



COLORADO FISCAL  
POLICY INSTITUTE

## Rethinking Revenue in Colorado: Considerations

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## Principles of Good Tax Policy\*

- **Adequacy:** generates sufficient revenue to “support budget outlays”
- **Sustainability:** relatively stable over time and throughout the economic cycle
- **Equity:** relates to the question of who pays
  - Vertical Equity: How tax responsibility is shared across income levels
    - Benefit Principle: How much is paid compared to benefit received
    - Ability to pay
      - » Regressive: Lower income pay disproportionate amount of income
      - » Proportionate: All taxpayers pay the same proportion of income
      - » Progressive: Higher income pay higher percentage of income
  - Horizontal Equity: How tax responsibility is shared across those with the same income

\* National Conference of State Legislatures, *New Realities in State Finance*, Chapter 2 Ground Rules for Evaluating Taxes, April 2004.

## Principles of An Effective State Revenue System\*

- A high-quality revenue system produces revenue in a reliable manner.
  - Reliability involves stability, certainty and sufficiency.
- A high-quality revenue system relies on a balanced variety of revenue sources.
- A high-quality revenue system treats individuals equitably.
  - Minimum requirements of an equitable system are that it imposes similar tax burdens on people in similar circumstances, that it minimizes regressivity, and that it minimizes taxes on low-income individuals

\* For a complete list see: National Conference of State Legislatures, *Principles of a High-Quality State Revenue System*, June 2007, available at <http://www.ncsl.org/default.aspx?tabid=12673>

## Three Approaches to Considering Adequacy

1. Fiscal Stability Commission (2009)
2. Individual Program Estimates
3. National Averages - spending and taxes

## Approach 1: Fiscal Stability Commission

1. Fiscal Stability Commission (2009)  
Middle Scenario: **\$2.405B increase**  
Ideal Scenario: **\$9.271B increase**

## Approach 2: Individual Program Estimates

- Higher Education Strategic Planning Committee  
Draft Subcommittee Recommendations:  
Competitive - **\$760M increase** (top 1/3)  
Restoration - **\$476M increase** (current adjusted for inflation)
- Colorado School Finance Project  
Adequacy/Costing Out Analysis 2008 - **\$2.9B increase\***
- Colorado Blue Ribbon Commission on Health Care (2007)  
Proposal Five - **\$1.1B increase**
- Blue Ribbon Panel on Transportation Finance and Implementation  
Accommodate growth - **\$2.6B increase**  
Recommendation - **\$1.5B increase**

**DOES NOT INCLUDE ESTIMATES FROM HUMAN SERVICES, JUDICIARY,  
CORRECTIONS, CAPITAL CONSTRUCTION OR OTHER GENERAL  
GOVERNMENT PROGRAMS**

\* Based on 2008 provisions, not on current law

## Approach 3: National Averages\*

- Average taxes per \$1000—2009  
\$4.380B increase
- Average spending per \$1000—2007  
25th - \$6.199B increase  
US Average - \$4.886B increase

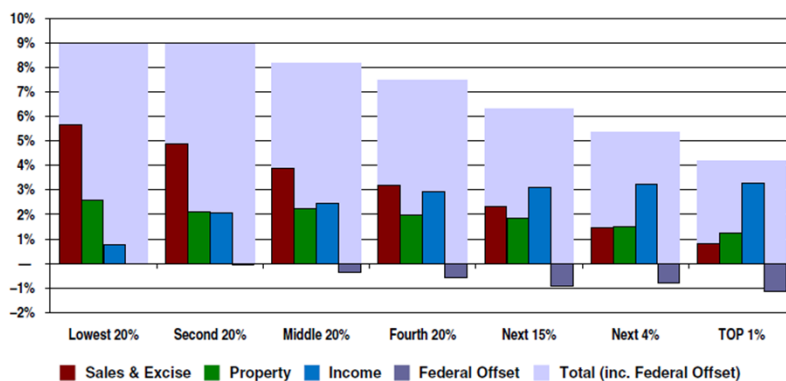
\* Colorado Fiscal Policy Institute, *Aiming for the Middle*, 2009 (based on 2007 data), available at [http://cclponline.org/publication\\_library/pub/single/655/aiming-for-the-middle-benchmarks-for-colorados-future-2009-updated-rankings](http://cclponline.org/publication_library/pub/single/655/aiming-for-the-middle-benchmarks-for-colorados-future-2009-updated-rankings)

## Who Pays--% of Income

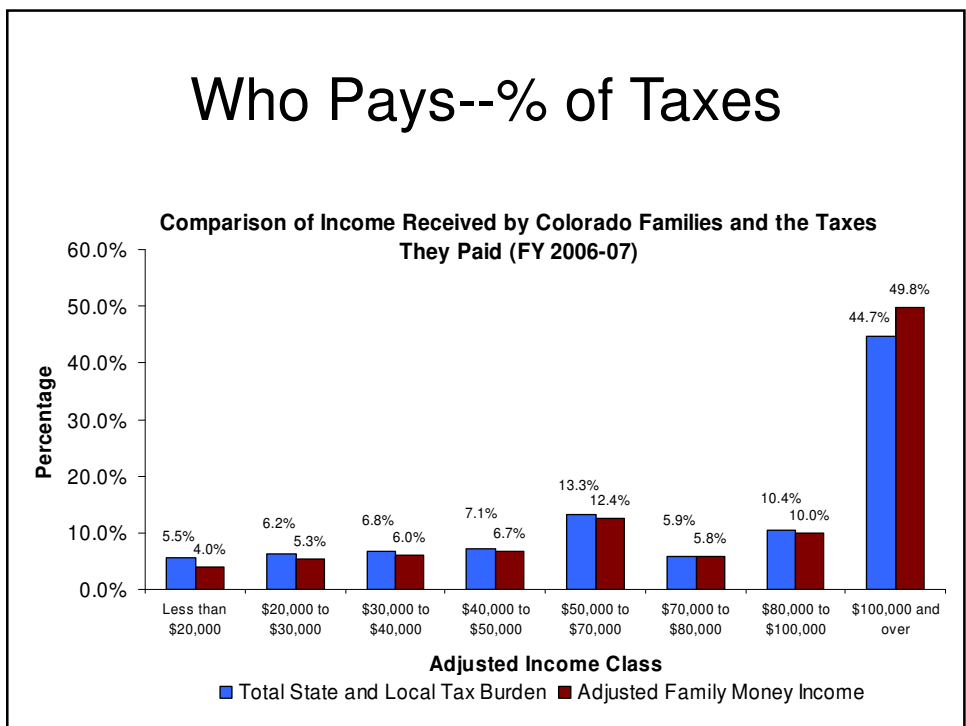
### Colorado

#### State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



## Who Pays--% of Taxes



## Taxes Have Fallen

Legislative Council August 2010

Colorado Tax	FY 1998-99	FY 2008-09	Change
Individual Income	\$23.69	\$20.74	-12.50%
Sales/Use	\$14.73	\$10.89	-24.20%
Corporate Income	\$2.54	\$1.55	-39.00%
Gas	\$4.35	\$2.90	-33.30%
Liquor	\$0.22	\$0.17	-22.70%
Tobacco	\$0.57	\$1.02	78.90%

## Options for Revenue

1. Individual Income Tax
2. Corporate Income Tax
3. Sales Tax
4. Property Tax
5. Severance Tax
6. Motor Fuels Tax

## Corporate Income Tax Options

- Option 1: Increase flat tax rate
- Option 2: Create a graduated tax system

## Sales Tax Options

Option 1: Increase rate

Option 2: Remove exemptions

Option 3: Expand base

## Property Tax options

Option 1: Add a statewide mill to assessed value

Option 2: Add statewide mill to fair market value

Option 3: Add a statewide mill to fair market value of residential property

## Severance Tax Options

1. Adjust Property tax credit
2. Change Well size
3. Increase Tax rate

## Motor Fuels Options

- Option 1: Increase Existing Tax on Motor Fuel
- Option 2: Index the Motor Fuel Tax to Inflation
- Option 3: Eliminate the Sales Tax Exemption on Motor Fuel
- Option 4: Implement a Tax on Vehicle Miles Traveled

## Major Offsets--Equity

Option	Cost
Eliminate Business Personal Property Tax	
Make Earned Income Tax Credit Permanent	

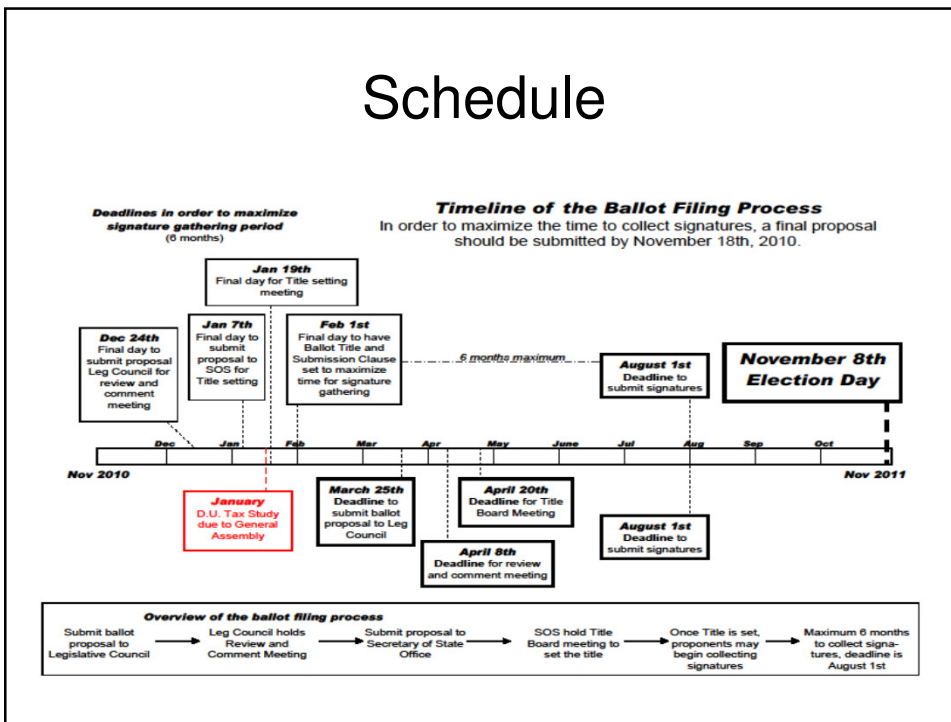
Test measure—Title Board Nov. 15

Single subject

Title

Dollar Amount

# Schedule



# Who's In?