Amendment 66: Economic analysis

Increasing income tax won't harm Colorado economy

Raising the income tax to support public education, as voters will be asked to do this fall when they vote on Amendment 66, will not hurt Colorado's economy, since state taxes have only a minor effect on economic growth. State tax increases or cuts have little influence on business-location decisions, the creation of small businesses or other economic activity, a large body of research shows.[1] Other factors, like how the nation is faring economically and how much consumers are spending, are far more important to the economic health of states.

Education also has a major impact on state economies. States that invest a lot in their schools have higher wages, higher productivity and more overall economic growth than other states.[2] Amendment 66 offers Coloradans the opportunity to improve K-12 education and open new pathways for our future workers and business owners. The benefits will far outweigh the costs.

• • •

State taxes are only a small portion of business costs

One of the main arguments against tax increases is that businesses will move to lower-tax states in order to reduce costs and boost profits. However, Amendment 66 would not raise taxes on corporations. Business owners who treat their profits as personal income would be affected, but state and local taxes make up only a small portion of business costs.[3]

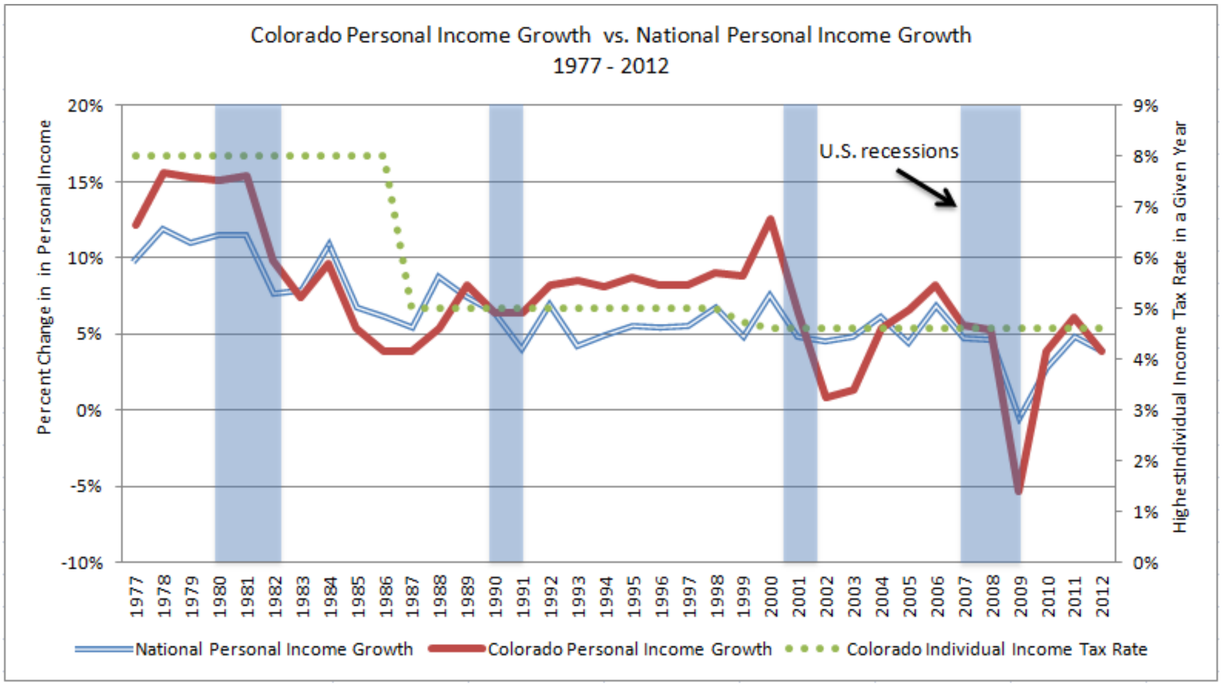
Business owners are more likely to choose their location based on a variety of other factors, including access to suppliers, the cost and quality of the workforce and the reliability of public services like schools, transportation and public safety.[4] So the fear that approving Amendment 66 will deter businesses from moving to Colorado, or cause others to leave, is unfounded.

Taxes also have a minimal effect on the creation of small businesses in a state. For instance, states that have income tax rates that rise along with income – another feature of Amendment 66 – actually had increasing rates of entrepreneurship, according to a nationwide study.[5]

National economy a bigger factor than state taxes

A recent review of studies by the Center on Budget and Policy Priorities showed that state tax levels had little to no effect on state economic performance.[6] The center compiled studies that looked at a number of economic

Figure 1



indicators, including income growth, business creation, job creation and how many families moved out of a state.

A large number of the studies found no correlation between state tax levels and economic performance. Other studies found that higher taxes used to finance better-quality education and infrastructure were associated with stronger economic performance.[7] There were some studies that found more mixed results. However, the findings in these studies conflict with each other in terms of which taxes affect which measures of economic performance and whether they had short-term or long-term effects. Bottom line, the vast majority of studies found that tax policies did not significantly affect any of the indicators of economic health.

The national economy seems to affect Colorado's economy much more than state income taxes. For instance, as shown in Figure 1, when Colorado's highest individual income tax rate was 8 percent, Colorado experienced periods of both fast economic growth (during the late-1970s) and slow economic growth (during the mid-1980s). Colorado's economic growth also fluctuated when the highest individual tax rate was 4.63 percent.

By contrast, national income growth much more closely tracks Colorado's income growth. When Colorado's income growth drops, it's because there is a national recession.

Colorado has very little control over the national economy. However, state policymakers have a lot of control over education, and investing in education can have widespread economic benefits for all, such as higher median wages, stronger personal income growth and increased business investments.[8]

A thorough review of the extensive academic research on taxes and economic growth shows clearly that Amendment 66 won't hurt Colorado's economy by raising revenue for education – it will help it.

Amendment 66

This fall, Coloradans will have a rare opportunity to secure better investments for their schools and boost the economy at the same time. From Oct. 15 through Nov. 5, 2013, they will vote on Amendment 66, a ballot measure to fund education reforms that will help schools provide a top-notch education to the children who will eventually become the workforce of Colorado's future and the backbone of its economy.

Amendment 66 proposes to increase the state income tax rate to 5 percent on the first $75,000 of taxable income and to 5.9 percent on all taxable income above $75,000. The current rate is a flat 4.63 percent. The typical Colorado taxpayer would pay about $133 more per year – around $11 each month – and the plan will raise an estimated $950 million annually. That revenue can be used only to fund reforms and improvements to preschool through 12th-grade education enacted by the legislature. These include:

- Expanding early childhood education and full-day kindergarten.
- Improving reading skills by the third grade.
- Decreasing class sizes by reducing the number of students taught by each teacher.
- Ensuring more individual attention for all students, especially low-income, gifted and talented and special-education students, as well as English-language learners.
- Implementing new teacher-support and evaluation procedures.
- Increasing public understanding of education spending and making school officials more accountable for that spending.

Some of these reforms are already law but have never been funded. Others will go into effect only if Amendment 66 passes. The amendment is necessary because the TABOR amendment to the state constitution forbids the state legislature from increasing taxes to fund the reforms it enacts. Only voters can raise taxes.

• • •

This is one of three issue briefs outlining the economic benefits of Amendment 66. The previous issue brief (Investing in education will boost Colorado economy) showed that investments in education actually spur economic growth. The next brief will demonstrate how Amendment 66 will improve our state tax system.

---

[1] Mazerov, Michael (2013); Alm, James and Janey Rogers (2011); Tomljanovich, Marc (2004); Ojede , Andrew and Yamarik, Steven (2012); Bartik, Timothy J. (1991); Wasylenko, M. (1997); Lynch, R. (2004); Bruce, Donald, John Deskins (2012).
[2] Fisher, R. C (1997); Mazerov, Michael (2013); Berger, N. and Fisher, P. (2013).
[3] Lynch, R. (2004). *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development*, Economic Policy Institute
[4] Mazerov, Michael (2013) *Academic Research Lacks Consensus on the Impact of State Tax Cuts on Economic Growth (A Reply to the Tax Foundation)*, Center on Budget and Policy Priorities, Fisher, R. C (1997); Lynch, R. (2004).
[5] Bruce, Donald, John Deskins, *Can state tax policies be used to promote entrepreneurial activity?* Small Business Economics, May 2012.
[6] Mazerov, Michael (2013).
[7] Fisher, R.C. (1997); Lynch, R.(2004); Gabe, T.M., and Bell, K.P. (2004), *Tradeoffs Between Local Taxes and Government Spending as Determinants of Business Location*, Journal of Regional Science; Stallmann, J., Valentine, D. and Wesemann, A. (2013), *Public Expenditures and Economic Growth*, Institute of Public Policy, Harry S. Truman School of Public Affairs, University of Missouri.
[8] Fisher, R. C (1997); Mazerov, Michael (2013); Berger, N. and Fisher, P. (2013).