Report: Inequitable Tax Code Costs Colorado up to $2.4 Billion

Taxing Top Incomes at the Same Rate as the Middle Class Could Fund Critical State Priorities, Restore Cuts to Education Funding

As the Colorado legislature grapples with difficult budget choices, a new report out today shows that Colorado could generate up to $2.4 billion in revenue by fixing inequities in its state tax code.

Colorado’s highest-income one percent pay a significantly lower percentage of their income in state and local taxes than those in the middle of the income distribution — 4.6 to 8.1 percent, respectively. The report, Tax Fairness: An Answer to Colorado’s Budget Problems, released by the Keystone Research Center and Good Jobs First, finds that if Colorado taxed the wealthiest one percent of taxpayers at the same rate as the middle 20 percent, the state and localities could raise $1.2 billion per year. Similarly, if the top 20 percent of income earners paid the same rate as the middle 20 percent, states and localities would generate $2.4 billion per year.

“Revenue lost because of the one-two punch of rising inequality and regressive state tax codes has led states to impose years of unnecessary austerity—underfunding schools, cutting investments in higher education, and deferring maintenance of our aging infrastructure,” said KRC economist and executive director, Dr. Stephen Herzenberg. “After 30 years of a middle-class squeeze, it’s time to restore balance.”

Income inequality has grown much worse in Colorado. In the 1970s, the top 1 percent of taxpayers received 9 percent of total income in the state. By 2012, their share of Colorado’s total income had more than doubled, to 21.3 percent. This shift means that, every year, $35 billion in income now goes to just 1 percent of Coloradans.

For context: $35 billion is more than four times the Colorado state general fund and roughly 46 times the annual cost of paying down the state’s pension debt.

Taxing upper income groups at the same overall tax rate as middle-class Coloradans would relieve enormous pressure on the state’s budget. The $1.2 billion in revenue generated from taxing the 1 percent at the same rate as the middle fifth is more than 12 times what it would cost to restore cuts in higher education funding in Colorado between 2007-08 and 2012-13. The $2.4 billion generated from extending tax fairness to the top 20 percent would generate about three times the amount needed to restore higher education funding and pay off state pension debt.
The loss of revenue because top income groups enjoy such low tax rates is not unique to Colorado. Nationally, the top one percent pays 5.4 percent of their income in taxes while the middle fifth pays 9.4 percent. Applying tax fairness to the one percent would generate $68 billion nationally, while taxing the top 20 percent at the same rate as the middle class would generate $128 billion.

“Restoring public goods that benefit all employers and all working families is critical to reversing the corrosive rise of inequality,” said Greg LeRoy, Executive Director of Good Jobs First. “The middle class won’t recover — and states won’t get their finances in order — until they fix their tax codes.”