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\$ REVENUE 101 \$





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What We Will Cover in Revenue 101

1. Where Does Colorado Government Get its Money to Provide Services
 - State
 - Local
2. Characteristics of Selected Revenue Sources
3. Principles of an Effective State Tax System
4. How Colorado Taxes Compare Nationally



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TOPIC NUMBER ONE

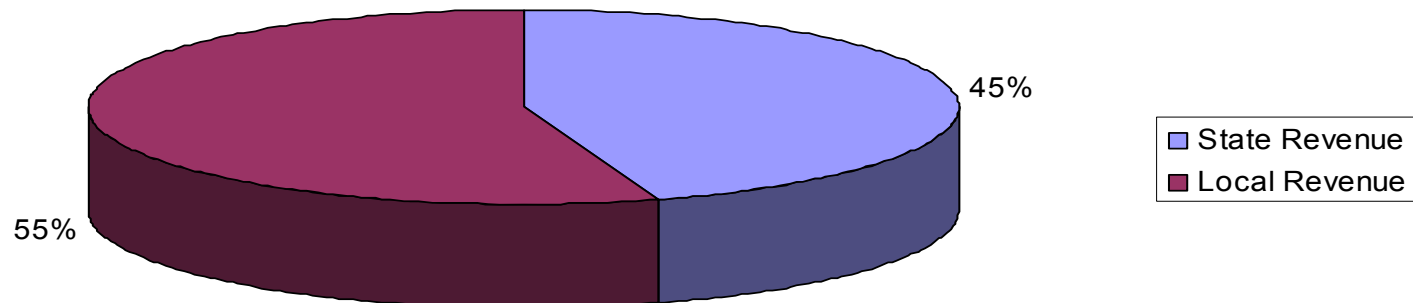
1. Where the Revenue Comes From



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Total Government Revenue for Colorado

Total Colorado Revenue
By Level of Government
(FY 2005- 2006)



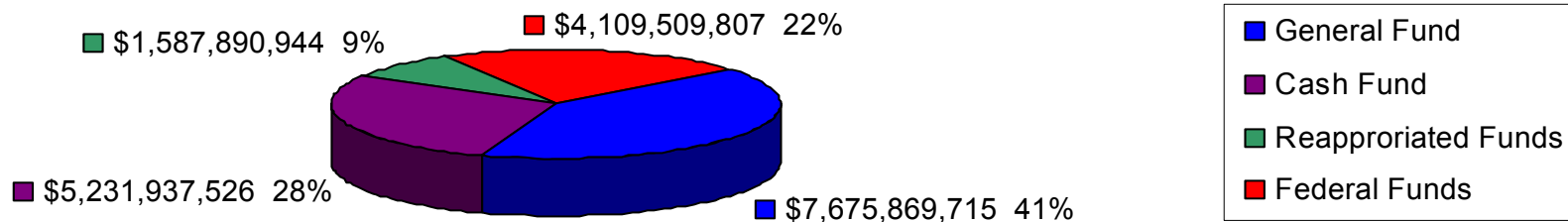
Source: US Census Bureau

***Colorado is one of four states where state government generates less tax revenue than the local governments



Sources of State Revenue

State Operating Budget Appropriations Funds By Source (FY 2008-2009)

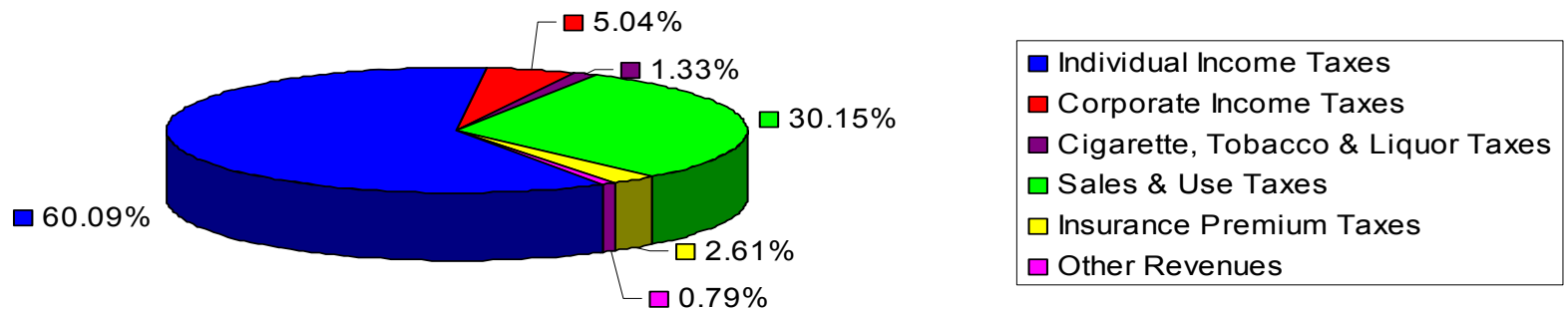


Source: State of Colorado Joint Budget Committee, *Appropriations Report (FY 2008-2009)*



Sources of General Fund Revenue

Estimated Gross General Fund Revenue (Fiscal Year 2008-2009)



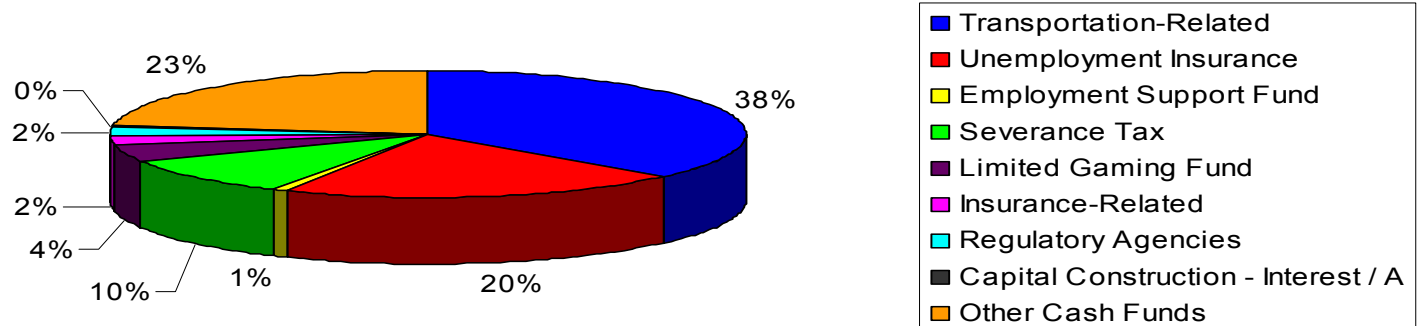
Source: Colorado Legislative Council Staff, *Economic and Revenue Forecast (December 2008)*

SOURCES OF CASH FUNDS



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Cash Fund Revenue by Category (FY 2008-2009)



Source: Colorado Legislative Council Staff, *Economic and Revenue Forecast*
(December 2008)

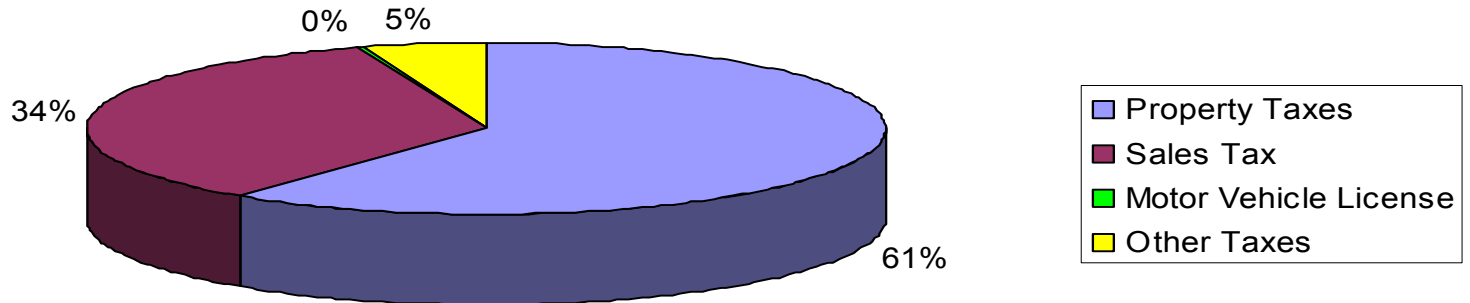
Fee (def)- Is a voluntary surcharge imposed on a specific group of people in exchange for a right or service.

SOURCES OF LOCAL REVENUE



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Local Government Tax Revenue (FY 2005- 2006)



Source: US Census Bureau



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2. What Are These Sources of Revenue?



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STATE SOURCES



CO Income Tax Overview

- Two types of income taxpayers in CO--individuals & corporations (65.13% of General Fund revenue)
- Colorado's income tax calculation begins with Federal Taxable Income
- Individuals and corporations have the same single income tax rate of 4.63%
- Colorado rate was reduced from 5% to 4.63% in 1999 & 2000
- Colorado has not always had a single income tax rate.
 - A graduated rate system existed until 1987



Individual Income Taxes

- Individual income tax accounts for 60.09% of all General Fund revenue
- Individual income tax revenue is not only attributable to W-2 wages, but also individuals' share of business income from ownership in:
 - Partnerships, S- Corporations, Sole Proprietorships
- Approximately 70% of income reported on Colorado income tax returns is from W-2 wages
- Colorado ranks 6th in the nation in percentage of income from capital gains (the result of selling investment property/ stock)



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Corporate Tax

- Corporate income tax accounts for 5.04% of General Fund Revenue
- The corporate Federal Net Income is divided up / apportioned among the states in which it does business (Nexus & Income Apportionment)
- If a corporation has a loss or negative income in one year, it can carry that loss forward for 20 years until it is fully utilized to offset future taxable income in CO (Net Operating Loss Deduction)





State Sales Taxes

- Colorado has a flat sales tax rate of 2.9%
 - Local rate on top of states sales tax varies by jurisdiction (from .25% to 5%)
 - Accounts for 30.15% of General Fund revenue
- Sales tax must be applied to:
 - The final consumer of the tangible personal property pays sales tax.
- Major exemptions from sales tax in Colorado
 - Most services, Grocery food & beverage
 - Fuel (gas tax \neq sales tax)
 - Prescription medicines & medical devices
 - Computer software





Other Colorado Taxes

- Motor Fuel Tax
 - The tax rate on gasoline is 22¢ per gallon
 - has not been increased since 1991 & 1992
 - Majority of revenue raised is earmarked for HUTF
 - HUTF funds cannot be used for mass transit
- Liquor Tax
 - Tax rate varies based on type of beverage
 - One of lowest liquor tax rates in nation
 - Majority of revenue raised goes to general fund
- Cigarette Tax
 - Raised to 84 ¢ per 20 cigarettes in 2005
 - Colorado ranks 46th in nation in per capita cigarette tax collections
 - Majority of revenues earmarked for health care services, tobacco education and cessation programs





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LOCAL SOURCES



Local Sales Taxes

- There are 268 municipalities in CO
 - 87 operate under a home rule charter
 - Home rule cities and towns have the authority to directly collect sales tax & define their own tax base
 - 181 operate as non-home rule municipalities
 - State collects sales tax on their behalf
 - Must levy tax on same transactions as the state, but can choose to tax eight of the state-exempt categories (machinery, food)
- Local rate on top of state rate varies from .25 % to 5%
- Many municipalities offer a exemption/ deduction for timely remission of sales tax



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Property Taxes

- All property taxes are collected at the local level used primarily for K-12 school funding
 - Cannot be accessed at state level
- How do they work
 - $\text{Market Value} \times \text{Assessment Rate} \times \text{Mill Rate}$
- Assessment Rate
 - 7.96% for residential property, 29% for business property
- All real property is taxable (homes, office buildings, land)
- Business personal property is taxable in Colorado
 - (machinery, computers, tables, chairs)
 - Individuals' personal property is not subject to tax





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TOPIC NUMBER THREE

3. Principles of an Effective Tax System



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Principles of An Effective Tax System

1. Provides adequate & timely revenue
2. Promotes economic efficiency & growth
3. Distributes burden equitably
4. Simple & professionally administered
5. Ensures accountability





P1. Adequate and Timely

- Adequacy Defined
 - Tax system should provide adequate revenues to fund public services
 - Certain & stable enough for budgeting without sudden changes dictated by revenue surprises
 - Judged by whether sufficient revenue is generated
- Measurement Tools
 - State Rankings (next slide)
 - Independent Analysis (Blue Ribbon Transportation Finance & Implementation, 208 Commission on Health Care Reform, School Finance Project-Adequacy Study)
 - Public demand for services





State Spending Rankings

	State Ranking
Total Expenditures	
per \$1000 of income	49
per capita	44
K-12 education	
per \$1000 of income	49
per capita	34
Medicaid	
per \$1000 of income	49
per capita	47
Higher Education	
per \$1000 of income	48
per capita	48
Highways	
per \$1000 of income	44
per capita	39



P1. Adequate and Timely

- Revenues must be adequate over time
- Tax structure should be balanced to minimize boom/ bust cycle
- A balanced tax structure should:
 - Avoid reliance on one type of tax. (Colorado is heavily dependent upon capital gains)
 - Use a reserve fund to stabilize cyclical variations
 - Minimize use of earmarking (Inflexible spending creates disproportionate impact during boom/ bust cycles)





P2. Economic Efficiency

- Promotes efficiency and growth
 - Taxes should have neutral effect on behavior
 - Ensure that state/ local districts remain competitive
 - Example: Some argue that the business personal property tax is inefficient because of reporting requirements & discourages capital investments





P3. Distributes Burden Equitably

- Three ways of analyzing if tax policy is fair & equitable:
 1. Vertical equity
 2. Horizontal equity
 3. The benefit principle





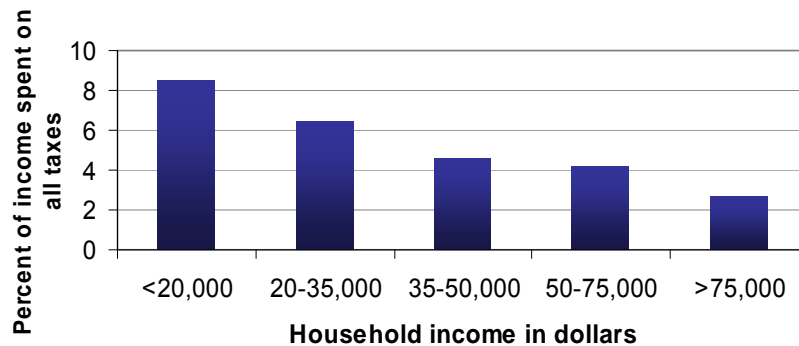
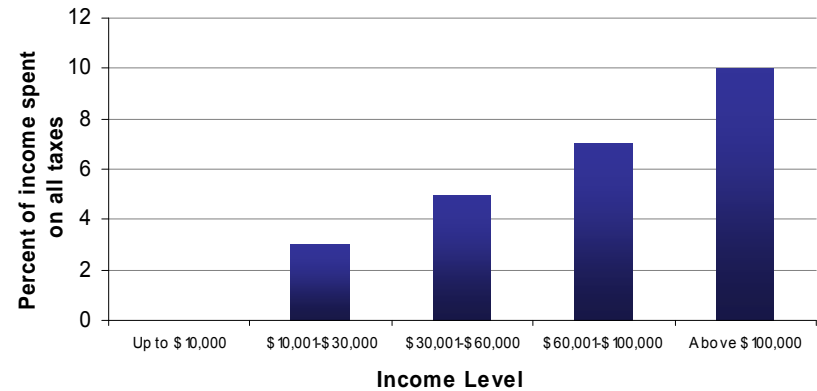
P3. Distributes Burden Equitably- Horizontal Equity

- Vertical equity is when tax liabilities are fairly distributed across people with different incomes
- There are two ways of defining fairness
 - Equal responsibility—all incomes the same percentage and
 - Ability-to-pay –higher incomes pay a higher %; they can afford it
- A **progressive tax** is a taxing system that takes a larger share of income from higher income households
 - Colorado's income tax tends to be slightly progressive because it is based on federal taxable income
 - The majority of states with personal income tax use graduated rate
- A **regressive tax** is a taxing system that places a larger burden on lower income households
 - Sales taxes tend to be regressive because it is a flat rate on items that people must purchase



Progressive Taxes v Regressive Taxes

Progressive tax structure



Regressive tax structure



P3. Distributes Burden Equitably- Horizontal Equity-

- Horizontal equity is when those in similar circumstances have similar tax obligations
 - For Example: Colorado's tax system includes tax provisions that benefit one segment of the economy and disadvantage another

Purchases taxed by CO	Purchases <u>NOT</u> taxed by CO
Curlers, hair spray	Hair salon services
Answering machines	Answering services
Diapers	Diaper services



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P3. Distributes Burden Equitably- Benefit Principle

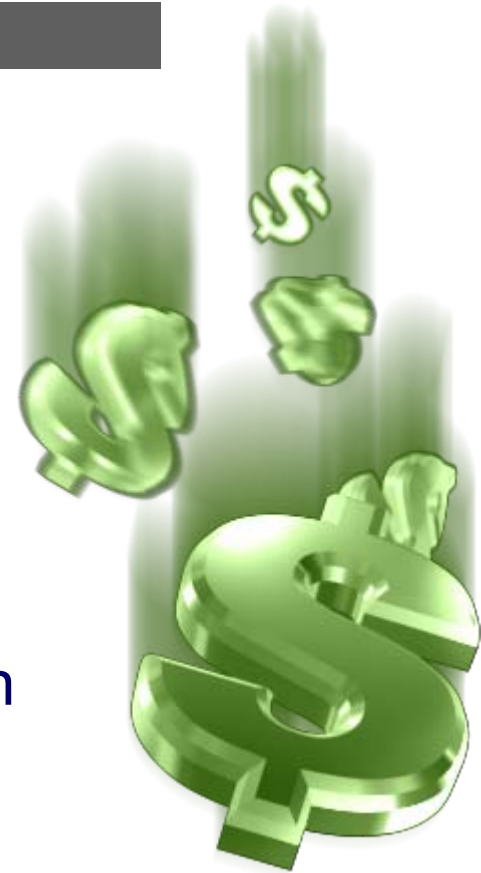
- S/he who benefits should pay, at least a portion of the cost
- Applies largely to fees and some excise taxes
 - charging entrance fees for parks/beaches
 - using gas taxes to pay for roads
 - tuition for university students
 - Cigarette taxes to pay for health care
 - There are certain public goods/ services that everyone benefits from and should contribute to the cost





P4. Professionally Administered

- Simplicity minimizes administrative collection costs
- Also reinforces taxpayer confidence in the fairness of system & reduces tax evasion
- System relies on voluntary compliance
- Currently in Colorado there are around 6,500 field audits per year on more than 20 different types of taxes (does not include computer matching audits)
 - CO Department of Revenue processed 8.2 million tax documents in 2007





P5. Ensures Accountability

- Explicit tax statutes and regulations provide increased accountability
- Truth-in-taxation policies require clearly written notices to taxpayers & hearings on tax law changes
- State reporting on state tax expenditure budgets
- Colorado does not produce frequent or complete reports on the cost of certain tax expenditures or who pays taxes in the state





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4. How Colorado's Taxes Compare

Where We Rank In State Taxes



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Colorado's Rank in Selected State Taxes

per \$1,000 income, FY 2006-07

Tax	Colorado		National	
	Rank	Tax	High	Low
Total Taxes	49	\$48.91	\$133.26	\$41.65
Individual Income	28	\$21.68	\$45.53	\$0.00
Sales and Use	44	\$11.79	\$54.03	\$0.00
Corporate Income	43	\$2.55	\$31.50	\$0.00
Motor Fuels	31	\$3.52	\$7.23	\$0.61



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Where We Rank in Combined State and Local Taxes

Combined State and Local Tax Collections

per \$1,000 Income, FY 2004-05

State	Rank	Tax
Wyoming *	1	\$150.45
U.S. Average	n/a	\$104.11
Colorado	46	\$95.73
South Dakota	50	\$88.09