

Amendment ? : Changes to the State Income Tax Rate

1 **Amendment ? proposes amending the Colorado Constitution and**
2 **Colorado statutes to:**

- 3 • create a graduated income tax for individual taxpayers by lowering the tax rate
4 on taxable income up to \$250,000, and raising the tax rates on taxable income
5 above this amount; and
- 6 • increase state income tax revenue, with a requirement that at least half of the
7 new revenue be spent on pre-primary through twelfth grade (P-12) public
8 education.

9 **What Your Vote Means**

YES

A “yes” vote on
Amendment ? changes
the state individual

income tax from a rate of 4.63 percent for
all taxpayers to rates ranging from
4.58 percent to 8.90 percent for different
levels of taxable income, and requires
that at least half of the new revenue be
spent on P-12 education.

NO

A “no” vote on
Amendment ? keeps the
state’s individual income

tax rate at 4.63 percent for all taxpayers,
which means that no new revenue will be
collected or spent.

1 **Summary and Analysis of Amendment ?**

2 This analysis provides background information on the current state income tax and
3 explains how state income taxes would change under the measure. It also describes
4 the measure’s spending and oversight requirements.

5 **Colorado’s Current Income Tax Structure**

6 Currently, the Colorado Constitution requires that all taxable income be taxed at the
7 same rate. Since 2000, income taxpayers, including individuals and corporations,
8 have paid a state income tax rate of 4.63 percent. For individuals, taxable income
9 includes money earned from wages, investments, ownership of a noncorporate
10 business, and certain retirement benefits, after accounting for federal and state
11 income tax additions and deductions.

12 **How does Amendment ? change tax rates in Colorado?**

13 Amendment ? changes the Colorado Constitution to allow income to be taxed at
14 different rates and creates a graduated income tax. A graduated income tax applies
15 different tax rates to income at different levels. The new rates established by the
16 measure are:

- 17 • 4.58 percent for the portion of taxable income up to \$250,000;
- 18 • 7.00 percent for the portion of taxable income over \$250,000, up to \$500,000;
- 19 • 7.75 percent for the portion of taxable income over \$500,000, up to \$1,000,000;
- 20 and
- 21 • 8.90 percent for the portion of taxable income over \$1,000,000.

22 These rates apply to the taxable income of individuals, estates, and trusts beginning
23 in 2021. In future years, the income tax levels at which the different tax rates apply
24 will be adjusted based on changes in Colorado personal income, which is an
25 economic measure of income earned by all households in the state.

26 The tax rate for corporate income is not affected.

27 **How does the measure affect taxpayers at different income levels?**

28 Table 1 shows how the measure would change 2021 income taxes for taxpayers with
29 different taxable incomes. For example, a taxpayer with taxable income of \$300,000
30 would pay a tax of 4.58 percent on the first \$250,000 of their income and
31 7.00 percent on the remaining \$50,000.

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Table 1
Income Taxes Under Current Law and Amendment ?, Tax Year 2021

Taxable Income	Tax Owed at Current Rate of 4.63%	Tax Owed Under Amendment ?	Change in Tax Owed Under Amendment ?
\$25,000	\$1,158	\$1,145	-\$13
\$75,000	\$3,473	\$3,435	-\$38
\$150,000	\$6,945	\$6,870	-\$75
\$300,000	\$13,890	\$14,950	+\$1,060
\$500,000	\$23,150	\$28,950	+\$5,800
\$1,000,000	\$46,300	\$67,700	+\$21,400
\$1,500,000	\$69,450	\$112,200	+\$42,750

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Table 2 shows the share of Colorado taxpayers whose maximum taxable income was in each tax bracket in 2018, as well as the share of total state taxable income in each tax bracket. For example, 0.3 percent of taxpayers had taxable income over \$1.0 million, and the income these taxpayers earned over \$1.0 million was 10.3 percent of all taxable income earned in the state.

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Table 2
Distribution of Colorado Taxpayers and Taxable Income, 2018

Taxable Income is Between...	Tax Rate Under Measure*	Share of Taxpayers with Maximum Income	Share of Total Taxable Income in Each Bracket
\$0 and \$250,000	4.58%	97.1%	78.1%
\$250,001 and \$500,000	7.00%	2.0%	7.1%
\$500,001 and \$1,000,000	7.75%	0.6%	4.5%
\$1,000,001 and up	8.90%	0.3%	10.3%

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**The measure applies these rates only to the portion of income that falls into each tax bracket.*

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How will the new revenue be spent?

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Under the measure, the state is expected to collect new tax revenue of \$XXX* in the 2021-22 budget year. The measure allows the state to keep and spend this new revenue and exempts it from the state’s revenue limit. At least half of the new revenue, or \$XXX* in the 2021-22 budget year, must be spent on pre-primary through twelfth grade (P-12) public education.

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The measure requires that the portion of new revenue spent on education be used to recruit, retain, and pay teachers and “student service providers,” and to fund categorical programs. Student service providers may include school counselors, social workers, nurses, audiologists, speech language pathologists, and other

**These amounts will be filled in for the second draft of this ballot analysis.*

1 service providers working in schools. Categorical programs include special
2 education, English language learning, gifted and talented and vocational programs,
3 and transportation.

4 Any remaining amount above what is spent on education must be used “to address
5 the impacts of a growing population and a changing economy.” The state legislature
6 will determine how to spend these funds. At least 90 percent of the revenue must be
7 spent on services for Coloradans and not on administrative costs.

8 **Oversight Provisions**

9 The measure instructs the state legislature to create a citizen’s oversight committee
10 to monitor how the revenue is spent. It also requires nonpartisan legislative staff to
11 report annually on how much revenue is generated and how the funds are spent.

12 In addition, the measure creates a Fair Tax Review Commission. The commission
13 will report to the Governor by 2031 on the new income tax structure’s effects on state
14 revenue, funding of public services, distribution of income taxes among taxpayers,
15 and the state’s business climate, and recommend potential changes to the tax
16 structure. It will consist of 25 members from the legislative and executive branches
17 of state government; local governments; higher education; the legal, tax, and finance
18 professions; small and large businesses; and the general public.

For information on those issue committees that support or oppose the
measures on the ballot at the November 3, 2020, 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>

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1 **Arguments For Amendment ?**

2 1) Amendment ? provides needed funding to Colorado’s schools. Colorado spends
3 less on education per student than most other states, with low teacher pay
4 limiting school districts’ ability to recruit and retain highly qualified teachers.
5 Because of the COVID-19 pandemic, P-12 public education funding has been cut
6 by X percent* relative to an already low level. It is critically important that the
7 state adequately and equitably fund a high quality education system for all of
8 Colorado’s students.

9 2) Amendment ? provides tax relief for over 97 percent of Coloradans. Most
10 households will have more after-tax income to spend under the measure,
11 boosting economic activity by lifting incomes for those who need it most. The
12 measure corrects a tax system that imposes the highest combined burden from
13 all state taxes and fees on the poorest citizens. Taxpayers with over \$200,000 in
14 income pay roughly 3.9 percent of their income in state taxes and fees, the
15 lowest rate of any income group, while taxpayers in the bottom half of the income
16 distribution pay 4.7 percent.

17 **Arguments Against Amendment ?**

18 1) Amendment ? is a \$X.X billion* tax increase on households and businesses.
19 Those whose taxes will increase under the measure already pay the most taxes
20 under the current system. Further, the COVID-19 crisis has already sent the
21 economy into a deep recession. The measure worsens these impacts, hiking
22 taxes for business owners when they are trying to keep workers on payrolls and
23 keep their doors open. This measure is being offered at the wrong time and will
24 undermine the economic recovery.

25 2) Instead of increasing taxes, the state government needs to be more efficient with
26 the billions of dollars in tax revenue it already receives. Additional education
27 funding could come from other areas in the budget. Further, Amendment ? lacks
28 accountability for half of the new revenue it generates because it includes no
29 meaningful guardrails on how funds may be spent. The state government needs
30 to prioritize spending on the most important programs within its current means.

31 **Estimate of Fiscal Impact of Amendment ?**

32 *An estimate of fiscal impact will be included in the second and subsequent drafts of*
33 *this ballot analysis.*

**These amounts will be filled in for the second draft of this ballot analysis.*