Temporary Tax Increase for Public Education

1 **Proposition ? proposes amending the <u>Colorado statutes</u> to:**

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

8 Summary and Analysis

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

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

6 7

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

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

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

16 How much will state income taxes increase under Proposition ??

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

1 2

Table 2. Estimated Annual Income Tax Increasesfor Selected Households under Proposition ?

3 4 5	Household description	Tax Paid under Current Law	Tax Paid under Proposition ?	Amount of Increase
6 7 8	Single person Annual income of \$35,000 Colorado taxable income of \$27,379	\$1,268	\$1,369	\$101
9 10 11	Single person with children Annual income of \$70,000 Colorado taxable income of \$48,571	\$2,248	\$2,428	\$180
12 13 14	Married couple filing jointly Annual combined income of \$125,000 Colorado taxable income of \$85,283	\$3,949	\$4,264	\$315

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 ?. Consumers will pay about 3.4 percent more in
 state sales tax on purchases than under current law. Local sales taxes are not
 affected.

20 21

Table 3. Comparison of State Sales Taxes Paidunder Current Law and Proposition ?

22 23	Purchase Price	Current State Sales Tax (2.9%)	Proposed State Sales Tax (3.0%)	Total Tax Increase
24	\$50	\$1.45	\$1.50	\$0.05
25	\$100	\$2.90	\$3.00	\$0.10
26	\$500	\$14.50	\$15.00	\$0.50
27	\$5,000	\$145.00	\$150.00	\$5.00

28 What does the state spend on public education? For budget year 2011-12, 29 the state's portion of public school funding is currently set at \$3.7 billion for preschool 30 through high school education and \$624 million for higher education. This amount 31 may change, for example, when mid-year adjustments are made to balance the 32 budget. Combined, spending on public education represents about 50 percent of the 33 General Fund, which pays for the state's general operating expenses. Direct state 34 funding for public education has declined in the past few years, although some of 35 these reductions have been offset with other sources of money. Local communities 36 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.

6 *How does Proposition ? 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 ? 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.

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

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 ? provides the state with 26 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 ? will help reverse 29 the recent trend of education budget cuts, which is hindering the state's ability to 30 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 ? 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

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 ? lacks accountability to taxpayers. It does not provide a plan 19 for how more than \$575 million in additional taxpayer money each year will improve 20 public education. The state government already spends about \$4.3 billion of its 21 General Fund operating budget on education each year, and increasing the tax 22 burden on Colorado's citizens does not guarantee a higher guality 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 ? 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 ? 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

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

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

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

12 State Spending and Tax Increases

23

The state constitution requires that the following fiscal information be providedwhen a tax increase question is on the ballot:

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

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

24		Actual	Actual	Actual	Estimated	Estimated
25		FY 2007-08*	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
26	State Spending	\$9,999	\$9,102	\$8,567	\$9,482	\$9,962
27		million	million	million	million	million
28	Four-Year Dollar Change in State Spending: -\$37 million					
29	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.					

Table 4. State Spending

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

Table 5 shows the revenue expected from the increased tax rates; state fiscal 1 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.

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

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

4