

Education Tax Increase Proposal Takes Dead Aim at Higher-Income Taxpayers, Corporations and Non-Corporate Businesses

The [first initiative petition](#) to be submitted to the Colorado Secretary of State's Office for verification of signatures of registered voters would progressively increase the state income-tax rate for individuals and business filing on individuals earning more than \$150,000 annually to provide more than \$2.3 billion for Pre-School(P)-12 education. It also would increase the corporate income tax rate on foreign and domestic corporations by 30 percent.

Impact on Colorado Businesses

The tax increase would hit companies hard, damaging Colorado's business climate. It's hard not to categorize this proposed initiative as a direct attack on the business community and high-income individuals, a not-so-subtle strategy of political class warfare, so to speak.

First, it would increase the corporate income-tax rate from the current 4.63% by an additional 1.37% for C-corporations, both domestic and foreign. That's a 30% increase in the corporate income tax rate!

Second, it would increase the current 4.63 percent personal income-tax rate (see below) by a four-step graduated increase for businesses filing via an individual's social security number from an increase of 0.37% up to 3.62% maximum. The next section details the kinds of businesses that would be affected by this provision.

Son of 2013's Amendment 66?

In 2013, Colorado voters by a 64 percent to 35 percent margin resoundingly defeated an initiative, Amendment 66, that would have increased taxes by almost \$1 billion on individuals (including non-corporate businesses), estates and trusts to fund P-12 education.

As pointed out by the Colorado Chamber of Commerce in the [September 6, 2013, issue](#) of *The Colorado Capitol Report*, the tax hike would have hit 94 percent of businesses in the

state because they filed through the individual tax return. The only businesses exempted from the Amendment 66 tax increase were corporations.

In the [August 9, 2013 issue](#) of *The Colorado Capitol Report*, the Colorado Chamber examined which businesses file under the individual tax return:

“ . . . a business owner who operates as “sole proprietorship” or two or more business owners who operate as “general partnership,” “limited partnership,” “limited liability company (LLCs)” and “S Corporations” file their tax returns as individuals.

In addition, “limited liability partnerships” and “limited liability limited partnerships” will be taxed as partnerships unless they elect to be taxed as corporations. For more information on these types of businesses, read [The Colorado Business Resource Guide](#).”

Finally, at that time, the [Tax Foundation](#) released an [analysis](#) of Amendment 66, which included the following finding:

- The tax increase will directly hit the **95 percent of all Colorado businesses** that pay taxes through the individual income tax code. These firms **employ 57 percent of all Coloradans . . .**

Advocates of Initiative 93

The measure, called [Great Schools, Thriving Communities](#), is backed by, among others, the Colorado Education Association (CEA), a Chicago-based organization called Stand for Children and the Colorado Fiscal Institute, a liberal think tank.

The Initiative 93 campaign’s Martha Olson told *Colorado Politics* that 90 percent of Colorado residents would not be affected by the measure’s tax increase.

As of July 2nd, the initiative’s campaign committee, “Great Schools Thriving Communities” (Secretary of State Offices ID # 2018503371) had raised almost \$65,000.

Summary of Measure

The measure makes changes to the Colorado Constitution and state law related to funding for public education.

Quality Public Education Fund. The measure creates the Quality Public Education Fund (fund) in the Colorado Constitution. Money in the fund is to be used to support and enhance the quality of preschool through twelfth grade (P-12) public education beginning in FY 2019-20. The fund will contain revenue from a proposed income tax increase, discussed below. Money in the fund is exempt from the TABOR revenue limit and must be used to supplement General Fund appropriations for P-12 public education as of the measure's effective date, adjusted each year for inflation up to 5 percent.

Education spending requirements. Beginning in FY 2019-20 and until a new public school finance law that meets certain criteria is enacted by the General Assembly, money in the fund must be used to:

- increase the statewide base per pupil funding for P-12 public education to \$7,300;
- increase state funding for the following programs by at least the following specified amounts over FY 2018-19 levels: " special education by \$120 million;
- " gifted and talented programs by \$10 million;
- " English language proficiency programs by \$20 million; and
- " preschool funding by \$10 million;

The above increases are to be adjusted for inflation each year beginning in FY 2020-21.

In addition, the measure expands the number of kindergarten and at-risk students that receive funding through the state's P-12 funding formula. Specifically, the measure requires that:

- at-risk funding include students qualifying for reduced price lunch; and
- full day kindergarten funding be increased from 0.58 percent to 1.0 per full time equivalent student.

Income tax. The measure creates an exception to the current law requirement that any new income tax law change require taxable net income to be taxed at a single rate. Specifically, the measure allows multiple tax rates to apply to individuals, trusts, estates, and corporations if the tax increase is approved by voters for the funding of P-12 public education. The measure then increases state personal income tax rates on federal taxable income by the following graduated rates, beginning in tax year 2019:

- 0.37 percent for income between \$150,000 and \$200,000;
- 1.37 percent for income between \$200,000 and \$300,000;
- 2.37 percent for income between \$300,000 and \$500,000; and
- 3.62 percent for income above \$500,000.

The measure also increases the state corporate income tax rate for domestic C corporations and foreign C corporations doing business in Colorado by 1.37 percent beginning in tax year 2019. All revenue from this individual and corporate income tax increase is deposited in the Quality Public Education Fund and may be retained and spent without further voter approval.

(Provided and produced by CACI)