

How tax overhaul would affect Coloradans

Middle-income filers would see tax bills drop, while wealthiest would owe millions more

Translate

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Colorado voters will decide this November whether to make one of the largest changes to the state's tax code in a generation — but it's one that would have vastly different effects depending on a person's income level.

Amendment 87, if adopted in the Nov. 3 election, would replace the state's flat income tax with a graduated income tax system, also known as a progressive tax. That would result in the state taxing higher earnings at a higher rate as a person's income increases, boosting tax collections significantly.

In effect the proposal would cut the majority of Coloradans' tax bills by hundreds of dollars. However, the highest-earning Coloradans — the top 0.01% — could see their income tax bills almost double.

Proponents of Amendment 87 frame it as a way to bring more fairness at a time of historic wealth inequity and a way to pay for K-12 education, healthcare and early childhood care and education. The extra money raised by the change would be treated like a separate pot of cash that lawmakers could use only for those purposes — and only on top of what the legislature already would spend in those areas. *Note*

Additionally, the extra money collected by the tax change would not count toward the Taxpayer's Bill of Rights, or TABOR, revenue growth cap, meaning it wouldn't be refunded or eat into any refunds from future overcollections. *Note*

Opponents counter that the proposal amounts to a \$2 billion-plus tax increase with far-reaching ramifications for Colorado's economy. An analysis published Wednesday by the Cato Institute associated flat taxes with an overall increase in individual incomes and economic growth. The libertarian think tank argued that flat taxes, typically tied to lower overall rates, allow the market to dictate spending. *Note*

It all adds up to what will surely be one of the fiercest electoral fights of the election season.

Impact on tax system

For almost 40 years, Colorado has taxed all eligible income at the same rate, known as a flat tax. That rate is currently 4.4% owed to Colorado, from the first dollar to the millionth of taxable income.

Amendment 87 would replace that flat tax with a six-tier system with different marginal rates, meaning income above each threshold is taxed at a progressively higher rate:

- The first \$25,000 a person earns is subject to a 3.7% tax rate.
 - The next \$75,000 in income — from \$25,000 to \$100,000 — is taxed at 4.2%.
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- The next \$400,000 — from \$100,000 to \$500,000 — is taxed at 4.4%.
- The next \$250,000 — from \$500,000 to \$750,000 — is taxed at 7.4%.
- The next \$250,000 — from \$750,000 to \$1 million — is taxed at 7.9%. • Any earnings over \$1 million would be taxed at 8.4%.

Joint filers would file taxes based on the same tiers, although they have higher standard deductions than single filers. Businesses would be taxed at the same rates on their profits.

Support of the measure is led by the liberal-leaning Bell Policy Center, the Colorado Fiscal Institute, Great Education Colorado, New Era Colorado, the Colorado Center on Law and Policy, and the Colorado Statewide Parent Coalition.

Opposition groups include Advance Colorado, which is running Proposition 136 — which would cap tax rates at the current level — to counter the amendment; the National Federation of Independent Business; Americans for Prosperity; and other business and conservative groups. Gov. Jared Polis, a Democrat who is term-limited, also has criticized the measure consistently.

Here is a breakdown of how those changes would affect people, based on how much they earn, and how many taxpayers make up each proposed tax bracket.

If you make about \$25,000 per year

About a quarter of all Colorado taxpayers, or about 850,000 filers, make less than \$25,000 per year, according to Colorado Department of Revenue data provided by the Bell Policy Center. Because of various exemptions and deductions, those in the 25th percentile typically pay Colorado taxes on about \$4,816 of income on average, according to the state data.

As it stands now, people with that much taxable income pay about \$212 in state income taxes. Amendment 87 would knock about \$34 off their bills.

If you're in the middle

The median Colorado taxpayer makes about \$57,000 per year, with about \$35,000 that's typically subject to state income taxes.

That person currently pays about \$1,517 in income taxes. Amendment 87 would lower that bill by almost \$200.

If you make almost \$100,000 per year

A filer who makes \$97,754 per year falls into the top third of Coloradans by income, and just shy of that third tier on the proposed graduated scale. On average, people making that much pay state income taxes on about \$66,000 of their income.

They currently pay about \$2,900 in state income taxes every year. Under Amendment 87, that bill would drop by more than \$250.

If you make almost \$350,000 per year

The top 5% of Colorado taxpayers report an annual gross income of at least \$335,000 per year. Someone at that level typically pays state taxes on about \$302,000 of that income.

Their typical state income tax burden is about \$13,300. But, because the base of their income would be taxed at the lower rates applied to lower brackets, they also will see a tax cut of more than \$300.

If you make more than \$1 million per year

This is the top 1% of Colorado taxpayers — and about where income taxes would begin to rise under the proposal. The 99th percentile of Coloradans report an annual income of about \$1.33 million, with about \$1.3 million of that

typically subject to Colorado income taxes.

Their current tax burden is typically about \$57,000. Amendment 87 would raise that by about \$28,000.

If you're the elite of the elite

The very tippy-top of Colorado earners — about 340 total filers — report an annual average gross income of \$280 million, with about \$270 million on average subject to Colorado taxes.

Those exceptionally high earners have a current state income tax burden of about \$11.9 million. Amendment 87 would add about \$10.8 million to that bill.

If you own a business

The vast majority of incorporated businesses in Colorado don't report any taxable income, according to the Department of Revenue data. Including corporations with negative incomes — after write-offs and deductions — only the top 40% report income subject to Colorado income tax.

A corporation with an income of \$572,000 is in the top 5% of earners. Under the current system, that business would owe about \$25,200 in state income taxes. Amendment 87 would raise its bill by about \$1,800.

The most successful corporations, the top 1%, report taxable incomes of about \$27 million on average. Their current tax burden is about \$1.2 million on that amount; under Amendment 87, their state tax would jump by more than \$1 million, to almost \$2.25 million.

