Proposition 101
Income, Vehicle, and Telecommunications Taxes and Fees

Proposition 101 proposes amending the <u>Colorado statutes</u> to:

- reduce the state income tax rate from 4.63 percent to 4.5 percent in 2011, and to 3.5 percent gradually over time;

- reduce or eliminate most taxes and fees on vehicle purchases, registrations, and rentals;

- eliminate all taxes and fees on telecommunication services, except 911 fees; and

- require voter approval to create or increase fees on vehicles and telecommunication services.

Summary and Analysis

Proposition 101 reduces or eliminates various taxes and fees on income, vehicles, and telecommunication services. Table 1 shows the yearly impact of Proposition 101 on three households with different incomes. Table 2 shows the yearly impact of Proposition 101 on government. The figures in both tables show the impact of Proposition 101 if it were fully implemented in 2011. Because some of the reductions are phased in over time, the full impact shown in these tables will not occur immediately. Specific information about each of these reductions follows.

Table 1. Yearly Change in Representative Households' Tax and Fee Bills As a Result of Proposition 101 When Fully Phased in /a
(In Today's Dollars)

	Income Taxes	Vehicle Fees & Taxes	Telecommunication Fees & Taxes	Total
Household A	*Household Description:* Yearly Income: $35,000; owns an x-year-old car worth $x; $x monthly combined phone bills; $x monthly cable bill			
	-$X	-$X	-$X	-$X
Household B	*Household Description:* Yearly Income: $55,000; owns an x-year-old car worth $x and an x-year-old car worth $x; $x monthly combined phone bills; $x monthly cable bill			
	-$X	-$X	-$X	-$X
Household C	*Household Description:* Yearly Income: $110,000; bought a new car worth $x and owns an x-year-old car; $x monthly combined phone bills; $x monthly cable bill			
	-$X	-$X	-$X	-$X

/a This analysis assumes an x.x percent sales tax rate.

Table 2. Yearly Change in Government Tax and Fee Collections As a Result of Proposition 101 When Fully Phased in
(In Today's Dollars)

Government	Current Law	Prop 101	Change	Percent Change	Percent of Applicable Budget
Local Governments Vehicle Specific Ownership Taxes and Sales Taxes	$X	$X	-$X	-X%	/a
State Government General Operating Budget Sales Taxes, Income Taxes, and Telecommunication Fees	$X	$X	-$X	-X%	X%
Transportation Budgets - City, County, and State Governments Vehicle Registration Fees and State Rental Fee	$X	$X	-$X	-X%	X%

/a The percent of each local government's budget affected by the measure varies.

Impact on households. Table 1 shows savings for three different households resulting from Proposition 101. Proposition 101 will impact each household differently depending on that household's yearly income, vehicles owned, whether they buy a vehicle that year, and how much they pay for phone and cable service.

Impact on local governments. Table 2 shows the reduction in vehicle specific ownership taxes and sales taxes that local governments will collect. The types of local governments affected by this include school districts, cities, counties, and special districts such as recreation, fire, water, sewer, and public transportation districts. The money collected in taxes and fees pays for different services depending on the local government.

Impact on the state government. As shown in Table 2, the state government will collect less money from sales taxes, income taxes, and telecommunication fees. The state spends 96 percent of its operating budget on: preschool through higher education; health care; prisons; the courts; and programs that help low-income, elderly, and disabled people. Once Proposition 101 is fully phased in, the amount of money available to pay for the state's general operating budget will be reduced by X percent.

Impact on state and local government transportation budgets. Table 2 shows the measure's impact on transportation budgets. The state constitution requires that vehicle-related fees collected by the state be spent on road safety, construction, and maintenance. This money is shared between the state, cities, and counties. The state's transportation budget will decrease by X percent when the measure is fully implemented. The impact on city and county government transportation budgets will vary by government.

1st Draft

State Income Tax

Households and businesses pay taxes on their income to both the state and federal governments. The state income tax is the largest source of money the state receives to pay for its main programs.

The state's income tax rate is a flat 4.63 percent and is the same for all income levels and for both households and businesses. On average, Colorado households pay about $2,000 in state income taxes and $9,000 in federal income taxes. However, due to federal tax policies, some lower-income households pay little or no state income tax, while other higher-income households pay much more state income tax.

Proposition 101 gradually lowers the state income tax rate from 4.63 percent to 3.5 percent over time. The rate is first cut to 4.5 percent starting in 2011. This will reduce income tax collections to the state by about $X million, a decrease of X percent. In the future, the rate is reduced by 0.1 percentage point each year in which state income tax collections grow by at least 6 percent. For example, if tax collections increase fast enough, the income tax rate will decrease from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate decreases to 3.5 percent. When the tax rate is fully reduced, income tax collections to the state will be about X percent less, or a decline of $X billion in today's dollars. Because income tax collections do not grow by at least 6 percent every year, it will likely take more than 10 years for the tax rate to reach 3.5 percent.

Table 3 shows how the measure will reduce the yearly income tax bill for households at different income levels in 2011 and when the tax rate decreases to 3.5 percent.

Table 3. Change in Households' Yearly Income Tax Bill
(In Today's Dollars)

Household Income	During 2011, the First Year of the Phase-In: Tax Rate is Cut from 4.63% to 4.5%	Once the Tax Rate Cut is Fully Phased in: Tax Rate is Cut from 4.63% to 3.5%
Household A: $35,000	-$X	-$X
Household B: $55,000	-$X	-$X
Household C: $110,000	-$X	-$X

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VEHICLE FEES AND TAXES

Proposition 101 reduces several types of vehicle fees and taxes. Each specific reduction is described below and shown in Table 4.

Table 4. Vehicle Fees and Taxes Under Current Law and Proposition 101

	Average Payment		State & Local Govt. *Change in Yearly Collections*
	Current	***Prop. 101***	
Vehicles Owners			
Sales Tax /a *Once Fully Phased in (2014)*	$X one-time payment	$X one-time payment *(X% decrease)*	- $X million total for state and local *(X% decrease)*
Registration and Licensing Fees *Begins in 2011*	$X paid once per year	$10 paid once per year *(X% decrease)*	- $X million total for state and local *(X% decrease)*
Specific Ownership Tax *Once Fully Phased in (2014)* *(In Today's Dollars)*	$X paid once per year	$2 (new cars) or $1 (used cars) paid once per year *(X% decrease)*	- $X million total for all school districts and local governments *(X% decrease)*
Vehicle Lessors			
Sales Tax /a *Begins in 2011*	$X total (paid monthly during lease term)	$0 *(100% decrease)*	- $X million total for state and local *(100% decrease)*
Registration and Licensing Fees *Begins in 2011*	$X paid once per year	$10 paid once per year *(X% decrease)*	- $X million total for state and local *(X% decrease)*
Specific Ownership Tax *Begins in 2011*	$X paid once per year	$0 paid once per year *(100% decrease)*	- $X million total for all school districts and local governments *(X% decrease)*
Vehicle Renters			
Sales Tax /a *Begins in 2011*	$X per rental day	$0 *(100% decrease)*	- $X million total for state and local *(100% decrease)*
State Car Rental Fee *Begins in 2011*	$X per rental day	$0 *(100% decrease)*	- $X million total for state *(100% decrease)*

/a This analysis assumes an x.x percent sales tax rate.

1st Draft

Vehicle owners. Upon purchase, vehicle buyers are required to pay sales tax. In addition, each year vehicle owners must register their vehicle(s) with the state and pay a number of registration fees and a specific ownership tax. Proposition 101 would reduce all three taxes and fees.

Vehicle sales tax. Vehicle buyers pay sales taxes on the purchase of a new or used vehicle. When a vehicle is purchased, the tax is applied to the price of the vehicle, including any manufacturer's rebate. The total tax rate is a 2.9 percent state rate plus any applicable local government sales tax rates. Because different local governments have different tax rates, the sales tax a person pays differs depending on where the buyer lives.

Proposition 101 reduces the sales taxes due on vehicle purchases by exempting the first $10,000 of the vehicle's price and any manufacturer's rebate from the sales tax. The $10,000 exemption is phased in over a four-year period beginning in 2011. For example, in the first year, $2,500 of the vehicle price will be exempt from tax. The sales tax bill on a vehicle worth $10,000 would be reduced by $X, or more if there is a manufacturer's rebate. Once the cut is fully phased in, vehicles worth less than $10,000 will not have a sales tax bill. Local government collections will decrease by $X million and X percent and state government collections will decrease by $X and X percent once the cut is fully phased in.

Vehicle registration and licensing fees. Vehicle owners must annually pay registration fees. This includes new fees recently added by the state legislature to provide additional money to repair and maintain highways and bridges. Most fees vary according to vehicle weight, age, and value. While most fees pay for road and bridge maintenance and construction, some fund services like emergency medical services, law enforcement training, the Colorado State Patrol, and snow plowing.

Beginning in 2011, Proposition 101 combines all registration, licensing, and titling fees into a single $10 annual fee, with the exception of emission inspections and new license plate fees. As shown in Table 4, the average registration and licensing fee for vehicle owners would fall from $X to $10 and the amount collected by state and local governments would decrease by about $X million or X percent.

Vehicle specific ownership tax. Vehicle owners also pay a specific ownership tax each year when registering a vehicle. The specific ownership tax is a property tax on a vehicle. The tax ranges from 0.45 percent to 2.10 percent of the vehicle's price. As a vehicle ages, the tax is reduced. The minimum specific ownership tax is either $3 or $5 per vehicle, depending on the type of vehicle. Counties collect specific ownership taxes and distribute them to schools and other local governments within their boundaries based on a formula in state law. Most of this money is used for schools, while the rest is used for other local government services.

Proposition 101 phases in a cut to specific ownership taxes over four years, beginning in 2011. It also requires permission from voters to create or increase future registration and licensing fees. Table 4 shows the change in vehicle owners' bills and state and local government collections when the cut is fully phased in.

Vehicle lessors. Like vehicle owners, persons who lease vehicles must pay sales taxes and pay registration fees and specific ownership taxes yearly. Proposition 101 would reduce all three taxes and fees for vehicle leases.

Vehicle sales tax and specific ownership tax. Proposition 101 would eliminate sales taxes and annual specific ownership taxes on leased vehicles. Sales tax due is included in the monthly bill that a vehicle lessor receives during the term of the lease. Under Proposition 101, persons who lease a vehicle would pay no sales taxes beginning in 2011. For example, if a person leases a $30,000 car over three years, he or she will pay $0 in sales taxes — a savings of $X (assuming an x.x percent sales tax rate). That person also pays $X in specific ownership taxes each year, which would be eliminated. This will reduce state and local sales tax collections by about $X million per year, a decrease of X percent.

Vehicle registration and licensing fees. Leased vehicles are also required to be registered with the state and lessors must pay annual registration fees. Proposition 101 eliminates all registration fees and imposes a single $10 fee per vehicle, resulting in savings of $X for vehicle lessors. The measure reduces state collections by approximately $X per year, a decrease of X percent.

Vehicle renters. The state charges $2 per day when a person rents a car. This money is shared by the state, cities, and counties to build, repair, and maintain roads and bridges. Sales tax is also applied, with revenue going to the state and local governments. Proposition 101 eliminates this fee and all sales taxes, beginning in 2011. Due to the elimination of the rental fee, state and local transportation budgets will collect $X less per year.

TELECOMMUNICATION FEES AND TAXES

Proposition 101 eliminates sales tax and other fees on customer's bills for any kind of telecommunications service, except for existing 911 fees. The measure lists the following as telecommunication services, even though some of them are not currently taxed: phone, pager, cable, television, radio, Internet, and computer services. Currently, the state and some local governments charge sales tax on a portion of the cost of phone, pager, and cable services. State fees that are eliminated include fees that help telephone companies provide access to phone service in rural areas of the state, to the blind and deaf, and to low-income people. Local governments may have other fees, such as television franchise fees, that may be eliminated.

Proposition 101 freezes 911 fees at their 2009 level. These fees differ from county to county and ranged from 43 cents to $1.25 per month in 2009. The 911 fees are charged by local governments to help pay for 911 emergency services.

As shown in Table 1, the amount of money each household would save as a result of cuts in telecommunication taxes and fees depends on how much the household spends on taxable phone and cable or satellite service. A household with taxable phone and cable bills totaling $X per month would save about $X each year. Tax and fee collections by local governments would be reduced by at least $X each year. Tax and fee collections to the state government would be reduced by $X each year.

New voter approval requirements. Proposition 101 redefines all telecommunication fees and most vehicle fees as taxes. Because the state constitution requires a vote to increase taxes but not to increase fees, this means governments will need to ask voters for permission to create new or increase existing vehicle or telecommunication fees in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls, vehicle impound fees, vehicle identification and emission inspection fees, and new license plate fees from this requirement.

How do Amendments 60 and 61 and Proposition 101 interact? *(Some language will be included in either the Summary and Analysis section, the Fiscal Impact section, or both of the Blue Book to describe the interactions of these measures.)*

Arguments For

1) Allowing citizens and businesses to keep more of their own money helps families and the economy. The measure could save a family with a yearly income of $55,000 $X per year. Businesses will also have more money, allowing them to invest in their companies and create new jobs. In addition, people who buy or lease cars will save even more from lower sales taxes. Reducing taxes and fees helps businesses and lower- and middle-income families who are struggling in this difficult economy. Consumer spending and business investment tend to increase when the tax burden is low.

2) The tax and fee cuts in Proposition 101 will push state and local governments to eliminate unnecessary spending. State and local governments already spend $X billion a year, which amounts to an average of $X per household in the state. Also, government spending continues to grow in most years. The amount of spending by governments in the state has increased by over X percent since 1990, even after accounting for inflation and population growth. The government can fund basic services with less taxes and charges collected from households by reprioritizing how it spends its money.

3) Proposition 101 gives people a voice in decisions about fees on phones and vehicles. The state recently increased vehicle registration fees by an average of $45 per car even though registration fees exceed what it costs the government to process vehicle registrations. Some telecommunication fees raise the cost of basic services for everyone but help only a small part of the state's population. Proposition 101 eliminates these complicated vehicle and phone fees and requires voters to agree before such fees are created or increased again.

Arguments Against

1) Proposition 101 will hurt the ability of the state and local communities to maintain an already inadequate network of roads and bridges. The amount of money available for transportation budgets will be cut by X percent. In 2009 alone, the state maintained 23,000 lane miles of roadway and 3,400 bridges, snow-plowed and sanded 5.6 million miles of highway, repaired 77,000 street signs, and monitored 278 avalanche paths. Roads, bridges, snow-plowing, and other transportation services cost money. At a time when studies show that Colorado needs $1.5 billion more each year for our transportation network, Proposition 101 would cut state and local transportation budgets by $X million each year. In addition, by cutting fees and taxes on car rentals, Proposition 101 gives a break to people who don't live in Colorado yet still use the state's roads and bridges.

2) Proposition 101 will affect Colorado's quality of life and economy. Further cuts to school budgets, colleges, and services such as prisons, courts, health care, fire and police protection, roads, trash services, water and sewer systems, and parks will occur. Businesses need these services and a highly skilled work force in order to grow the economy. In addition, rural economies may be affected because money available to provide phone and Internet service to rural areas will be eliminated. The state's operating budget will have to be cut by $X, an amount equal to the entire budget of the State Department of X. Local governments will have $X less, an amount equal to the entire budget of the City of X.

3) Colorado already has a lean government. State government spending as a percentage of the economy is third lowest among all states. Combined state and local government spending is eighth lowest. The state constitution already limits the amount of taxes and fees that governments can spend and gives voters the power to make decisions on taxes that reflect their local communities' values. In addition, higher income people will benefit the most from the income tax cut, while low-income people, most of whom will not be helped by the income tax cut, will lose a source of money that helps them get basic telephone service. People who are deaf and blind will also lose funding that helps them communicate within society.

Estimate of Fiscal Impact