



February 3, 2010

The Honorable Paula Sandoval  
Chair, Senate Finance Committee  
200 E. Colfax  
Denver, CO 80203

Dear Chairwoman Sandoval,

**I write today in strong opposition to the host of tax increases passed by the House last week and scheduled to be taken up in the Senate Finance Committee today.** As you know, the House approved higher taxes on an array of goods and services, including, but not limited to, candy, soft drinks, online purchases, direct mail, and software.

There is no doubt that the state faces significant challenges in the current and coming fiscal year. However, raising taxes, especially in this time of economic contraction, will only delay recovery and prolong the current downturn.

The tax increases passed by the House are ill-advised, will not come close to solving the state's deficit, and will yield unintended consequences that will only make the state's fiscal problems worse. For example, the affiliate nexus tax, commonly referred to as the "Amazon tax," is certain to have a negative effect on state coffers. The Rhode Island legislature passed a similar measure last year, yet projected no revenue will be generated from it due to legal and enforcement issues. North Carolina was the other state to pass an affiliate nexus tax last year. As a result, online retailers cancelled all contracts with advertising affiliates in the state, thereby reducing income tax revenue to the state.

While the "affiliate nexus tax" already likely violates the U.S. Constitution's dormant commerce clause, it also – along with the entire tax hike package – expressly violates the Colorado Constitution. The state constitution's Taxpayers Bill of Rights, approved in 1992, [requires that a "tax policy change" that raises revenue \(which all of these measures are slated to do\) must be subject to a vote of the people.](#) None of these measures appear headed in that direction, however, and during the House Finance Committee hearing last week, members reportedly dismissed those who stated they must be put on the ballot.

The imposition of the state sales tax on soft drinks is another particularly dubious measure that was approved by the House. Numerous polls show that the majority of Americans are opposed to a new tax on soft drinks. The soft drink tax hike also represents a shameless attempt to close the state's budget shortfall on the backs of Colorado taxpayers that are least able to afford it. Furthermore, a new tax on soft drinks will do nothing to improve the health of Colorado residents. The only two states that impose a punitive tax on soft drinks are home to some of the highest

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obesity rates in the nation. West Virginia has had a soft drink tax in place for 50 years yet has the nation's third highest obesity rate.

There is ample evidence that cutting spending, as opposed to raising taxes, is the most economically preferable, especially in terms of job creation, method for closing budget deficits. The Federal Reserve Bank of San Francisco recently published an article summarizing research on economic multipliers. It turns out that a dollar of government spending results in 70 cents of job-creating activity after two years. A dollar in tax cuts results in \$1.30 to \$3 of job-creating activity after two years. Put another way, a \$1 cut in spending reduces job-creating activity by 70 cents. However, a \$1 increase in taxes cuts job-creating activity by as much as \$3. **With Colorado's unemployment rate continuing to rise, reaching 7.5% in December, now is the worst possible time for the legislature to impose higher taxes.**

As you continue to weigh options to rectify Colorado's fiscal challenges, I urge you to oppose any and all efforts to raise taxes on Colorado families and employers. If you have any questions, please contact Patrick Gleason, ATR's Director of State Affairs, at (202) 785-0266.

Onward,



Grover G. Norquist