

## 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.



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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](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 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>



# Blue Book

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
State Spending Without New Taxes	\$10,576 million
New Sales Tax Increase	\$78 million
New Income Tax Increase	\$455 million
State Spending Plus the New Taxes	\$11,109 million