COLORADO FISCAL POLICY INSTITUTE
ISSUE BRIEF
colorado fiscal policy institute
SUMMER 2000 NO. 00-03

TABOR Trouble 2000: Tax cuts proposed on November ballot

In November, Colorado voters will make a critical choice about the taxes they pay. The ballot will include Amendment 21, a proposed constitutional amendment to add a tax cut provision to the Taxpayer Bill of Rights (TABOR). While a seemingly inviting prospect, this proposal promises to have very negative effects on state and local governments. The choices voters make in November will have serious consequences for them as individuals and for their communities.

Amendment 21 proposes to cut utility taxes and fees, property tax, income tax, sales, use and ownership tax on vehicles, sales tax on food and nonalcoholic beverage, and estate taxes by $25 each. The tax cut will increase by $25 each year with no specified end date. Couples filing jointly on their tax return will receive a $50 cut ($25 per person). The measure specifies that the tax cuts cannot reduce excess revenues at the state or local level and that attorney fees will be awarded to successful plaintiffs only.

Taxes Affected:
- •Income Tax
- •Property Tax
- •Vehicle sales, use, & ownership
- •Utility customer and occupation tax, and franchise charge
- •Sales tax on food and beverage

Flaws and Effects

The amendment has several flaws. First and foremost, the text of the amendment is unclear and confusing. Interpretation and analysis are difficult because the language and intent are ambiguous.

Second, there is no specified end date to the tax cuts. Apparently, the tax cuts will continue to increase yearly by $25 in perpetuity. Eventually, many taxes may be eliminated altogether. Because this is a constitutional amendment, statewide elections will be required to end the tax cuts.

Third, the initiative proposes that **every** tax on the property tax bill will be cut. Property tax bills may include mill levies for school districts, water conservation districts, police and fire protection districts, etc. A taxpayer will receive a $25 cut for each taxing entity on the bill. Some taxes levied on property tax bills will be eliminated completely in the first or second year of the cuts. (See Exhibit 1). The Sample Property Tax Bill illustrated in

EXHIBIT 1
Sample Property Tax Bill
City and County of Denver

Taxing Entity	Tax Amount
School General Fund	685.75
School Bond Fund	106.60
General Fund, Denver	190.51
Social Services	82.57
Bond Principal	90.05
Bond Interest	43.22
Police Pension	36.53
Fire Pensions	30.61
Developmentally Disabled	3.03
Urban Drainage/Flood Control	12.47
Total	$1,281.37

The Colorado Fiscal Policy Institute is a project of the Colorado Center on Law and Policy.
1490 Lafayette, Suite 206 Denver, Colorado 80218 (303) 573-5669 (303) 573-4947 fax

Exhibit 1 shows the taxing entities and tax amounts per entity for a City and County of Denver property tax bill. This bill would be cut by $75 in the first year (several line items are part of the same entity).

Fourth, the implementation of the initiative will be complex. The administration of the food and beverage sales tax cut and the estate tax cut is not straightforward. The sales tax cut on food and non-alcoholic beverages will not directly cut sales taxes. Instead, the state sales tax cut will be administered as a cut to state income tax and the local sales tax cut will be administered as a cut to property tax. The estate tax cut will also be administered as a cut in state income tax.

Fifth, the proposed tax cuts cannot reduce the excess revenue generated by the existing TABOR spending limits, therefore, governments will have to track the amount of excess revenue that would have accumulated had the tax cuts not been adopted, and continue to refund that excess **in addition** to the tax cuts. This particular aspect of Amendment 21 is confusing at best.

Amendment 21 will have a multilayered effect on government in Colorado. The more local the government, the greater the impacts of the amendment. The impacts will also vary coniderably from community to community.

The state will lose revenue as a result of income tax cuts, sales tax cuts, and cuts to utility taxes and vehicle taxes. The state is expected to lose over $700 million in the first 30 months of the tax cuts. Of this amount, $407 million would be cut from transportation projects approved by voters in 1999. The remaining $300 million would be cuts to the general fund. The general fund is the operating budget for the state. It funds education, corrections, human services, etc. Ask yourself this: if $700 million were to be cut from the state's general fund and transportation projects in 30 months, which departments would most likely be targeted? Which would be the hardest hit? Some of the largest state expenditures are education, health care, human services, and corrections.

Local governments are expected to lose approximately $5 billion in the first five years of the tax cuts. Counties and municipalities will lose revenue as a result of cuts to sales tax, utility tax, vehicle tax, and property tax. The effects will vary between governmental entities because of differences in mill levies, property values in the area and the extent to which each government relies on respective taxes for revenue. For example, some special districts such as fire or hospital districts are almost completely dependent on property tax revenue. Services provided by these districts will decline dramatically or drop off completely in one or two years. For example, 32 Fire Protection districts throughout Colorado will experience revenue losses of 30% or more **in the first year**. The Costilla County (Southern Colorado) Fire Protection District will lose 83% of its revenue from property taxes **in the first year** and its Ambulance District will lose over 79% of its revenue. These are vitally important public services.

Concerns About Amendment 21

Proponents say that Colorado citizens will be able to keep more of their hard earned money in their pockets. However, lost or diminished public services resulting from lost revenue will mean that responsibility for purchasing or providing services will fall to individuals. Colorado citizens will still have to pay for their services, and they could potentially be more expensive. Those with limited incomes will be least able to purchase needed services. Additionally, some have suggested that property insurance rates will most likely increase due to decreased fire protection.

Proponents also say that the state will "backfill" lost local revenue. For this reason, people will not see a decline in services - any services lost at the local level will ultimately be replaced by the state. However, the amendment **does not** explicitly require that the state replace lost local revenue. Even if this were a requirement, the state will be losing just as the local governments will and it is unrealistic to expect that the state will absorb its losses in addtion to local government losses. There is one exception. Under the School Finance Act the state is required to backfill school district losses; but, this applies only to operation costs. The state is not currently obligated to backfill losses for school capital construction.

A tax cut for the poor?
Proponents describe Amendment 21 as a broad-based tax cut that especially benefits the poor. This is misleading. While it is true that lower income families will have their tax burdens reduced or eliminated more quickly than higher income families, there are thousands of low-income families in Colorado that do not have an income tax obligation or do not own property. In fact 35% of households in Colorado do not own property and 24% of individuals do not pay income taxes. These families will not receive income or property tax cuts because they earn too little or live on fixed incomes. They also will not receive a sales tax cut on food and nonalcoholic beverage because those cuts are given through income tax and property tax reductions.

Low-income families in Colorado benefit most from government-sponsored programs. If revenues that support these programs are reduced or eliminated, those who rely most on these programs will be harmed more than helped. The proposed tax cuts will likely affect funding for programs related to education, health and other human services. Such programs including child care assistance, employment and training programs, Medicaid, and school aid could be deemed non-essential or discretionary and consequently targeted for funding cuts.

Amendment 21 does not ultimately benefit low-income Coloradans.

Flawed Public Policy
The National Conference of State Legislatures and Center on Budget and Policy Priorities identify what many tax policy analysts agree are essential components of a strong tax structure. They are:

- Providing appropriate and timely revenue
- Distributing burdens equitably
- Promoting economic efficiency and growth
- Easily administered
- Ensuring accountability

Based on the above components, the proposed tax cuts would arguably result in bad tax policy. Amendment 21 reduces government sources of revenue and thus undermines state and local government capacity to provide services—in other words, do that which government is intended to do. While the cuts may be little noticed at first, they will contribute to the state's inability to plan and respond to future economic downturns. Further, by targeting taxes at both the state and local levels, a potential safety net is unlikely. Local governments will not be able to depend on state replacement of lost revenue, nor will the state be able to transfer responsibilities to the local governments.

As addressed above, the burden of the tax cuts is not distributed equally. Local governments will be the hardest hit by the cuts. Areas that are particularly dependent on services provided by small special districts will be the most disadvantaged. In many cases, it is the rural areas of the state that depend on special districts for fire protection, ambulance service, water, flood and drainage control, etc. Often times, these rural counties have lower property values and smaller mill levies thereby making them most vulnerable to tax cuts. Although all Coloradans will experience a decline in services, rural and low-income households will be especially impacted.

The tax cuts will not be easy to administer. For example, sales tax cuts will be administered by calculating the revenue collected and then giving $25 to each person paying state income taxes, and at the local level, to each person paying property taxes. Not only will the state income tax bill show a cut for income taxes and sales taxes, it will also show a cut for estate taxes. Also, the number of tax cuts applicable to each individual property tax bill will have to be calculated. Additionally, the tax cuts cannot reduce the state excess revenue that is refunded under TABOR. This means that tax cuts will be provided in addition to the TABOR refunds. This will create more work for state and local budget offices and taxing authorities. The administration of these tax cuts alone is estimated to cost $1.1 million.

It is critical given the potential impacts of Amendment 21, that voters truly understand the choices they will make when they cast their votes for or against Amendment 21 on November 7th. Voters will, by necessity, weigh and balance their individual interests as well as the interests of the broader community in which they live - both local and state. Taxes support many of the services that Coloradans need and desire. It is important, therefore, that voters learn as much as they can about how the proposed cuts will reduce, and in some cases eliminate, those valued services.

Text of Amendment 21

Article X, section 20, The Taxpayer's Bill of Rights, is amended to add:

(8)(d) Tax cuts. A $25 tax cut, increased $25 yearly (to $50, $75…), shall lower each tax in each tax bill for each 2001 and later district: utility customer and occupation tax and franchise charge; vehicle sales, use, and ownership tax; yearly income tax; property tax; income and property tax equal to yearly revenue from sales and use taxes on food and drink other than tobacco and alcohol; and income tax equal to yearly revenue from estate taxes. (8)(d) tax cuts and state replacement of local revenue shall not lower state or local excess revenue, the state may limit local acts increasing replacement costs, joint income tax returns equal two tax bills, and attorney fees and costs to enforce (8)(d) shall always be paid to successful plaintiffs only.

Colorado Fiscal Policy Institute
1490 Lafayette St., Suite 206
Denver, CO 80218