



# The effect of Proposition 103 on Colorado's tax fairness

Proposition 103 proposes modest changes to Colorado's overall tax structure. The proposition will return state income and sales tax rates to their 1999 levels. State income tax will go from 4.63% to 5% and state sales tax will go from 2.9% to 3%. These changes will raise an estimated \$515 million in the first year and will remain in place for five years. The new revenue all will go toward public education – preschool, kindergarten through 12<sup>th</sup> grade, and colleges and universities.

## **Will Proposition 103 make our tax system more or less progressive?**

The minor changes from Proposition 103 will make Colorado's tax system slightly more progressive. In a progressive tax structure, higher income earners pay a higher percentage of their income in state and local taxes than lower income earners. Colorado currently has a regressive tax system, meaning that lower-income earners pay a larger share of their income in state and local taxes than wealthier earners.

Colorado's tax system is regressive because two of the three primary tax mechanisms are regressive. Property tax and sales tax are regressive, whereas income tax is progressive. Colorado's income tax is progressive despite the fact that it has a flat tax rate. This is because Colorado's income tax is based on the federal taxable income amount, which includes progressive deductions and exemptions. Therefore, the more Colorado relies on income tax, the more progressive the overall tax system is.

Proposition 103 will make our tax system slightly more progressive because the bulk of the new revenue will be raised through the income tax. Our slightly progressive income tax will have a larger proportional increase than the regressive sales tax. State income tax, both individual and corporate, will increase an estimated \$440 million. State sales tax will increase an estimated \$76 million.

**Proposition 103 will make only minor changes to the Colorado tax system. This small change will make the overall state and local tax system slightly more progressive.**

