



January 29, 2010

Colorado State House

Dear Members of the Colorado House of Representatives,

I write today to urge you to oppose the host of tax increases taken up in the House Finance Committee this week. As you know, the Finance Committee voted on Wednesday to raise taxes on a host of goods and services, including, but not limited to, candy, soft drinks, online purchases, 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, is the preferred solution of those who choose not to govern and represents an abdication of fiscal leadership.

The tax increases passed by the Finance Committee 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 impact 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.

The imposition of the state sales tax on soft drink is another particularly dubious measure that was approved by the finance committee. Numerous polls show that the majority of Americans are opposed to a new tax on soft drinks. Furthermore, the soft drink tax hike is a shameless attempt to close the state's budget shortfall on the back of Colorado taxpayers that are least able to afford it. Approximately 70% of the burden of the proposed tax hike on soft drinks would be paid for by those making less than \$92,000 annually. Furthermore, a new tax on soft drinks will do nothing to improve the health of Colorado residents. The only two states to impose an excise tax on soft drinks are home to some of the highest 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 method to 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.

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.

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Onward,

A handwritten signature in black ink, appearing to read 'G. Norquist', written in a cursive style.

Grover Norquist