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
      - Proportate: 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

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


Three Approaches to Considering Adequacy


2. Individual Program Estimates

3. National Averages - spending and taxes
Approach 1: Fiscal Stability Commission

   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


Who Pays--% of Income

![Bar chart showing state and local taxes in 2007 for Colorado](chart.png)
Comparison of Income Received by Colorado Families and the Taxes They Paid (FY 2006-07)

Who Pays--% of Taxes

Taxes Have Fallen
Legislative Council August 2010

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

<table>
<thead>
<tr>
<th>Option</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eliminate Business Personal Property Tax</td>
<td></td>
</tr>
<tr>
<td>Make Earned Income Tax Credit Permanent</td>
<td></td>
</tr>
</tbody>
</table>

## Test measure—Title Board Nov. 15

- Single subject
- Title
- Dollar Amount
Schedule

Who’s In?