bills. Colorado taxpayers already pay less of their income in state
25 and local taxes than taxpayers in 41 other states.

26 3) Voters will have less control and fewer choices under this proposal. Without voter
27 approval, tax increases previously approved by voters in local communities to fund desired
28 services will be undone, causing many services to be reduced or eliminated. The proposal
29 prevents voters from re-authorizing funding for current services for more than two years at a
30 time. Voters could face significant fee increases to pay for services that were once supported
31 by taxes. Finally, passage of the proposal means that voters statewide will be limiting the
32 options of local communities to provide the services desired by their citizens.

33 **Estimate of Fiscal Impact**

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

1 **Impact on state government.** The tax and fee cuts will slow the growth of state
2 revenues and correspondingly impact state services by an estimated \$xxx million in budget year
3 2004-05, \$xxx million in 2005-06, and \$xxx million in 2006-07. The amount of the revenue
4 reduction will continue to increase each year into the future. In order to reimburse school
5 districts for the loss of specific ownership taxes, the state will be required to pay school
6 districts an additional \$xx million in budget year 2005-06, \$xx million in 2006-07, and \$xx
7 million in 2007-08.

8 The Department of Revenue, the Department of Local Affairs, and the Office of the
9 State Auditor will require additional resources to implement the tax changes of the proposal
10 and to comply with the audit requirements.

11 **Impact on local government.** Counties, cities and towns, school districts, and special
12 districts collect revenue from several sources that will be reduced by the proposal. Sources
13 such as property taxes, utility sales taxes and franchise fees, sales and use taxes on motor
14 vehicles, specific ownership taxes, and occupation taxes will be affected. Revenue for some
15 local governments will grow at a slower rate than current law allows, while revenue to others
16 will actually be reduced. Local government services will be adjusted accordingly.

17 **Impact on taxpayers.** The estimated savings for a typical household that owns a home
18 and two cars, and has taxable income of \$30,000 is estimated to be about \$250 in 2005, \$500
19 in 2006, and \$675 in 2007, and will increase each year thereafter. The actual tax and fee
20 reductions will depend on several factors, including the number and age of vehicles owned;
21 actual utility expenses; the number of property tax districts and their mill levies; whether a
22 taxpayer owns property and pays income taxes; and whether an occupation tax is imposed by
23 the city where the taxpayer is employed.