

Temporary 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. 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 receives 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 the current 4.63 percent in 2000. The measure returns the
21 rate to 5.0 percent for five years, after which it will be restored to 4.63 percent.

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

15 **How much will state sales taxes increase under Proposition ??** Table 3
16 shows the estimated change in the amount of state sales tax paid for four different
17 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

26 **What does the state spend on public education?** In budget year 2011-12,
27 the state's portion of public school funding is \$3.7 billion for preschool through high
28 school education and \$624 million for higher education. Combined, this represents
29 about 50 percent of the state's general operating budget. Direct state funding for
30 public education has declined in the past few years, although some of these
31 reductions have been offset with other sources of money. Local communities
32 contribute taxes and fees, and universities and colleges charge tuition and fees and
33 seek private donations. In addition, the federal government provides funding for a
34 variety of education programs. The combination of these funds pays for programs
35 and services such as classroom instruction, preschool programs, administrative

1 services provided by the state, and financial aid to students attending public
2 universities and colleges.

3 ***How does Proposition ? impact state spending on education?*** The
4 measure sets budget year 2011-12 state funding for public education — about
5 \$4.3 billion — as a minimum funding level for five years. It requires that the money
6 raised through the tax increase be allocated in addition to, not as a substitute for, this
7 amount. Although Proposition ? requires that the money raised be spent on public
8 education, it does not specify how the money is to be split between the various
9 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>

1 **Arguments For**

2 1) Public education is important to Colorado's economic future. This
3 investment may lead to a speedier economic recovery. It helps both businesses and
4 employees. Businesses value a robust public education system that provides an
5 educated workforce, and employees want to live in communities with good schools for
6 their children. In addition, Coloradans need access to affordable education and
7 retraining offered by public community colleges and universities to be prepared to
8 meet the demands of a 21st century economy. Proposition ? provides the state with
9 the opportunity to invest in job-training programs for Colorado citizens who are
10 struggling to find employment.

11 2) The additional education funding provided by Proposition ? will help reverse
12 the recent trend of education budget cuts, which is hindering the state's ability to
13 provide a quality education to all of its citizens. Schools are being asked to do more
14 with less. Enrollment is increasing while funding is decreasing. As a result, school
15 districts have been forced to close schools, lay off educators, increase class sizes,
16 and cut programs that are important to students and families. Since 2006, state
17 funding for higher education institutions has remained flat or decreased, while
18 enrollment and costs have increased. During this same period, tuition costs for in-
19 state students have increased 43 percent, on average. In the absence of additional
20 funding, these trends will continue.

21 3) Proposition ? restores tax rates to 1999 levels, raising them only a fraction
22 of a percentage point. This temporary increase provides relief from further education
23 funding cuts, allowing policymakers time to implement a long-term solution. Colorado
24 spends \$1,781 less per K-12 student than the national average. Colorado's higher

1 education institutions receive, on average, about 63 percent of the state funding
2 received by similar institutions in other states. The measure's small contributions from
3 a large pool of Colorado citizens will amount to approximately \$2.9 billion in funding
4 over five years that can be used to bolster the state's public education system.

5 **Arguments Against**

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

13 2) Proposition ? lacks accountability to taxpayers because it increases the tax
14 burden on Colorado citizens by about \$2.9 billion without identifying how the money
15 will improve student achievement. The state government already spends about
16 \$4.3 billion of its operating budget on education, and increasing funding does not
17 guarantee a higher quality public education for Colorado students. Education is a
18 local issue, and schools are accountable to their communities. Communities can seek
19 local options and private resources if they feel that their schools need more funding.
20 Similarly, pursuing higher education is an individual choice and should not be further
21 subsidized by the state.

22 3) Proposition ? is a temporary tax increase and, as a result, substantial cuts
23 will be required in 2016 when the tax rates return to their previous levels. Where
24 Proposition ? directs all of the money to education, as the economy improves, money
25 that might have increased education funding during the five years could be directed to
26 other programs. This could have the unintended consequence of increasing the size
27 of state government. In addition, if the economy fails to recover and tax collections
28 decline during the five-year period of the tax increase, other programs may need to be
29 cut in order to meet the minimum education funding levels set in the measure.

30 **Estimate of Fiscal Impact**

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

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

37 **Impact on taxpayers.** Individuals and businesses pay sales taxes, use taxes,
38 and income taxes. Visitors to the state also pay sales taxes. The additional amount

1 of taxes paid by each Colorado household or business will depend on its spending
 2 habits, consumption, and the amount of taxable income it receives. For examples,
 3 please refer to Table 2 and Table 3. For instructions on estimating your household's
 4 or business's tax changes under Proposition ?, please refer to the measure's fiscal
 5 note.

6 **State Spending and Tax Increases**

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

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

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

17 **Table 4. State Spending**

	Actual 2008	Actual 2009	Actual 2010	Estimated 2011	Estimated 2012
18 State Spending	\$9.999 billion	\$9.102 billion	\$8.567 billion	\$9.482 billion	\$9.962 billion
19 Four-Year Dollar Change in State Spending: -\$37 million					
20 Four-Year Percent Change in State Spending: -0.4%					

21 The numbers in Table 4 show state spending from 2008 through 2012 for
 22 programs that were subject to the constitutional spending limit during those years.
 23 However, the constitution allows a program that operates similar to a private business
 24 to become exempt from the limit if it meets certain conditions. Because some
 25 programs have done this during the last five years, the numbers in Table 4 are not
 26 directly comparable to each other.

