

**Tax Increase for Public Education**

1 **Proposition ? 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 ? 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. Colorado state income taxes  
15          are calculated by applying a fixed rate to a taxpayer's federal taxable income, as  
16          determined when filing federal taxes. The state income tax is the largest source of  
17          revenue the state receives to pay for its main programs. The state's current income  
18          tax rate is 4.63 percent for both households and businesses, regardless of income  
19          level. In 1987, the state moved from a graduated income tax rate to a single tax rate,  
20          which was initially set at 5.0 percent. This rate was reduced to the current  
21          4.63 percent in 2000. The measure returns the rate to 5.0 percent for five years, after  
22          which it will be 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 ? returns the rate to 3.0 percent for  
33          five years, after which it will be restored to 2.9 percent. The measure does not affect  
34          local tax rates.



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

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

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**How much will state sales taxes increase under Proposition ??** Table 3 shows the estimated change in the amount of state sales tax paid for four different purchases as a result of Proposition ?. Local sales taxes are not affected.

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

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?** In budget year 2011-12, the state’s portion of public school funding is \$3.7 billion for preschool through high school education and \$624 million for higher education. Combined, this represents about 50 percent of the state's general operating budget. The amount the state contributes does not cover the total cost of public education. Local communities also contribute taxes and fees, and universities and colleges charge tuition and fees and seek private donations. In addition, the federal government provides funding for a variety of education programs. The combination of these funds pays for programs and services such as classroom instruction, preschool programs, administrative services provided by the state, and financial aid to students attending public universities and colleges.

1           **How does Proposition ? impact state spending on education?** The  
2 measure sets budget year 2011-12 state funding for public education — about  
3 \$4.3 billion — as a minimum funding level for five years. It requires that the money  
4 raised through the tax increase be allocated in addition to, not as a substitute for, this  
5 amount. Although Proposition ? requires that the money raised be spent on public  
6 education, it does not specify how the money be split between the various preschool  
7 through high school and higher education programs. In 2012, the money collected  
8 under Proposition ? will provide about a 12 percent increase in state funding for public  
9 education; however, because local and federal sources also contribute to education  
10 funding, the total impact is smaller.

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

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

11           **Arguments For**

12           1) Investment in public education may help the economy and lead to a  
13 speedier economic recovery. This investment from Colorado taxpayers helps both  
14 businesses and employees. Businesses value a robust public education system that  
15 provides an educated workforce, and employees want to live in communities with good  
16 schools for their children. In addition, Coloradans need access to affordable  
17 education and retraining offered by public community colleges and universities to be  
18 prepared to meet the demands of a 21st century economy. Increased funding may  
19 make these job-training opportunities available to more Coloradans.

20           2) Schools are being asked to do more with less. Enrollment is increasing  
21 while funding is decreasing. As a result, school districts have been forced to close  
22 schools, lay off educators, increase class sizes, and cut programs that are important  
23 to students and families. Since 2006, state funding for higher education institutions  
24 has remained flat or decreased, while enrollment and costs have increased. During  
25 this same period, tuition costs for in-state students have increased 43 percent, on  
26 average. In the absence of additional funding, these trends will continue and will  
27 hinder the state's ability to provide a quality education to all of its citizens.

28           3) Proposition ? restores tax rates to 1999 levels, raising them only a fraction  
29 of a percentage point. This temporary increase provides relief from further education  
30 funding cuts, allowing policymakers time to implement a long-term solution. On  
31 average, families making about \$100,000 a year will pay \$315 more in income taxes  
32 annually, or about \$26 more a month. The small contributions from a large pool of  
33 Colorado citizens will amount to approximately \$2.9 billion in funding over five years  
34 that can be used to bolster the state's public education system.

1 **Arguments Against**

2 1) Raising taxes may slow Colorado's economic recovery. Coloradans are  
3 struggling with a weak housing market and high gas and food prices. Charging more  
4 in taxes may result in less consumer spending and business investment, which may  
5 further weaken the economy. In addition, raising sales taxes burdens lower- and  
6 middle-income consumers the most because they spend a higher percentage of their  
7 overall budget on everyday necessities that are subject to sales tax. Under the  
8 measure, the consumers who can least afford it are the most heavily impacted.

9 2) Increased funding for public education could be provided by reprioritizing  
10 how the state spends its money. The state government already spends about \$4.3  
11 billion of its operating budget on education, and increasing funding does not  
12 guarantee that student achievement will improve. Communities can seek local options  
13 and resources if they feel that their schools need more funding. Similarly, pursuing  
14 higher education is an individual choice and should not be further subsidized by the  
15 state.

16 3) Proposition ? is a temporary tax increase and, as a result, substantial cuts  
17 will be required in 2016 when the tax rates return to their previous levels. It provides a  
18 temporary solution without clear direction on how the money should be spent. A  
19 proposal that increases the tax burden on Colorado citizens by about \$2.9 billion  
20 should identify a plan to improve student achievement and be accountable to the  
21 citizens. In addition, where Proposition ? directs all of the money to education, as the  
22 economy improves, money that might have increased education funding during the  
23 five years could be directed to other programs. This could have the unintended  
24 consequence of increasing the size of state government.

25 **Estimate of Fiscal Impact**