

Proposition 103 Temporary Tax Increase for Public Education

1 **Proposition 103 proposes amending the Colorado statutes to:**

- 2 ♦ increase the state income tax rate from 4.63 to 5.0 percent for five
3 years, starting January 1, 2012;
- 4 ♦ increase the state sales and use tax rate from 2.9 to 3.0 percent for five
5 years, starting January 1, 2012; and
- 6 ♦ require the state legislature to spend the money on public education by
7 increasing funding above the amount in budget year 2011-12.

8 **Summary and Analysis**

9 Proposition 103 temporarily increases the state income and sales and use tax
10 rates and requires the state to spend the money on public education. Public
11 education includes public preschools, kindergarten through 12th grade schools, and
12 colleges and universities.

13 ***What is the state income tax?*** Households and businesses pay taxes on
14 their income to both the state and federal governments. State income taxes are
15 calculated by applying a fixed rate to a taxpayer's Colorado taxable income. The state
16 income tax is the largest source of revenue the state collects to pay for its main
17 programs. The state's current income tax rate is 4.63 percent for both households
18 and businesses, regardless of income level. In 1987, the state moved from a
19 graduated income tax rate to a single tax rate, which was initially set at 5.0 percent.
20 This rate was reduced to 4.75 percent in 1999, and reduced again to 4.63 percent in
21 2000. The measure returns the rate to 5.0 percent for five years, after which it will be
22 restored to 4.63 percent.

23 ***What is the state sales and use tax?*** The state sales tax is paid on the
24 purchase price of most items. Some items are exempt, such as food bought at
25 grocery stores, prescription drugs, and household electricity and heat. The tax applies
26 to some services, most notably local telephone service, cell phone service, food and
27 drink service at restaurants and bars, and lodging. The state use tax is paid on
28 taxable items for which the sales tax was not collected, such as items bought from
29 sellers outside the state. In addition to the state sales and use tax, local governments
30 also have sales and use taxes, although local rates may be different and may apply to
31 different items than the state tax. In 2000, the state legislature reduced the sales and
32 use tax rate from 3.0 to 2.9 percent. Proposition 103 returns the rate to 3.0 percent
33 for five years, after which it will be restored to 2.9 percent. The measure does not
34 affect local tax rates.

1 **How much money will the state collect under Proposition 103?** Over the
2 five-year period of the tax rate increase, the state will collect about \$2.9 billion in new
3 tax revenue for public education. Table 1 shows the estimated increase in individual
4 income tax, business income tax, and sales and use tax collections from 2012 through
5 2016.

6 **Table 1. Estimated Increase in Tax Collections under Proposition 103***
7 *(in millions of dollars)*

8 Year	Individual 9 Income Tax	Business 10 Income Tax	Sales and 11 Use Tax	Totals
12 2012	\$398.8	\$39.8	\$76.1	\$514.7
13 2013	\$423.3	\$44.7	\$79.5	\$547.5
14 2014	\$447.0	\$47.9	\$83.0	\$577.9
15 2015	\$472.1	\$51.3	\$86.8	\$610.2
16 2016	\$498.7	\$55.0	\$90.7	\$644.4

17 **Amounts are shown for calendar years. The ballot title reflects budget year amounts.*

18 **How much will state income taxes increase under Proposition 103?**
19 Currently, Colorado taxpayers pay \$46.30 in state income taxes for each \$1,000 of
20 taxable income. Under Proposition 103, taxpayers will pay \$50.00 in state income
21 taxes for each \$1,000 of taxable income, or about 8 percent more than under current
22 law. Taxpayers will pay the higher rate for five years, beginning with the tax payment
23 due in April 2013 for the 2012 tax year. An individual's taxable income is equal to the
24 person's gross income minus deductions, exemptions, or other adjustments. It varies
25 based on marital status, the number of dependents, business exemptions, and other
26 factors such as deductions for mortgage interest, charitable contributions, or interest
27 paid on student loans.

 Table 2 shows the estimated change in the yearly state income tax bill for
three sample households as a result of Proposition 103.

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Table 2. Estimated Annual Income Tax Increases for Selected Households under Proposition 103

Household description	Tax Paid under Current Law	Tax Paid under Proposition 103	Amount of Increase
Single person Annual income of \$35,000 Colorado taxable income of \$27,379	\$1,268	\$1,369	\$101
Single person with children Annual income of \$70,000 Colorado taxable income of \$48,571	\$2,248	\$2,428	\$180
Married couple filing jointly Annual combined income of \$125,000 Colorado taxable income of \$85,283	\$3,949	\$4,264	\$315

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How much will state sales taxes increase under Proposition 103? Table 3 shows the estimated change in the amount of state sales tax paid for four different purchases as a result of Proposition 103. Consumers will pay about 3.4 percent more in state sales tax on purchases than under current law. Local sales taxes are not affected.

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Table 3. Comparison of State Sales Taxes Paid under Current Law and Proposition 103

Purchase Price	Current State Sales Tax (2.9%)	Proposed State Sales Tax (3.0%)	Total Tax Increase
\$50	\$1.45	\$1.50	\$0.05
\$100	\$2.90	\$3.00	\$0.10
\$500	\$14.50	\$15.00	\$0.50
\$5,000	\$145.00	\$150.00	\$5.00

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What does the state spend on public education? For budget year 2011-12, the state's portion of public school funding is currently set at \$3.7 billion for preschool through high school education and \$624 million for higher education. This amount may change, for example, when mid-year adjustments are made to balance the budget. Combined, spending on public education represents about 50 percent of the General Fund, which pays for the state's general operating expenses. Direct state funding for public education has declined in the past few years, although some of these reductions have been offset with other sources of money. Local communities contribute taxes and fees, and universities and colleges charge tuition and fees and

1 seek private donations. In addition, the federal government provides funding for a
2 variety of education programs. The combination of these funds pays for programs
3 and services such as classroom instruction, preschool programs, administrative
4 services provided by the state, and financial aid to students attending public
5 universities and colleges.

6 ***How does Proposition 103 impact state spending on education?*** The
7 measure sets budget year 2011-12 state funding for public education — currently
8 about \$4.3 billion — as a minimum funding level for five years. It requires that the
9 money raised through the tax increase be allocated in addition to, not as a substitute
10 for, this amount. Although Proposition 103 requires that the money raised be spent on
11 public education, it does not specify how the money is to be split between the various
12 preschool through high school and higher education programs.

13 *For information on those issue committees that support or oppose the*
14 *measures on the ballot at the November 1, 2011, election, go to the*
15 *Colorado Secretary of State's elections center web site hyperlink for*
16 *ballot and initiative information:*

17 www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html

18 **Arguments For**

19 1) Public education is important to Colorado's economic future. This
20 investment may lead to a speedier economic recovery and help maintain a competitive
21 business climate. Businesses value a robust public education system that provides an
22 educated workforce, and employees want to live in communities with good schools for
23 their children. In addition, Coloradans need access to affordable education and
24 retraining offered by public community colleges and universities to be prepared to
25 meet the demands of a 21st century economy. Proposition 103 provides the state
26 with the opportunity to invest in job-training programs for Colorado citizens who are
27 struggling to find employment.

28 2) The additional education funding provided by Proposition 103 will help
29 reverse the recent trend of education budget cuts, which is hindering the state's ability
30 to provide a quality education to all of its citizens. School districts have been forced to
31 close schools, lay off educators, increase class sizes, and cut programs that are
32 important to students and families. State funding for higher education is often the first
33 item to be cut during tough economic times, even as enrollment and costs continue to
34 increase. Since 2006, tuition costs for in-state students have increased 43 percent, on
35 average, making higher education unaffordable for some students. In the absence of
36 additional funding, these trends will continue.

1 3) Proposition 103 raises tax rates only a fraction of a percentage point,
2 restoring them to 1999 levels. This temporary increase provides relief from further
3 education funding cuts, allowing policymakers time to implement a long-term solution.
4 Colorado spends \$1,781 less per K-12 student than the national average. Colorado's
5 higher education institutions receive, on average, about 63 percent of the state
6 funding received by similar institutions in other states. The measure's small
7 contributions from a large pool of Colorado citizens will amount to approximately
8 \$2.9 billion in funding over five years that can be used to bolster the state's public
9 education system.

10 **Arguments Against**

11 1) Raising taxes may slow Colorado's economic recovery. Coloradans are
12 struggling with stagnant incomes, a weak housing market, and high gas and food
13 prices. Charging more in taxes may result in less consumer spending and business
14 investment, which may further weaken the economy. In addition, raising sales taxes
15 burdens lower- and middle-income consumers the most because they spend a higher
16 percentage of their overall budget on everyday necessities that are subject to sales
17 tax.

18 2) Proposition 103 lacks accountability to taxpayers. It does not provide a
19 plan for how more than \$575 million in additional taxpayer money each year will
20 improve public education. The state government already spends about \$4.3 billion of
21 its General Fund operating budget on education each year, and increasing the tax
22 burden on Colorado's citizens does not guarantee a higher quality public education for
23 students. Education is a local issue, and schools are accountable to their
24 communities. Communities can seek local options and private resources if they feel
25 that their schools need more funding. Similarly, pursuing higher education is an
26 individual choice and should not be further subsidized by the state.

27 3) Proposition 103 is a fiscally irresponsible approach to increase education
28 funding. If the economy fails to recover during the five-year period of the tax increase,
29 larger cuts to other programs may be necessary to meet the minimum education
30 funding levels set in the measure. On the other hand, if the economy improves during
31 the five-year period, money that could have been used to increase education funding
32 may now be used to increase the size of other state government programs, as
33 education will be funded from the tax increase. Finally, regardless of how the
34 economy fares during the five-year period, Proposition 103 is a temporary tax increase
35 and substantial spending cuts will be required in 2016 when the tax rate returns to the
36 previous level.

37 **Estimate of Fiscal Impact**

38 *This is a summary of the measure's estimated fiscal impact. For more detailed*
39 *information, please refer to the fiscal impact statement located here:*

40 <http://www.colorado.gov/cs/bluebookfiscalimpact>

1 **State revenue and spending.** Proposition 103 is expected to increase state
 2 tax revenue by \$2.9 billion over the next five years, as indicated in Table 1. The
 3 proposition requires that all new revenue from the tax rate increases be spent on
 4 public education.

5 **Impact on taxpayers.** Individuals and businesses pay sales taxes, use taxes,
 6 and income taxes. Visitors to the state also pay sales taxes. The additional amount
 7 of taxes paid by each Colorado household or business will depend on its spending
 8 habits, consumption, and the amount of taxable income it receives. For examples,
 9 please refer to Table 2 and Table 3. For instructions on estimating your household's
 10 or business's tax changes under Proposition 103, please refer to the measure's more
 11 detailed fiscal impact statement online.

12 **State Spending and Tax Increases**

13 The state constitution requires that the following fiscal information be provided
 14 when a tax increase question is on the ballot:

- 15 1) the estimated or actual state spending under the constitutional spending
 16 limit for the current year and each of the past four years with the overall
 17 percentage and dollar change; and
- 18 2) for the first full year of the proposed tax increase, an estimate of the
 19 maximum dollar amount of the tax increase and of state fiscal year
 20 spending without the increase.

21 Table 4 shows the dollar amount of state spending under the constitutional
 22 spending limit.

23 **Table 4. State Spending**

	Actual FY 2007-08*	Actual FY 2008-09	Actual FY 2009-10	Estimated FY 2010-11	Estimated FY 2011-12
State Spending	\$9,999 million	\$9,102 million	\$8,567 million	\$9,482 million	\$9,962 million
Four-Year Dollar Change in State Spending: -\$37 million					
Four-Year Percent Change in State Spending: -0.4%					

30 *FY = fiscal year. The state's fiscal (or budget) year runs from July through June.

31 The numbers in Table 4 show state spending from 2008 through 2012 for
 32 programs that were subject to the constitutional spending limit during those years.
 33 However, the constitution allows a program that operates similar to a private business
 34 to be exempt from the limit if it meets certain conditions. Because the exempt status
 35 of some programs has changed during the last five years, the numbers in Table 4 are
 36 not directly comparable to each other.

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1 Table 5 shows the revenue expected from the increased tax rates; state fiscal
2 year spending without these taxes for FY 2012-13, the first full fiscal year for which the
3 increase would be in place; and the sum of the two.

4 **Table 5. Estimated State Fiscal Year Spending**
5 **and the Proposed Tax Rate Increases**

	FY 2012-13 Estimate
6 State Spending Without New Taxes	\$10,576 million
7 New Sales Tax Increase	\$78 million
8 New Income Tax Increase	\$455 million
9 State Spending Plus the New Taxes	\$11,109 million