In Colorado, income inequality is becoming much more severe: the top one percent of taxpayers—those with incomes averaging $1.35 million in 2012—now get more than a fifth of all the state’s income. They also pay lower tax rates than everyone else—only slightly over half the rate of middle-income Coloradans. If the one percent paid taxes at the same rate as middle-income Coloradans, the state could solve many of its budget problems—raising $1.19 billion a year for education, infrastructure, health care, pensions and job creation. Taxing the top fifth at the same rate as the middle fifth would raise an additional $2.43 billion in revenue.

**The Rich Are Getting More Income than Ever**

In the 1970s, the top one percent of taxpayers received only 9 percent of total income in Colorado. 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 one percent of Coloradans.

For context: $35 billion is more than four times the Colorado state budget and roughly 46 times the annual cost of paying down the state’s pension debt.¹
High-Income People Pay Far Lower Tax Rates than the Rest of Us

In Colorado, high-income residents pay a smaller share of their income in state and local taxes than middle class residents. The top one percent of Coloradans pay just 4.6 percent of their income in taxes, while the middle fifth pay almost twice that rate: 8.1 percent. Colorado’s second-lowest income bracket pays the most: 8.7 percent.

There are a few basic reasons Colorado’s tax system is so inequitable, and the solutions are simple. For example:

- Colorado has a flat personal income tax, with millionaires and hedge-fund managers paying the same rate as the middle class.
- The local sales taxes in Colorado include groceries.
Taxing the One Percent at Middle-Class Rates Would Do Wonders for the Budget

Taxing upper income groups at the same rate as middle-income Coloradans would relieve enormous pressure on the state’s budget. Taxing just the highest one percent at the rate that the middle fifth pays would raise $1.19 billion in new revenue. This is more than 12 times what it would cost to restore cuts in higher education funding in Colorado imposed between 2007-08 and 2012-13.

Extending tax fairness to the top 20 percent would generate an estimated $2.43 billion in additional revenue each year, about three times the amount needed to restore higher education funding and pay off state pension debt.

Tax Fairness is Not Rocket Science

There are many ways that Colorado could embrace tax fairness. It could emulate other states by making its income tax progressive, or by raising the income tax rate on non-wage income such as dividends, capital gains, and corporate profits.

After 30 years of a middle-class squeeze, it’s time to restore balance. One percent of Coloradans get more than twice the share of income they got 30 years ago—taxing them at far below the middle-class rate is the wrong direction. Solving the budget deficit through tax fairness while restoring education and infrastructure will help revitalize Colorado’s economy.
This assumes that Colorado’s cumulative $22.7 billion in unfunded pension liabilities is paid off in equal installments over 30 years. Estimate of unfunded pension liabilities from Pew Charitable Trusts, The Fiscal Health of State Pension Plans, March 2014, online at http://www.pewtrusts.org/~media/Assets/2014/03/31/PewStatesWideningGapFactsheet2.pdf