



COLORADO FISCAL
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The Colorado Tax Primer

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**CHAPTER 1
FUNDAMENTALS OF A GOOD TAX SYSTEM**

A tax system is the set of rules and regulations that allow a government to collect the revenue needed to fund public services. The policies underlying a tax system define the efficiency and effectiveness of the tax system. The National Conference of State Legislatures (NCSL) has articulated a set of principles that help define a good tax policy structure.¹ The following analysis evaluates Colorado’s tax system using the NCSL tax principles.

Principle One: Provide Adequate and Timely Revenue

Adequacy Compared to Other States

The purpose of a tax system is to raise adequate revenue to fund public services. The type or mix of public services the legislature chooses to provide is not the item of inquiry with this principle. Rather, adequacy is measured by whether the system generates sufficient revenue to fund legislatively-enacted priorities.

Certain states (such as Colorado with the implementation of the Taxpayer Bill of Rights) have ignored the fundamental principle that the need for public services should drive the collection of tax revenue. Instead, these states have flipped the principle on its head by capping tax revenue based on a formula that attempts to define the need for public services based on allowable revenue.

There are multiple ways of measuring the adequacy of revenue as it translates into services. One such measure is state rankings. Colorado consistently ranks low on expenditures when compared to other states. Overall, in 2009 Colorado ranked 47th in spending per \$1,000 of income. A recent analysis shows that in order for Colorado to reach the national average in total spending per \$1000 in income, the state’s General Fund spending would need to grow by \$4.9 billion or 62 percent.

COLORADO’S RANKING ON STATE GENERAL FUND SPENDING (2009)²	
TOTAL EXPENDITURES	STATE RANKING
Per \$1000 of Income	47^h
Per Capita	45th
K-12 EDUCATION	
Per \$1000 of Income	48th
Per Capita	32nd
MEDICAID	
Per \$1000 of Income	49th
Per Capita	49th
HIGHER EDUCATION	
Per \$1000 of Income	48th
Per Capita	48th
HIGHWAYS	
Per \$1000 of Income	48th
Per Capita	48th

Adequacy Viewed By Consumers

Another way of measuring adequacy is through the eyes of the consumers of the public system. The majority of research studies conducted by non-partisan groups conclude that the current level of services provided to Colorado residents is woefully inadequate, and that to merely maintain this low level would require a large increase in additional funds. The Department of Transportation estimates that the state needs to increase funding by \$2.1 billion annually to accommodate growth and maintain the current transportation system.³ The Colorado

¹ *Principles of a High-Quality State Revenue System*, National Conference of State Legislators, Fourth edition, June 2001; updated June 2007 at <http://www.ncsl.org/Default.aspx?TabId=12673>.

² *Aiming for the Middle—A Benchmark of State Spending*, Colorado Fiscal Policy Institute, June 2007; updated for 2009 at http://www.cclponline.org/uploads/files/Afm2009Tables_FINAL.pdf.

³ *THE NEXT STEP: To maintain and improve Colorado’s transportation system*, Move Colorado, March 26, 2010 at http://movecolorado.org/news_room/assets/perspectives/nextstep.pdf.

School Finance Project predicts that an additional \$2.9 billion dollars annually is needed to provide all Colorado students with a sufficient education (100 percent proficiency).⁴ This does not include maintenance and construction of school buildings and facilities. The most optimistic projections show that the state will barely be able to sustain services at 2007 levels of funding through 2013.⁵

However, no increases in funding are anticipated. Even in the health sector, where current revenues will likely support funding at 2007 levels, funding is decidedly inadequate. Health care service in Colorado leaves roughly 800,000 people uninsured, including 150,000 children.⁶

Adequacy Over Time

A good tax system must also ensure that revenues remain adequate over time. A tax system generates inadequate revenues when its portfolio of taxes grows at a slower rate than the cost of maintaining public services. The formula contained in Colorado's TABOR guarantees that state revenue increases slower than the economy by forcing rebates of revenue collected in excess of per capita inflationary increases. TABOR also promises a shortfall in revenue since the price of items purchased by state government increase faster than the Consumer Price Index ("CPI"). The annual increases in the CPI have been below the increase in costs associated with public purchases, such as health care and education.⁷ When costs exceed available revenue, reductions in service levels occur.

Long-term structural changes in the economy can also reduce tax revenue growth by affecting its base. For example, the sales tax is a large source of revenue for Colorado (just under 30 percent of general fund revenue collections in FY 2007-08).⁸ The shift in personal consumption from taxed goods to untaxed services has drastically reduced the sales tax basis and thus its growth rate. In 2009, sales tax revenue was down \$168.4 million, or 9.1 percent from a year earlier.⁹ While partially due to the recession, this decrease also illustrates the erosion of the sales tax base and the structural deficit this erosion creates. This means that over time revenue collected from sales taxes will support fewer and fewer services even with a constant sales tax rate.

The second component of adequacy over time involves revenue timeliness. This principle puts forth that an effective tax system must also be balanced to account for the impact of cyclical economic changes known as the boom/bust cycle. Successful balancing strategies include diversifying the tax portfolio and using a reserve to stabilize cyclical variations.

Colorado's state tax system is heavily dependent on capital gains taxes due primarily to the large amount of investment-dependent income in Colorado. Colorado is one of five states where more than 50 percent of general fund revenue comes from the personal income tax and where capital gains collections represent more than 10 percent of the personal income collections.¹⁰ Colorado ranks 6th in its reliance on capital gains revenue to support its spending.¹¹ Such a heavy dependence on capital gains revenue means that shocks to the stock market may have devastatingly volatile consequences on revenue in Colorado. This effect was evident during the economic downturn in 2001 when Colorado's drop in tax revenue was one of the steepest in the country. Current projections identify a similar trend in the recent economic downturn.

One impediment to adequacy over time is the practice of designating a particular revenue source for a specific expenditure, commonly called "tax earmarking." Earmarking often imposes restrictions on the budgeting system that prevent flexible allocations tax revenue across spending priorities. These restrictions prevent government

⁴ *Investing in P-12 Education and Achieving State Education Requirements, 2008*, Colorado School Finance Project, accessed January 7, 2011 at <http://www.cosfp.org/AdeqUpdate/AdequacyWork/InvestingInEducation.pdf>.

⁵ *Looking Forward: Colorado's fiscal prospects after Ref C*, A joint research study by The Bell Policy Center, Colorado Children's Campaign, and the Colorado Fiscal Policy Institute, December 2007 at http://www.cclponline.org/publication_library/pub/single/718/looking-forward-colorados-fiscal-prospects-after-referendum-c.

⁶ *Final Report to the Colorado General Assembly*, Blue Ribbon Commission for Health Care Reform, January 31, 2008 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobheadername1=Content-Disposition&blobheadername2=MDT-Type&blobheadervalue1=inline;+filename=percent3D700/832/Commission+Final+Report+Executive+Summary.pdf&blobheadervalue2=abinary;+charset=percent3DUUF-8&blobkey=id&blobtable=MungoBlobs&blobwhere=1191379296043&ssbinary=true>.

⁷ BLS Statistics were used for a 15 year comparison of the Higher Education Price Index, the Employment Cost Index and the Medical Care Cost Index with the Consumer Price Index for Denver, Boulder Greeley.

⁸ Jason Schrock and Ron Kirk, *Colorado's State Government Revenue Structure*, Colorado Legislative Council Memorandum July 6, 2009 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251606116378&ssbinary=true>.

⁹ Tim Hoover, *Colorado sales-tax collections down from year ago*, The Denver Post, Dec. 14, 2009 at http://www.denverpost.com/ci_13991221?source=bb.

¹⁰ Mark Zandi, Moody's Economy.com, Power Point presentation, CBPP State Services Conference, November 2008.

¹¹ Cameron Huff, *Capital Gains: Avoiding Harm to the State Budget*, MassINC, December 2008 at http://www.massinc.org/~media/Files/Mass_percent20Inc/Research/Full_percent20Report_percent20PDF_percent20files/cap_gains.ashx.

from making adjustments to ensure constant revenue amidst changing economic conditions. A high-quality revenue system minimizes the use of tax earmarking,

Colorado relies heavily on earmarked revenue to finance public services. For example, the K-12 education system receives state funding from a special education fund that is funded by an earmark of 0.33 percent state income tax collections¹². Similarly, all revenues generated from the Colorado Lottery are earmarked to support state parks, recreation, open space, conservation education and wildlife projects.¹³

Principle Two: Distribute Burdens Equitably

A successful tax system distributes the cost of public services equitably amongst taxpayers. Two fundamental principles of equitable taxation are “vertical equity” and “horizontal equity.”

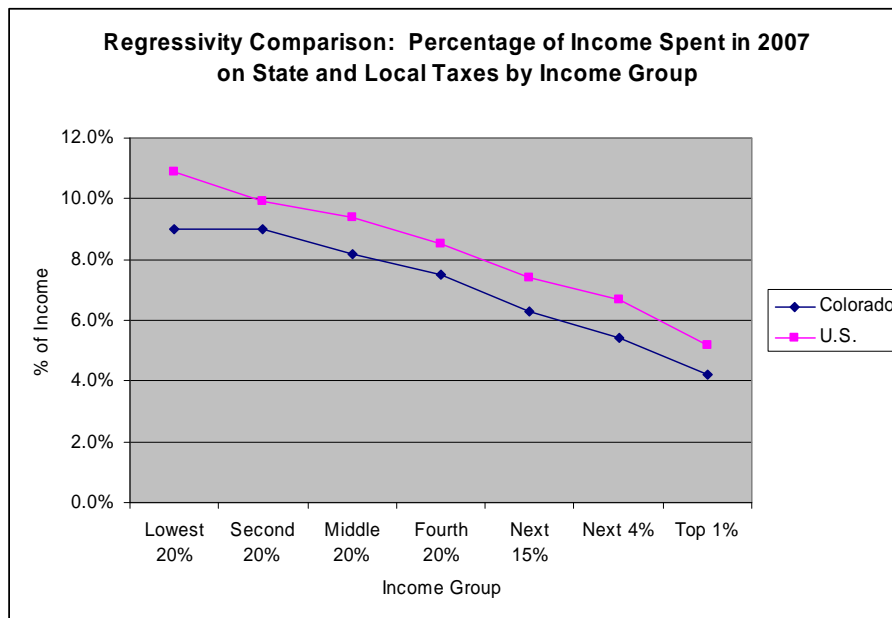
Vertical Equity

A tax system displays vertical equity when it fairly distributes tax liabilities among people with different incomes. One way to distribute the tax burden fairly is to ask taxpayers to contribute to the cost of public services based on their ability to pay. Another way is to ensure that taxpayers pay taxes proportionately. Proportionality means taking an equal percentage of taxes from taxpayers relative to their income.

The vertical equity (or inequity) of a tax system is characterized by the distribution of tax burdens among people in different circumstances. A tax system can be defined as either “progressive” or “regressive.” A progressive tax system takes a larger share of the income of higher-income people than that of lower-income people. A regressive tax system places a proportionately higher burden on lower-income households than it does on higher-income households. Generally, the regressivity, proportionality or progressivity of a tax system should be applied to state and local tax systems as a whole.

The combined state and local tax systems of most states are regressive. State income taxes that are based on the progressive federal income tax are progressive; however, sales and excise taxes are very regressive, and property taxes, including both taxes on individuals and taxes on businesses, are usually regressive. State and local taxes become even more regressive when federal itemized deductions are taken at the state level

Overall, Colorado’s tax system is regressive, although it does have comparable regressivity to that of the average U.S. state and local tax system. A driving factor behind Colorado’s regressivity is the state income tax, which applies one flat rate (4.63 percent) to all income groups. Because those in the lower income brackets pay a higher percentage of their income in taxes than those in higher income brackets, this flat income tax is regressive.



Source: Institute of Taxation and Economic Policy

Horizontal Equity

¹² Amendment 23, Great Education Colorado, accessed January 10, 2011 at <http://www.greateducation.org/statistics-faqs/funding-faqs/amendment-23/>.

¹³ Where the Money Goes, Colorado Lottery, accessed January 10, 2011 at <http://www.coloradolottery.com/index.cfm/ID/69/Where-the-Money-Goes/>

Horizontal equity is the distribution of tax burdens among people with the same income. The general principle is that those with similar circumstances should have similar tax obligations.

Colorado's tax system includes tax provisions that benefit one segment of the economy and disadvantage another. One of the most prevalent of those provisions is the business personal property tax. Businesses that rely heavily on high-valued machinery and equipment pay significantly more in property taxes than businesses that require little to no capital equipment. This kind of disparity results in horizontal inequities.

Principle Three: Promote Economic Efficiency and Growth

In general, the central purpose of collecting taxes is to raise revenue. However, tax policy is often used to promote or incentivize certain behaviors. For example, excise taxes may be used efficiently to discourage certain behaviors that burden the public with social costs. Using tax policy to steer economic behavior, however, can be considered economically inefficient because a large portion of tax savings go to people and businesses for doing what they would have done anyway.

How a state tax system affects economic growth is an important policy consideration that focuses on comparing a state's system with that of other states. When considering taxes on individuals and businesses, the usual concern is over differential burdens so significant that they would cause taxpayers to move from, or avoid locating in, a state, or that would cause them to shop across state borders. However, in evaluating its competitive position, a state should be aware that tax policy is only one consideration in business location decisions; service levels are also important.

Colorado's tax system permits relatively few sales tax exemptions and income tax credits. Still the exemptions and credits allowed in the state are valued at more than \$2 billion annually.¹⁴ In addition, many more income tax exemptions and special deductions are not reported at state-level since they are applied to the calculation of federal taxable income. As will be discussed in detail later, Colorado taxable income is based on federal taxable income. Thus federal exemptions and deductions such as student loan interest deductions and the deduction for moving expenses cost Colorado income tax revenue even though they are not enacted by the state.

Principle Four: Be Simple and Professionally Administered

A good tax system should be designed simply. Simplicity minimizes administrative collections costs and taxpayer compliance costs. It also reinforces confidence in the fairness of a tax system by reducing evasion.

Certainty

A key part of simplicity is certainty. Certainty provides that the number and types of tax changes will be kept to a minimum. Individuals and businesses should not be subject to frequent changes in tax rates and base because frequent changes interfere with economic choices and the ability to develop long-term financial plans. As a corollary, in states such as Colorado where changes in rates require voter approval, a large number of tax-generating initiatives will decrease political capital for achieving tax revenue adequacy.

Colorado's tax system has remained fairly constant over time. The Taxpayer Bill of Rights (TABOR) amendment restricts changes in the tax system by requiring voter approval for tax increases and new taxes that generate net increases in revenue. Since TABOR's passage 1992, the state of Colorado has enacted only one significant tax increase - a tobacco tax increase approved in 2005.

Tax Administration

Our current revenue system is dependent on voluntary compliance. Voluntary compliance requires professional tax administration. Tax administration involves assessing and collecting taxes owed. Professional and uniform tax administration, both throughout the state and within individual jurisdictions, enhances the effectiveness of voluntary compliance. Tax evasion is a quantitatively significant phenomenon that affects the adequacy, equity, economic efficiency and simplicity of administration of a tax system.

The problem of tax evasion also raises challenging questions about the appropriate design of the tax compliance system. Questions include how much resources should be devoted to auditing suspected evaders and for which taxes, how these resources should be allocated across classes of taxpayers, and how much resources should be devoted to taxpayer assistance versus monitoring.

¹⁴ *State Income Tax Credits, Rebates, and Modifications & State Sales and Use Tax Exemptions*, Colorado Legislative Council, accessed January 10, 2011 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251606116465&ssbinary=true>.

Principle Five: Ensure Accountability

Notice and Transparency

The essence of accountability is that tax laws should be explicit and transparent. Truth-in-taxation policies that require clearly written notices to taxpayers and hearings on tax increases are simple methods of providing accountability. For state governments, tax expenditure reports are another way of enhancing accountability. A tax expenditure report shows the costs, expressed in lost tax revenue, of a tax credit or exemption that is intended to benefit some group of taxpayers or encourage a public policy goal. In addition to identifying the revenue lost from certain tax preferences, tax expenditure reports also provide data that can be used to evaluate the effectiveness and efficiency of tax policies.

Many states list tax expenditures on budget documents as a way of informing the public about the public benefits that occur through tax policy. Colorado does not produce a comprehensive list of tax expenditures.

Accountability in a larger sense means that policymakers examine the costs and benefits of using revenue measures to put non-fiscal policies into effect. Since the budget process makes expenditures explicit, the ideal revenue system leaves expenditures to the budgetary system. However, tax policy will inevitably continue to be used toward other policy objectives. Therefore, lawmakers have a responsibility to ensure that tax policies produce the intended effect and do so at a reasonable cost. Earmarked funds, tax expenditures and all other special tax preferences should be reviewed regularly to assess their efficiency and effectiveness as policy measures.

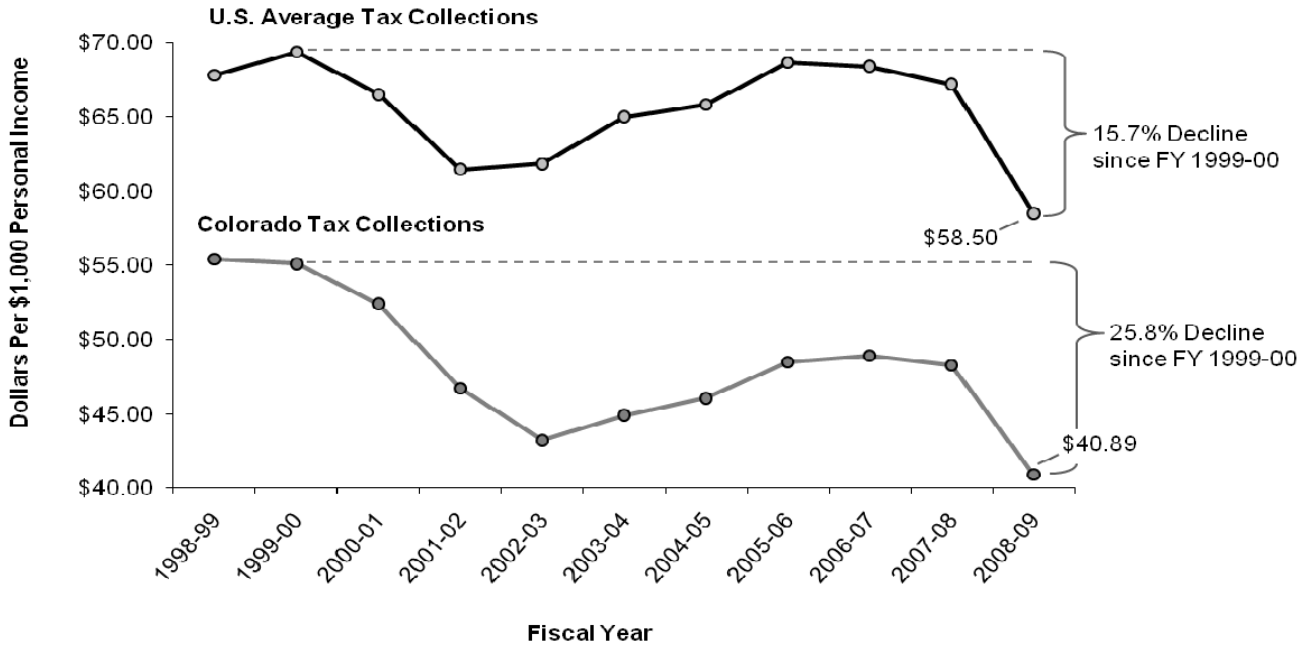
Colorado does not consistently produce information on who pays taxes in the state nor does the General Assembly articulate a clear tax policy strategy. Too often the effects of legislative action on revenue collection or the distribution of tax responsibility are unknown or unclear. This approach to tax policy decision-making has led to the increased number of credits and exemptions and increased complexity and administration costs without a clear demonstration of the resulting benefit.

CHAPTER 2 COLORADO'S TAX SYSTEM

Tax Collections in Colorado

In 2009, Colorado collected \$8.4 billion in tax revenue. This is a 9.5 percent decrease from the previous year, 2008, when revenue collections peaked at just more than \$9 billion.¹⁵

The chart below shows a ten-year history of tax collections in Colorado. Colorado's tax collections have largely tracked federal tax collections. One exception occurred after the 2001 recession, when declining capital gains and tax reductions implemented by the Colorado General Assembly lead to a steep drop in state tax revenue. Since that time, Colorado's tax collections per \$1,000 of personal income have gradually increased with economic growth until 2009, when tax collections decreased more than 25 percent with recession. This decline is 10 percent greater than the average decline in tax collections in the United States.¹⁶



Source: Colorado Legislative Council, 2009

Colorado's decrease in tax revenue has been fairly uniform across all the types of taxes that the state collects. The largest decrease in taxes has been in corporate income taxes (39 percent). The only tax that has increased during the past 10 years is the tobacco tax.

Change in Colorado Taxes from FY1998-99 to FY 2008-09			
Tax	FY 1998-99	FY 2008-09	Change
Individual Income	\$ 23.69	\$ 20.74	-12.5%
Sales/Use	\$ 14.73	\$ 10.89	-24.2%
Corporate Income	\$ 2.54	\$ 1.55	-39.0%
Gas	\$ 4.35	\$ 2.90	-33.3%
Liquor	\$ 0.22	\$ 0.17	-22.7%
Tobacco	\$ 0.57	\$ 1.02	78.9%

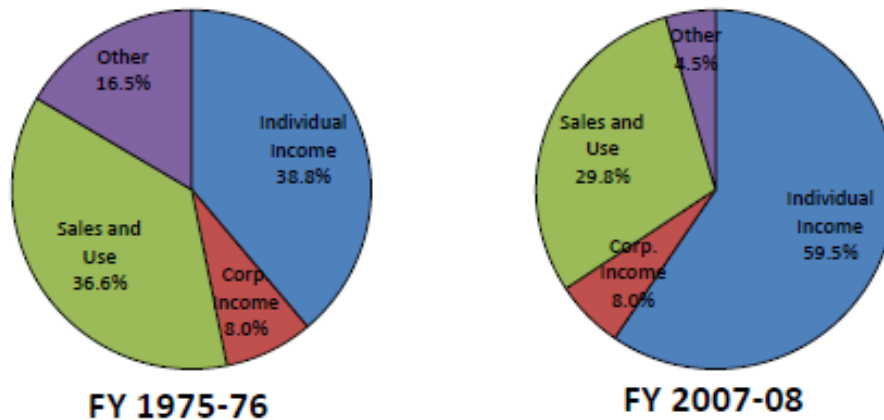
Source: Legislative Council Staff

¹⁵ 2009 Colorado Department of Revenue Annual Report, Colorado Department of Revenue, accessed January 10, 2011 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251606078806&ssbinary=true>.

¹⁶ Ron Kirk, Colorado's Revenue and Tax Structure Power Point presentation, Colorado Reform Roundtable Fiscal Reform Subcommittee meeting, Aug. 6, 2010.

Colorado collects taxes to fund basic government programs through the General Fund. Colorado's general fund is composed primarily of revenue from the collection of taxes. Individual and corporate income taxes and sales and use taxes make up more than 97 percent of general fund revenue. Currently, individual income taxes make up the largest portion of General Fund revenues (nearly 60 percent).¹⁷

Colorado State General Fund Revenue Comparison



Source: Colorado Legislative Council, August 2010

Income taxes have not always been so prevalent in Colorado. While the general portfolio of taxes has remained the same, in 1975, individual income tax only made up 38 percent of the general fund. Several reasons account for this shift. First, many sales tax exemptions were enacted in the late 1970s and early 1980s when the state had significant budget surpluses. These exemptions were never repealed, unlike the many income tax reductions enacted in the late 1970s and early 1980s that were largely repealed to help the state's budget during the recession.¹⁸ A second reason for the shift is that federal tax reform broadened the tax base upon which individual income taxes are levied. Since Colorado uses federal taxable income as its starting point for the calculation of Colorado's income tax base (discussed later in more detail), the broadening of the federal tax base increased the state's reliance on individual income taxes.

Conversely, the state's sales tax base has become smaller over time. Spending has shifted from taxed goods to untaxed services and there are an increasing number of internet sales transactions that also go uncollected.¹⁹

How Colorado Taxes Rank in Comparison to Other States

The amount of taxes paid by Colorado taxpayers is low compared to other states. Colorado's state taxes, per \$1,000 of income, rank second from the bottom (49th) in the nation.²⁰ Alaska has the highest and New Hampshire the lowest.

There are two primary ways of comparing states in terms of revenues. The first is the per capita measure, which is derived by dividing total government revenue by the total population. The second method relates revenue to total personal income (wages, salaries, dividends, interest, etc.). The most prevalent rankings measure taxes per \$1,000 of income.

Measuring revenue relative to personal income shows taxes relative to wealth. By contrast, measuring revenue on a per capita basis does not take into account ability to pay. Furthermore, the per \$1,000 of income approach allocates taxes to those who pay them, in proportion to how much is paid. In contrast, a taxes per capita approach spreads total taxes across the entire population (including children, institutionalized populations and other non tax payers) and assumes equal distribution of taxes for all individuals.

The personal income calculation generally results in a lower ranking than the per capita calculation. However, by any measure, taxes are relatively low in Colorado.

¹⁷ Schrock and Kirk, *Colorado's State Government Revenue Structure*.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ron Kirk, *How Colorado Compares in State and Local Taxes*, Colorado Legislative Council Memorandum, Aug. 31, 2010 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251653454036&ssbinary=true>.

How Selected State Taxes in Colorado Compare per \$1,000 of Income (FY 2008-09)					
	Colorado		Nation*		
State Taxes	Rank	Tax Level	High	Low	Average
Total Taxes	49 of 50	\$40.89	\$163.89	\$37.03	\$58.50
Sales and Use	44 of 45	\$10.89	\$48.35	\$0.00	\$19.68
Individual	28 of 43	\$20.74	\$39.51	\$0.00	\$20.12
Corporate	42 of 46	\$1.55	\$20.91	\$0.00	\$3.29
Motor Fuel	32 of 50	\$2.90	\$6.70	\$0.33	\$2.89
Liquor	43 of 50	\$0.17	\$1.31	\$0.06	\$0.44
Tobacco	35 of 50	\$1.02	\$3.55	\$0.21	\$1.37

*Taxes listed under the "Nation" heading take all 50 states into account.

Source: Legislative Council Staff

Who pays Colorado taxes?

Examining how the state ranks in comparison to other states is one method of analyzing our tax system. Another way to evaluate who pays taxes in Colorado is by looking at the percentage of income paid in taxes by each income bracket. The Institute of Taxation and Economic Policy (ITEP) produces an annual report that analyzes the amount of each type of tax paid by each income quintile.²¹ The results show that the highest share of income paid in taxes (9 percent) is paid by the lowest income bracket – those making less than \$20,000 per year - while the top 1 percent of all Colorado taxpayers pays the lowest percentage of their income in taxes.

The combined state and local tax rate for the top one percent of Colorado families—with average incomes of \$1.98 million—is 5.3 percent, before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 4.2 percent.²² The average tax rate on families in the middle of the income distribution—those earning between \$39,000 and \$59,000—is 8.5 percent before the federal offset and 8.2 percent after. This is nearly double the effective rate that the richest Coloradans pay. The tax rate on the poorest Colorado families—those earning less than \$20,000—is the highest of all. At 9.0 percent, it is more than twice the effective rate on the very wealthy.

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$39,000	\$39,000 – \$59,000	\$59,000 – \$99,000	\$99,000 – \$209,000	\$209,000 – \$557,000	\$557,000 or more
Average Income in Group	\$11,400	\$28,700	\$48,500	\$76,200	\$134,500	\$315,000	\$1,975,800
Sales & Excise Taxes	5.7%	4.9%	3.9%	3.2%	2.3%	1.4%	0.8%
General Sales—Individuals	2.7%	2.5%	2.1%	1.8%	1.4%	0.9%	0.5%
Other Sales & Excise—Ind.	0.9%	0.6%	0.5%	0.3%	0.2%	0.1%	0.0%
Sales & Excise on Business	2.1%	1.7%	1.3%	1.0%	0.7%	0.5%	0.3%
Property Taxes	2.6%	2.1%	2.2%	2.0%	1.8%	1.5%	1.2%
Property Taxes on Families	2.6%	2.1%	2.1%	1.9%	1.7%	1.1%	0.3%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.1%	0.4%	0.9%
Income Taxes	0.7%	2.0%	2.4%	2.9%	3.1%	3.2%	3.3%
Personal Income Tax	0.7%	2.0%	2.4%	2.9%	3.1%	3.2%	3.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	9.0%	9.0%	8.5%	8.1%	7.3%	6.2%	5.3%
Federal Deduction Offset	-0.0%	-0.0%	-0.4%	-0.6%	-0.9%	-0.8%	-1.1%
TOTAL AFTER OFFSET	9.0%	9.0%	8.2%	7.5%	6.3%	5.4%	4.2%

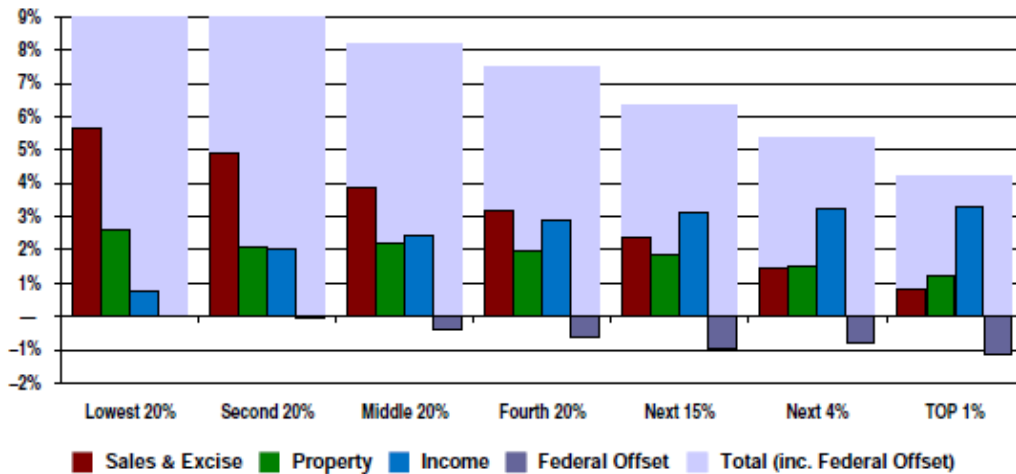
Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2008.

²¹ *Who Pays? A Distributional Analysis of the Tax Systems of all 50 States (3rd Edition)*, Institute of Taxation and Economic Policy, Nov. 18, 2009 at http://www.itepnet.org/state_reports/whopays.php.

²² The *Federal Deduction Offset* accounts for the exporting of a taxpayers state taxes to their federal tax burden through an itemized deduction.

The ITEP report also reveals the regressivity inherent in Colorado’s tax system. While income taxes are slightly progressive because they are based on a progressive federal income tax, property tax and sales taxes are regressive and result in those with the lowest income paying more in taxes than those with higher incomes. This is an example of vertical inequity.

Shares of family income for non-elderly taxpayers



Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009

Finally, the chart above shows that not only do the highest income Coloradans pay the smallest percentage of income in taxes, but also that they receive the greatest federal tax offset for their taxes paid.

While the lowest-income Coloradans pay the highest percentage of their income in taxes, the highest income Coloradans pay the largest bulk of taxes overall. Colorado taxpayers with income of more than \$100,000 pay nearly 50 percent of all of the taxes collected in the state.²³

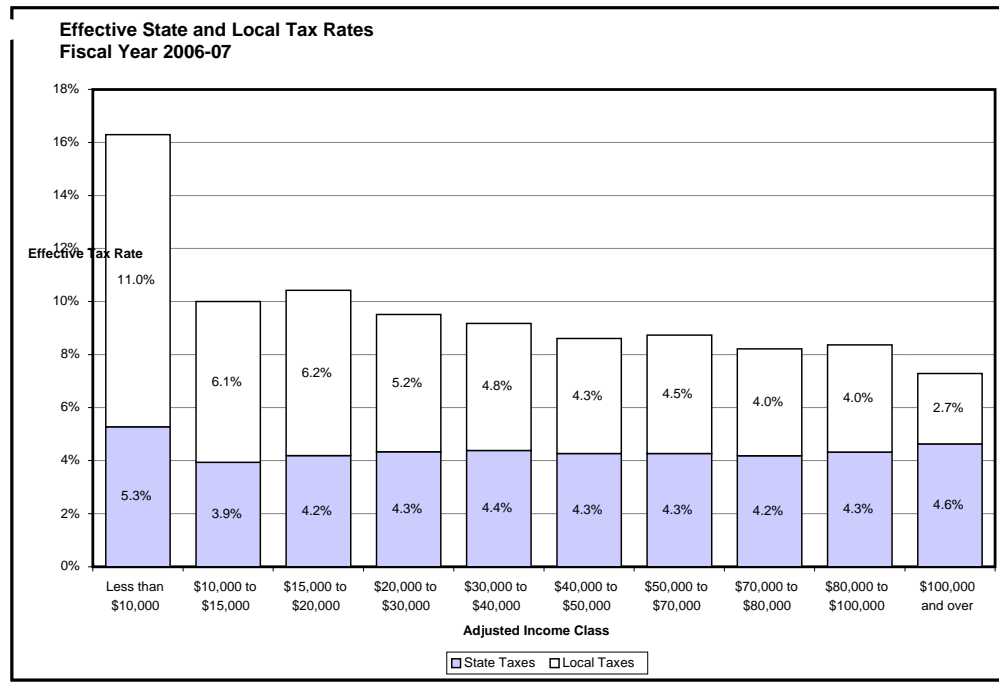
Tax Rates

Another important measure of who pays taxes in Colorado is the tax rate. There are two different ways to define the tax rate. The “nominal” or “marginal” tax rate is the rate that is multiplied by the tax base to yield the amount of tax. Essentially, the nominal tax rate is the stated tax rate. In Colorado, the nominal tax rate is 4.63 percent for income taxes and 2.9 percent for sales and use taxes.

By contrast, the “effective” tax rate is the amount of tax paid as a percentage of a taxpayer’s total tax burden. This is considered a more accurate measure for comparing taxes because it takes into account the differing tax bases of different taxpayers. Effective tax rates are typically lower than marginal rates because most tax systems have some forms of deductions, exclusions, credits, and other adjustments that are taken into account when using this measure of taxes.

The chart below displays the effective state and local tax rates of each tax bracket. It also shows the general progressivity of state taxes and the regressivity of local taxes.

²³ Colorado Fiscal Policy Institute analysis of *Colorado Statistics of Income, Table 1A: Federal AGI and Taxes, All Full-Year Resident Returns 2005 Individual Income Tax Returns*, Colorado Department of Revenue, accessed January 10, 2011 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251601078995&ssbinary=true>.



Source: *Colorado Tax Profile*, Colorado Department of Revenue

What Doesn't Get Paid – The Effect of Tax Expenditures

Tax expenditures are revenues foregone because a provision of the tax code permits certain taxpayers to pay less tax than they would pay under a baseline tax system. They include deductions and exclusions from tax liability, reduced tax rates, tax credits, tax deferrals, tax exemptions, and tax refunds.

Tax expenditures are tools that policymakers use to align public finance with social and economic goals. They are often utilized to address market failures and to promote social equity. While tax expenditures can prove useful for promoting certain economic outcomes, the resulting increase in the complexity of tax laws often means higher administrative and compliance costs, and market distortions.

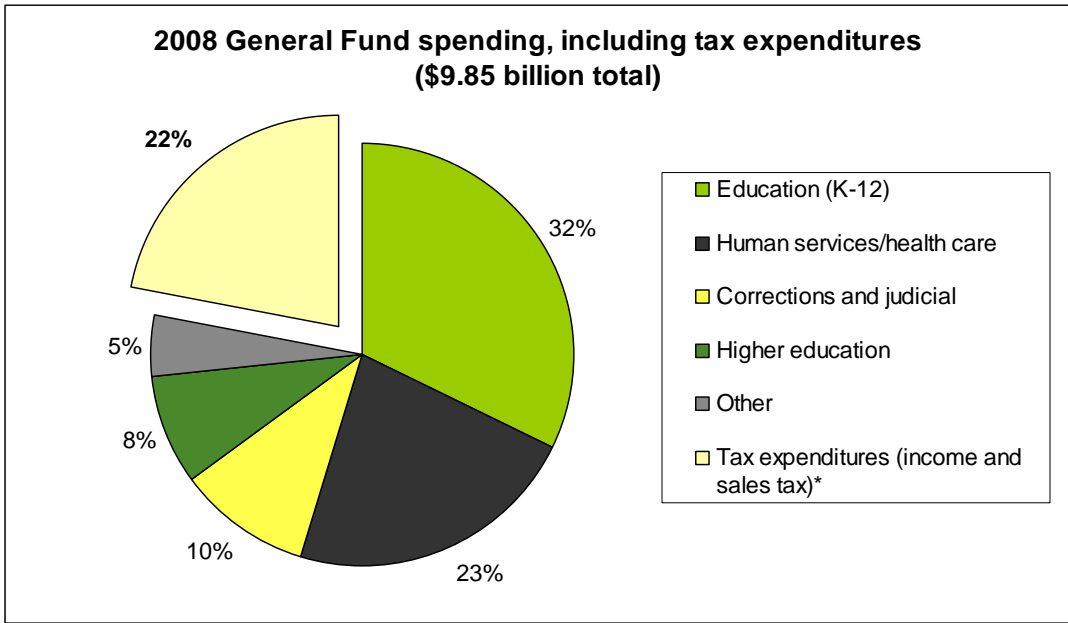
Tax expenditures also reduce the tax base. As a result, government revenues may need to be raised from other sources and/or tax rates may need to increase in order to provide substitute revenues to finance government services. For instance, in Colorado in 2008, annual sales tax expenditures alone were valued at \$1.8 billion.²⁴ For fiscal year 2008, total sales tax collections were \$2.12 billion.²⁵ This means that the exemptions eliminated almost 85 percent of the total tax revenue and that there would be \$1.8 billion less revenue from sales tax collected. Similarly, in 2008, individual income tax credits totaled \$314 million and corporate income tax credits were valued at \$38 million.²⁶ All of these expenditures and credits result in reduced revenue at the state level and a decrease in the funding available for public services.

Despite their current lack of scrutiny, tax expenditures are another form of government spending. The chart below shows the spending on tax expenditures as another piece of the general fund appropriations for 2008. The dollar amount of revenue spent on tax expenditures is equal to 22 percent of the total general fund and is almost equal to the amount of revenue appropriated for all of health and human services, or all of the revenue dedicated to corrections, higher education and other government spending combined.

²⁴ *State Income Tax Credits, Rebates, and Modifications & State Sales and Use Tax Exemptions*.

²⁵ *2008 Colorado Department of Revenue Annual Report*, Colorado Department of Revenue, accessed January 10, 2011 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1229571401799&ssbinary=true>.

²⁶ *State Income Tax Credits, Rebates, and Modifications & State Sales and Use Tax Exemptions*.



Source: Analysis of Colorado Joint Budget Committee and Legislative Council staff documents
*Includes sales tax exemptions and income tax credits

Many states have mandated that detailed reporting of tax expenditures be provided to lawmakers to assist in making informed tax policy decisions. This often includes an analysis of who pays taxes, similar to the one above produced by the Institute of Taxation and Economic Policy. Colorado, however, currently does not produce any tax expenditure report.

CHAPTER 3 COLORADO'S TAX PORTFOLIO

Income Tax

The income tax has become the largest tax source that funds Colorado's state government. In 2009, income tax receipts accounted for almost 60 percent of total tax collections.²⁷ Nationally, income taxes represented only 40 percent of tax collections.²⁸

History of the Income Tax in Colorado

Now the state's largest revenue source, the personal income tax was originally adopted by the voters via a constitutional referendum in 1936. This was more than two decades after the 16th amendment to the federal constitution that authorized a national income tax. At the end of the 1930s, income tax receipts were rather small in terms of total tax collections. Motor fuel, sales and use, motor vehicle and liquor taxes each accounted for more state tax revenue than income taxes.

In the first full-year of collections, slightly more than three-fifths of the \$2.8 million in total collections were from individual income tax. Corporate income taxes accounted for the other \$1.8 million. The legislature allocated 65 percent of the tax revenues to the state general fund for the first two years. After this time, since 1947, all income tax collections have been allocated to the general fund.

In 1937, income tax rates ranged from 1 percent on the first \$1,000 of income to 6 percent on income more than \$10,000. The tax burden was not great on average income earners at the beginning of the income tax system. The top income rate was increased to 10 percent over \$11,000 of income in 1947. In 1960, the rates were increased to 3 percent for the first \$1,000 but reduced to 9 percent for income over \$10,000.

The income tax system in Colorado was designed by the legislature until the early 1960s. In 1962, voters adopted a constitutional amendment that allowed the legislature to define income tax law by reference to federal tax law. The Colorado Income Tax Act of 1964 made the federal adjusted gross income the basis for determining Colorado income. Specific modification and exemptions were incorporated into legislation between 1964 and 1987. In that year, as a response to federal tax changes, a new income tax act was adopted by the General Assembly. That act established a single tax rate of 5 percent for individuals and corporations, as well as simplification in terms of tax preparation. The Taxpayer Bill of Rights (TABOR) amendment, adopted in 1992, requires the same rate for both individuals and corporations.

The income tax rate was subsequently reduced to 4.75 percent for calendar year 1999 and 4.63 percent beginning on Jan. 1, 2000. This is the current tax rate. Referendum C, adopted by the voters in 2005, allows the income tax rate to decline to 4.5 percent under specified circumstances after 2010.

Income Tax "Coupling"

Like most states, Colorado's income tax system is "coupled" with the federal income tax system. This means Colorado taxpayers begin with federal taxable income when calculating taxable income for their state income tax return. As such, the Colorado income tax system automatically incorporates all federal tax provisions. While this coupled system contributes to the simplicity of the state income tax system, it also can result in reduced state revenue based solely on congressional tax policy changes. The considerations of federal tax policy makers are different and often in conflict with Colorado's needs based on this state's economy and policy objectives. In all cases, the federal policy is not specifically tailored to unique state conditions.

Colorado, along with all other states, has the option to insulate portions of its internal tax code from federal income tax changes by "decoupling." Decoupling simply means state tax provisions do not follow the federal tax code.

When a state decouples from the federal income tax system, the action often results in a change in the federal taxable income the state tax return begins with.

Individual Income Taxes

²⁷ Schrock and Kirk, *Colorado's State Government Revenue Structure*.

²⁸ *State Government Tax Collections: 2009*, United States Census Bureau, accessed January 10, 2011 at <http://www.census.gov/govs/statetax/0900usstax.html>.

Colorado currently has a flat tax rate of 4.63 percent. Seven other states (Illinois, Indiana, Massachusetts, Michigan, New Hampshire, Pennsylvania, and Utah) have a single individual income tax rate, as opposed to a graduated rate. Thirty five states have graduated individual income tax rates that range from 2.0 percent to 12.0 percent. Seven states have no individual income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming).

Colorado's individual income tax generated \$4.38 billion in 2009.²⁹ As stated above, the individual income tax share of the General Fund has grown over time. In 1975, individual income taxes made up 39 percent of the General Fund while in 2008, individual income taxes accounted for 60 percent of the General Fund.

Colorado ranks 28th out of 43 states for individual income taxes when measured by \$1,000 of personal income.³⁰ Colorado's total tax amount per \$1,000 of income of \$20.74 was higher than the national average of \$20.12 for the 43 states with an individual income tax.

While a flat rate on taxes tends to be regressive, Colorado's individual income tax remains fairly progressive since it is tied to the progressive federal tax code. Income earners who make less than \$20,000 per year pay 0.7 percent of their income in individual income taxes while the top 1 percent of Colorado earners (those making \$557,000 or more) pay an average of 3.3 percent.³¹ However, those making more than \$100,000 annually pay roughly 60 percent of total taxes in the state and only make up about 14 percent of all taxpayers.³²

Corporate Income Taxes

Colorado's corporate income tax rate is 4.63 percent, the same as the individual income tax rate. Twenty nine states, including Colorado, have a flat corporate income tax rate. The lowest is Utah's and Colorado's is the second lowest. The highest is Pennsylvania's. Fifteen states have a graduated corporate income tax. The lowest rate of any bracket is 1 percent and the highest is 12 percent. Four states have no corporate income tax.

To determine the amount of money taxed at the state level, Colorado business returns begin with federal taxable income. At the federal level, a business subtracts its federal deductions from its gross receipts to calculate federal taxable income. Federal taxable income is then "apportioned" — or allocated — among the states in which the business operates to determine a business's tax liability in states where business income is generated. States use a variety of apportionment methods.

In 2008, the Colorado Legislature voted to make Colorado a single-sales factor apportionment state. This means when a business is apportioning its federal taxable income among states, it assigns to Colorado the share of its federal taxable income that is proportionate to the percentage of total sales made in the state. Other states use factors such as property owned in the state, number of employees in the state and actual presence in the state to determine state tax liability. However, federal taxable income is apportioned to Colorado based entirely on the amount of sales a business has in the state.

Corporate income tax collections yielded \$329 million in 2009.³³ Corporate income tax revenue makes up 6.9 percent of income tax collections and 5.8 percent of general fund revenue collections in Colorado.³⁴

Colorado ranks 42nd out of 46 states for corporate income taxes per \$1,000 of income. The national average for all 46 states is \$3.29.³⁵ Colorado businesses pay \$1.55 per \$1,000 of income.³⁶ Currently, there is no information on who pays these taxes by industry or even business type.

Excise Taxes

Sales and Use Tax

Colorado state government followed the general trend in the 20th century of increasing reliance on excise taxes. Preceded by a "privilege" tax on insurance companies (1883), an inheritance tax (1901), and a motor fuel tax (1919), the state's first general sales tax law was enacted as the "Emergency Retail Sales Tax Act of 1935," which levied the first excise tax on general retail sales of tangible personal property. Although the Act was scheduled to

²⁹ 2009 Colorado Department of Revenue Annual Report.

³⁰ Kirk, *How Colorado Compares in State and Local Taxes*.

³¹ *Who Pays? A Distributional Analysis of the Tax Systems of all 50 States*.

³² Colorado Fiscal Policy Institute analysis of *Colorado Statistics of Income, Table 1A: Federal AGI and Taxes, All Full-Year Resident Returns 2005 Individual Income Tax Returns*.

³³ 2009 Colorado Department of Revenue Annual Report.

³⁴ *Ibid.*

³⁵ Kirk, *How Colorado Compares in State and Local Taxes*.

³⁶ *Ibid.*

expire in 1937, the Old Age Pension Amendment, initiated in 1936, earmarked 85 percent of the proceeds of the sales tax, and rendered the new temporary tax permanent. When the 1935 law was enacted, a Service Tax was also imposed on professional and personal services, but increasing opposition from professional groups led to its repeal in 1945.

To prevent circumvention of the sales tax, a loophole in the law was closed by enacting a Use Tax in 1937, imposing a 2 percent levy on tangible personal property purchased outside Colorado and brought into the state for storage, use or consumption. The use tax rate in Colorado mirrors the sales tax.

Sales Tax Rate

The 1935 act imposed a tax rate of 2 percent of the sales price on the sale of tangible personal property, unless the property became a component part of a manufactured product. Also, gasoline and special fuels were exempt. The rate was raised to 3 percent in 1965, and for fifteen months during 1983 and 1984, was temporarily raised to 3.5 percent due to a budgetary shortfall. The rate then reverted back to the 3 percent on August 1, 1984.

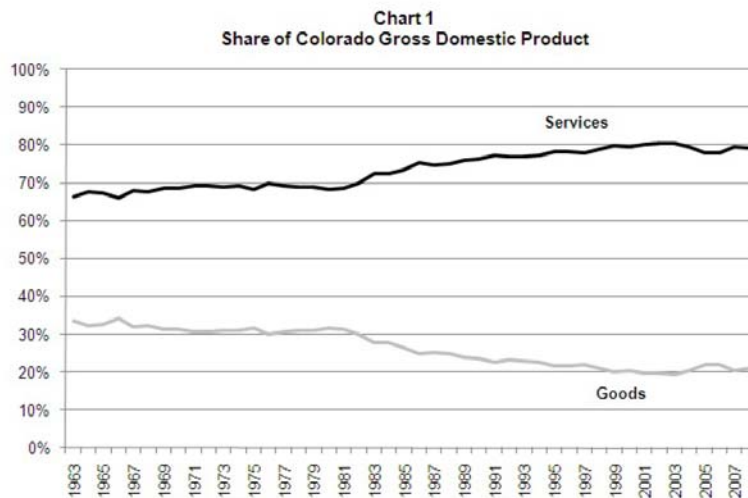
Effective January 1, 2001, the rate was lowered to 2.9 percent, as a form of tax relief, due to the state collecting more revenue than was allowed under the Taxpayer’s Bill of Rights (TABOR). This was viewed as an alternative to a general refund, allowing a direct benefit to those who specifically paid the sales or use tax in proportion to the amount paid, rather than refunding the same amount to everyone in the state.

Sales Tax Base

The sales tax base is defined as taxable sales of tangible personal property, plus telephone/telegraph services, gas and electric service for commercial consumption, prepared food or drink, and lodging accommodations. There are a variety of sales that are not taxable because the transaction is exempt from the tax, to promote either parity within an industry, social equity, or a desirable behavior. The two largest taxable sales that are exempt from sales tax are the sales and purchase component parts of a manufactured product or service and the sale of food for domestic home consumption.³⁷

Taxing Services

Since the enactment of the state sales tax, the service industry has grown rapidly in Colorado and across the country. The chart below shows that in 1963, just more than 65 percent of Colorado’s economic output was attributable to services compared to 2008, when services compose almost 80 percent of state output.



Source: Colorado Legislative Council, January 2010

Colorado’s sales tax base includes only 14 services.³⁸ According to Colorado Legislative Council, all other states include more services than Colorado in their sales tax mix, with the highest number of services taxed being in

³⁷ *State Income Tax Credits, Rebates, and Modifications & State Sales and Use Tax Exemptions.*

³⁸ Fiona Sigalla, *Sales Tax on Services*, Colorado Legislative Council Memorandum, January 29, 2010 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251607101016&ssbinary=true>.

Hawaii with 166.³⁹ The services that Colorado, and most other states, tax is below. The most commonly taxed services by all states are: tuxedo rentals, photocopying/photofinishing, printing, software, event admissions, and cellular and intrastate telephone utilities, leases and rentals.

**Services Commonly Taxed in Other States and
Subject to Colorado State Sales Tax**

	Number of States Currently Taxing
Hotels, Motels, Lodging Houses	50
Printing	45
Rental of Video Tapes for Home Viewing	45
Photo Finishing	44
Cellular Telephone Services - Residential Use	44
Intrastate Telephone - Industrial Use	43
Cellular Telephone Services - Industrial Use	43
Intrastate Telephone - Residential Use	41
Long Term Automobile Lease	40
Tuxedo Rental	38
Service Contracts Sold at the Time of Sale	32
Welding Labor (Fabrication and Repair)	31
Computer Software - Modifications to Canned Program	29
Trailer Parks - Overnight Rentals	29

Source: Federation of Tax Administrators

There were a total of 71 exemptions from state sales and use taxes in Colorado in 2008.⁴⁰ In 2009, Colorado's exemptions accounted for \$1.8 billion in revenue.⁴¹ The top three exemptions from sales and use taxes are components to manufacturing, food for domestic consumption and gasoline. The top three exemptions account for more than half of exempted revenue.⁴²

Recognizing the need to find a balanced way to approach the budget deficit, in 2010 the Colorado Legislature voted to rescind seven sales tax exemptions. The exemptions eliminated included the sales of supplies used in direct mailings, the sales tax exemption for candy and soda and the sales tax exemption for energy used by out-of-state retailers. These changes will generate an estimated \$132 million for Colorado in the first full year of implementation (2011).⁴³

Vendors Credit

In Colorado, vendors are required to collect sales tax from customers and remit it to the Department of Revenue. If a vendor properly complies with this requirement, they were eligible for tax credit against some of the tax they were required to remit. In 2009, this vendor tax credit was temporarily suspended as a budget balancing measure.⁴⁴ The suspension was estimated to increase revenue by more than \$71 million dollars in FY 2010-11.⁴⁵ The suspension will expire at the end of 2011.

Internet Sales Tax

In recent years, Internet sales have become a growing source of lost revenue for Colorado and other states with sales taxes. Current law stipulates that states may only require the collection of sales taxes by businesses with a physical presence, or "nexus" in the state. In practice, this means that Internet retailers without warehouses, offices, or stores in Colorado are not required to collect Colorado sales taxes on their sales to people in the state. As more and more Coloradans shop online, this loophole becomes a bigger and bigger problem for the state.

In 2010, the Colorado Legislature passed an attempt to mitigate the problem of lost sales tax revenue from Internet sales. Passed in February 2010 and effective March 1, 2010, House Bill 1193 stipulates that any retailer

³⁹ Ibid.

⁴⁰ *State Income Tax Credits, Rebates, and Modifications & State Sales and Use Tax Exemptions.*

⁴¹ Ibid.

⁴² Ibid.

⁴³ Colorado Fiscal Policy Institute analysis of the Fiscal Notes of House Bills 10-1194, 10-1195, 10-1196, 10-1197, 10-1199 and 10-1200.

⁴⁴ Colorado Senate Bill 09-212 accessed January 10, 2011 at

http://www.leg.state.co.us/clics/clics2009a/csl.nsf/fsbillcont3/9908363968A6ECCB87257551005B26B5?open&file=212_enr.pdf

⁴⁵ Terry Scanlon, *2011-12 budget presents a test for new leadership: Don't fail Colorado communities*, Colorado Fiscal Policy Institute, Nov. 10, 2010 at http://www.cclponline.org/uploads/files/ritter_final_budget_brief.pdf.

not collecting sales tax in Colorado must inform Colorado customers that while sales tax is not being collected by the retailer, a use tax may still be owed on the purchase. Specifically, the law requires a non-collecting Internet retailer to: (1) inform customers of their use tax obligation at the time of purchase, (2) provide customers with a year-end summary of purchases for use tax purposes, and (3) supply a similar report showing only an annual total to the Colorado Department of Revenue.

Colorado is not the first state to confront the problem of Internet sales tax loss. However, by relying on the use tax rather than attempting to force Internet retailers to collect sales tax, House Bill 1193 represents a unique approach to the problem. How effectively the law solves the Internet sales tax problem will be more evident when the first round of use tax payments since the passage of the law come due in Spring 2011.

TABOR Refund Mechanisms

Certain types of sales have been targeted for sales tax credits as a form of tax relief, or Taxpayer Bill of Rights (TABOR) “refund.” These occur only when the state is expected to collect revenue in excess of the TABOR revenue limit, commonly called “triggers.” In 2009, there were 23 of these specific credits, and are ranked in priority order, so that a higher state excess revenue threshold must be reached for each successive type of refund. However, in 2010, SB 10-212 removed all TABOR refund mechanism except for three: the Earned Income Tax Credit, the Temporary Income Tax Rate Reduction and the Six-Tier Sales Tax Refund.⁴⁶

Sales Tax Collections

In 2009, Colorado collected \$1.9 billion in state sales and use tax revenues.⁴⁷ This was an 8.2 percent decline from the prior year. Additionally, the percentage of the General Fund that is made up of sales and use tax collections has been declining. In 1976, sales and use taxes generated 37 percent of the General Fund. In 2008 sales and use taxes generated 30 percent.⁴⁸ The reasons for this include an increased number of sales and use tax exemptions, an increase in untaxed e-commerce, and a shift in the purchase of goods to the purchase of services.

Colorado is also one of 15 states where local governments collect sales and use taxes. Changes in the state sales and use tax base affect local sales tax collections. Those effects vary depending on whether the locality is a “home rule” jurisdiction. Local sales taxes are discussed in the section of this paper about local taxes.

Colorado’s sales tax ranks 44th of 45 states per \$1,000 of personal income. Five states have no state sales tax. The average amount of sales tax paid by all states is \$19.68 per \$1,000 of income. Colorado taxpayers pay \$10.86.⁴⁹

Sales and use taxes are the most regressive form of taxes in the Colorado tax system. The lowest quintile of taxpayers pays 5.7 percent of their income in sales tax while the highest 1 percent of earners pays only 0.8 percent.⁵⁰ One of the reasons for the disparity is the fact that lower-income taxpayers are more likely to spend all of their income each month, and therefore be subject to more sales taxes, than those with a higher income who save more.

Severance Taxes

Colorado’s severance tax was created in 1977 with the intent to recapture portions of the state’s “wealth endowment” that is lost due to the excavation and extraction of nonrenewable resources, and to create a source of revenue for the state and local government.⁵¹ Some of the revenue was also to be held in a trust to help offset the costs of the impacts of nonrenewable resource development.

Severance tax revenue is divided evenly between the Department of Natural Resources and the Department of Local Affairs. Each department uses the funding from severance taxes differently. The Department of Natural Resources uses the funding for water projects, natural resources-related programs, and for low-income energy assistance. The Department of Local Affairs distributes its funding to local government to offset the impact of natural resource extraction.⁵²

⁴⁶ Kate Watkins, *TABOR Refund Mechanisms*, Colorado Legislative Council Memorandum, Oct. 22, 2010 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251665701857&ssbinary=true>.

⁴⁷ 2009 Colorado Department of Revenue Annual Report.

⁴⁸ Kirk, Colorado’s Revenue and Tax Structure Power Point presentation.

⁴⁹ Ibid.

⁵⁰ *Who Pays? A Distributional Analysis of the Tax Systems of all 50 States*.

⁵¹ Jason Schrock, *Severance Tax and FML Revenue*, Colorado Legislative Council Memorandum, Dec. 30, 2008 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251606227916&ssbinary=true>.

⁵² Ibid.

Colorado's severance tax is levied on the value of extracted natural resources. More than 81 percent of the severance tax revenue comes from natural gas. The remaining severance tax revenue is from oil, coal, and other minerals. Colorado's severance tax also incorporates a tax credit to offset taxes paid on resources at the local level. Since producers pay a local property tax on extracted resources, the state allows 87.5 percent of local property taxes paid to be credited against severance tax liability.⁵³

Severance tax collections in 2009 were 10.7 percent of cash fund revenues. Severance tax collections are projected to be 8.1 percent of cash fund collections in FY 2010-11 (\$183 million).⁵⁴

When the combined state severance tax and the local property tax is considered, Colorado ranks second to last of all states that have severance taxes and fourth of the five western states that have a severance tax, including Wyoming, New Mexico, Oklahoma, and Utah.⁵⁵

Motor Fuels Tax

A motor fuel tax was enacted in 1919 as part of the Colorado Constitution. Gasoline, gas blends, and special fuels such as diesel, bio-diesel, kerosene, liquefied petroleum gases, and natural gas are all taxable under this article of the constitution. The tax rate on motor fuels and special fuels has not increased since 1991 & 1992 respectively.

Colorado has two primary motor fuels taxes and a motor vehicle registration fee. Colorado's two motor fuels taxes include a fuel excise tax (also known as the gas tax) of 22 cents per gallon on all non-diesel motor fuel sold and a diesel fuel tax of 20.5 cents per gallon.

The combination of those three sources raised \$1.06 billion for transportation services in FY 2008-09.⁵⁶ Transportation fees/taxes are estimated to make up 47 percent of the 2010-11 cash fund collections.⁵⁷

Colorado ranks 32nd out of 50 states in fuel taxes. Coloradans pay \$2.90 per \$1,000 of income on motor fuel taxes. The national average is \$2.89.⁵⁸

Cigarette Taxes

Cigarette taxes were enacted in 1964 as part of the Colorado Constitution. The tax rate was last increased in 2004 to 84 cents per 20 cigarettes with the passage of Amendment 35. Amendment 35 earmarked the revenue from this tax increase as follows: 46 percent to increase access to health insurance for children and working families, 19 percent to support community clinics that provide primary health care services to low-income, uninsured patients, 16 percent to fund comprehensive tobacco education, prevention and cessation programs, 16 percent to support prevention, detection and treatment programs for cancer, chronic pulmonary disease and cardiovascular disease and 3 percent to the general fund to support the old-age pension fund and municipal and county governments for health related expenses.⁵⁹

In comparison with other states, Colorado has a relatively low rank of 35th in the nation in cigarette tax collections per \$1,000 of income.⁶⁰ The national average is \$1.37 per \$1,000 of income. Coloradans pays \$1.02. In 2009, approximately \$189 million was collected by the state as a result of this tax levy.⁶¹

Alcohol Taxes

Shortly after the repeal of prohibition, Colorado enacted a statute imposing a liquor tax in 1933. Colorado has one of the lowest liquor tax rates in the country. Per \$1,000 of income, liquor tax collections in Colorado rank 43rd nationally.⁶² Tax rates on liquor vary based on the type of beverage, from 8 cents per gallon on beer to 60.26 cents per liter on spirits. This tax levy brought in just under \$36 million in collections for the state in 2009.⁶³

⁵³ 2009 Colorado Severance Tax Forms and Instructions, Colorado Department of Revenue, accessed January 10, 2011 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251678372504&ssbinary=true>.

⁵⁴ Budget in Brief: Fiscal Year 2010-2011, Joint Budget Committee of the Colorado General Assembly, accessed January 10, 2011 at http://www.state.co.us/gov_dir/leg_dir/jbc/FY10-11BIB.pdf.

⁵⁵ Kirk, *How Colorado Compares in State and Local Taxes*.

⁵⁶ Budget in Brief: Fiscal Year 2010-2011.

⁵⁷ Ibid.

⁵⁸ Kirk, *How Colorado Compares in State and Local Taxes*.

⁵⁹ Amendment 35 Implementation: Upholding the Promise to Voters, Colorado Children's Campaign, Feb. 1, 2005 at http://www.coloradokids.org/file_download/31501a8d-dc60-47a0-bae2-23ebedc1e59b.

⁶⁰ Kirk, *How Colorado Compares in State and Local Taxes*.

⁶¹ 2009 Colorado Department of Revenue Annual Report.

⁶² Kirk, *How Colorado Compares in State and Local Taxes*.

⁶³ 2009 Colorado Department of Revenue Annual Report.

Other Taxes

While the taxes listed above generate the most significant amount of revenue for the state, there are several other taxes that complete the Colorado state tax portfolio.

Gaming Taxes

Gaming is a self-contained (“cash-funded”) state function that receives no tax dollars for operations or expenses. There are 40 casinos in Colorado including two tribal casinos, seven casinos in Central City, 17 casinos in Black Hawk, and 14 casinos in Cripple Creek. Gaming is taxed and enforced by the Department of Revenue.

A graduated tax is imposed upon limited gaming retailers and operators. The amount of tax paid is dependent on the adjusted gross proceeds (AGP) from gaming. The AGP tax rate is between 0.25 and 20 percent of AGP. In 2009, Colorado casinos grossed \$701M and paid \$94M in taxes (effective rate of 13 percent).⁶⁴

Proceeds from gaming go into the Limited Gaming Fund. The Limited Gaming Fund Supports the following (determined by Constitution):

- 28 percent: State Historical Society (used for historic preservation and restoration)
- 12 percent: Gilpin and Teller counties
- 10 percent: Cripple Creek, Central City and Black Hawk
- 50 percent: General Fund

In 2008, Colorado voters passed Amendment 50. Amendment 50 was a citizen initiative which allows \$100 maximum bets, the addition of games of craps and roulette, and permits casinos to remain open 24 hours a day. The amendment also requires voter approval for any increase in gaming tax rates.⁶⁵

Beginning in 2010, the proceeds from the implementation of Amendment 50 will be distributed as follows:

- 78 percent to the Colorado Community College system
- 12 percent to Gilpin and Teller Counties
- 10 percent to the towns of Cripple Creek, Central City and Black Hawk

In the 2009, Amendment 50 generated \$6 million for Community Colleges.⁶⁶ In 2010, it is forecasted to generate \$6.5 million.⁶⁷

Motor Vehicle and Drivers License Tax

Motor Vehicle licenses and permits generated more than \$260 million in Colorado in 2009.⁶⁸ The majority of this revenue (more than 75 percent) was from taxes paid on vehicle registrations in Colorado.⁶⁹

Estate and Inheritance Taxes

The Colorado estate tax, based on the federal, was phased out beginning in Dec. 31, 2004 due to federal tax law changes. However, Colorado does have an income tax on estates and trusts. This income tax generated \$426,790 in 2009.⁷⁰

Regulatory and Business Taxes

Regulatory taxes on the licensing of businesses, including sales licenses, liquor licenses, cigarettes licenses and special fuels licenses and permits generated more than \$65 million in 2009.⁷¹ The largest revenue generating

⁶⁴ *Gaming in Colorado: Fact Book and 2009 Abstract*, Colorado Division of Gaming, accessed January 10, 2011 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251671563454&ssbinary=true>.

⁶⁵ *Amendment 50*, Colorado Department of Revenue, Division of Gaming, accessed January 10, 2011 at <http://www.colorado.gov/cs/Satellite/Rev-Gaming/RGM/1218795716371>.

⁶⁶ Deb Stanley, *Colorado Community Colleges Get \$6 Million From Gambling: Amendment 50 Gives Increased Revenue To Colleges*, 7 News, The Denver Channel, Aug. 26, 2010 at <http://www.thedenverchannel.com/news/24774601/detail.html>.

⁶⁷ Eric Kurtz, *FY 2010-11 Staff Budget Briefing: Department of Higher Education*, Joint Budget Committee of the Colorado General Assembly, Nov. 18, 2009 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251605706588&ssbinary=true>.

⁶⁸ *2009 Colorado Department of Revenue Annual Report*.

⁶⁹ *Ibid.*

⁷⁰ *Ibid.*

⁷¹ *Ibid.*

activities in this category include an underground storage tank surcharge (\$37 million) and PUC utility supervision fees (\$11 million).⁷²

LOCAL TAXES

Colorado is one of the most fiscally decentralized states in the nation. It boasts relatively strong local governments and a weak state government. Colorado is one of only four states in which the state government generates less tax revenue than the local governments.⁷³ Revenue collections by Colorado state government rank 47th per \$1000 of income.⁷⁴ However, revenue collections by state and local governments combined move Colorado to 44th per \$1000 of personal income.⁷⁵

This pattern of weak state government has been reinforced by various constitutional revenue limits adopted in the past two decades. The constitutional right to vote on all tax rate changes coupled with a revenue limit that forces government spending to lose pace with the growth in the economy has affected state finances dramatically. Local governments have had more opportunity and success in securing public support for retaining money collected above the revenue limit and for increasing tax rates.

Property and sales taxes are the major source of local tax revenue. The chart below shows where Colorado's property and sales taxes rank when compared to other states. Local governments in every state collect property taxes and local governments in all but 15 states collect sales taxes.⁷⁶ In 2008, local (municipal, county, school, and special districts) taxes accounted for 51 percent of combined state and local taxes.⁷⁷

Local Government Taxes	Colorado		National	
	Rank	Tax	High	Low
Total Taxes	8	\$48.71	\$78.82	\$16.72
Sales	2	\$14.43	\$23.59	\$0.00
Property	27	\$29.82	\$52.20	\$8.71

Source: Legislative Council Staff, Aug. 1, 2010.

Property Taxes

Colorado collects property taxes on the assessed value of both residential and commercial property. All of the revenues generated by property taxes remain at the local level. This revenue goes to pay for schools, roads, fire protections, police protection and other local services.

Property tax is collected on the taxable value of a property. In Colorado, the taxable value of property is not the market or the actual value; it is the "assessed value." The assessed value is a percentage of the actual value that is determined by applying the "assessment rate." The assessment rate in Colorado is 29 percent for commercial property and the residential and producing natural resources properties rate is set by the legislature on odd-numbered years.⁷⁸ The rate for 2009 and 2010 was 7.96 percent.⁷⁹

To calculate mill levies, once the assessed value is determined, the amount of tax due is calculated by applying the mill levy. Each local entity determines what revenue is required to operate their budget. They then divide the total amount needed by the assessed value to determine their mill levies for the year. A property owner's total mill levy is the total of their county, city school district and any other special districts mill levy. The total mill levy is multiplied by assessed value to determine the total amount of property tax that is due.

⁷² Ibid.

⁷³ *Taxpayer Report: How Colorado Compares, State Taxes and Spending (2006 Edition)*, Center for Tax Policy, accessed January 10, 2011 at http://www.centerfortaxpolicy.org/reports/How_Colorado_Compares.pdf.

⁷⁴ Kirk, *How Colorado Compares in State and Local Taxes*.

⁷⁵ Ibid.

⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ *Understanding Property Taxes in Colorado*, Colorado Division of Property Taxation, Colorado Division of Local Affairs, January 2004 at http://www.douglas.co.us/assessor/documents/Understanding_Property_Tax_001.pdf.

⁷⁹ 2009 Colorado Department of Revenue Annual Report.

History of Colorado Property Tax

At the time of Colorado's entrance into the union in 1876, state government tax sources were limited to property taxes and some form of excise taxes. Local governments were even more dependent upon property taxes for general revenue. Colorado's constitution limited the state government to levy up to four mills for general purposes and an additional one mill for buildings at state educational institutions.

The state of Colorado levied a property tax until 1964, when HB 64-1005 repealed all statutes dealing with state levied property taxation. Since that time, property tax revenues have been levied exclusively at the local level for school districts, cities, counties, special and other districts, and junior college districts. TABOR precludes the ability for the state to levy a property tax unless constitutionally changed by the voters it states, "No new state real property tax or local district income tax shall be imposed."⁸⁰

In a memo to the Joint Finance Committee on January 13, 2000, the Colorado Division of Property Taxation outlined the history of property assessments from the time of statehood to the present. The memo presented the many attempts by the General Assembly to require specified assessment levels by county assessors in order to provide equity within and among the counties. Those attempts continued until the 1980s. According to the memo in 1941, "the total assessed value of the state was 8.6 percent less than the 1913 valuation despite an estimated 50 percent increase in actual values."

The impacts of the depression along with replacement of some values due to the income tax and specific ownership tax on motor vehicles were factors contributing to this decline. There was a reduction in value due to the repeal of the property tax on intangibles and motor vehicles. However, there was also a replacement of this revenue with the imposition of income taxes and specific ownership taxes on vehicles. In addition, various state statutes that increased state aid for schools from counties with low values also contributed to lower assessments by county assessors. Thus, assessors were given an incentive to value property low in order to receive increased state aid for schools. In 1956 a constitutional amendment was adopted that exempted household personal property. The 60s and 70s were marked by further attempts to provide for equalized values and bringing assessments up-to-date. The General Assembly would react by delaying orders by the State Board of Equalization out of fear of property tax revolts then taking place in various parts of the country.

Finally, in 1982 HCR 1005 changed the system of property taxation in the state. According to the memo, this amendment required, "Appropriate consideration of cost, market and income approaches to value, with exceptions for agricultural, mine and oil and gas, and residential properties." Agricultural land would be valued according to the earning or productive capacity of the land. Producing natural resources values would be based on the value of unprocessed material and residential values would be determined by a cost and market approach. The Senate provision, now known as the Gallagher Amendment, required a constant ratio of property tax collections between residential and non-residential property before and after reappraisals. The maximum assessment rate for most non-residential property was set at 29 percent. The maximum residential assessment rate was set at 21 percent and the rate would be allowed to float up or down in order to maintain the ratio. Following the adoption of this amendment, reassessment of property is now conducted every two years.

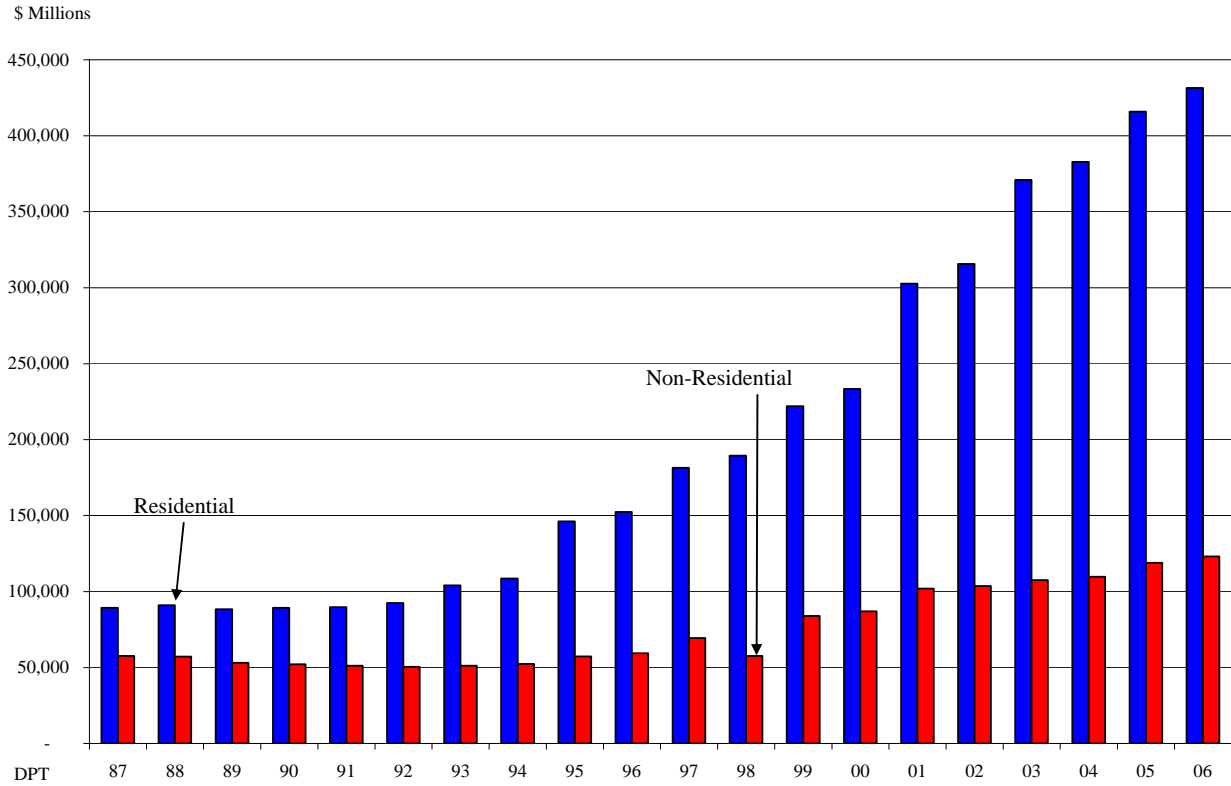
Increased oversight of the assessment process, together with a payback provision for under-assessed property, ultimately brought about equalization in values among the counties. The General Assembly was required to undertake a study of the assessors' valuations in determining compliance with provisions in determining the actual and assessed values of each class of taxable real and personal property. (This is conducted through an annual statewide property assessment study under the direction of the Colorado Legislative Council.) The 2000 memo continues: "if any county is found not to be in compliance, the state [board of equalization] must issue an order of reappraisal for the classes or classes not in compliance." Most importantly, the county must pay back to the state any excess aid to schools payments made to school districts, including interest. Beginning in 1983, the state board of equalization began issuing orders to counties in order to force compliance either through order to reappraise property classes or to payback school funds. The Gallagher Amendment of 1982 was a significant step in bringing equalization in property values and assessments up-to-date.

The following three tables show what has happened in terms of actual value, assessed value and property tax collection between 1987 and 2006. The first table shows that total actual values rose from \$147 billion in 1987 to \$555 billion in 2006. Residential actual values jumped from \$89 billion to \$432 billion for that period. Non-

⁸⁰ Article X, section 20 of the Colorado Constitution, provision (8) (a)

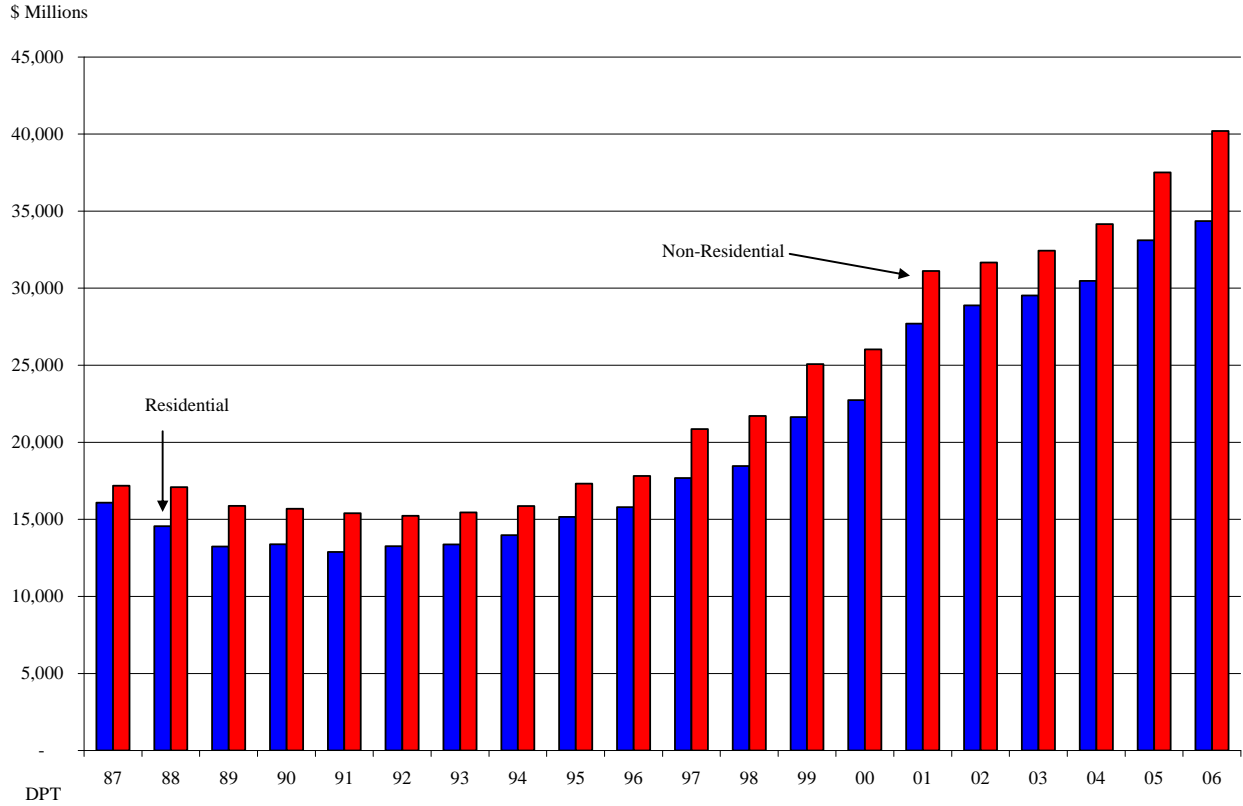
residential actual values jumped from \$58 billion to \$123 billion. Residential values grew at a much faster rate than non-residential in terms of actual values.

Actual Value: Residential and Non-residential, 1987-2006



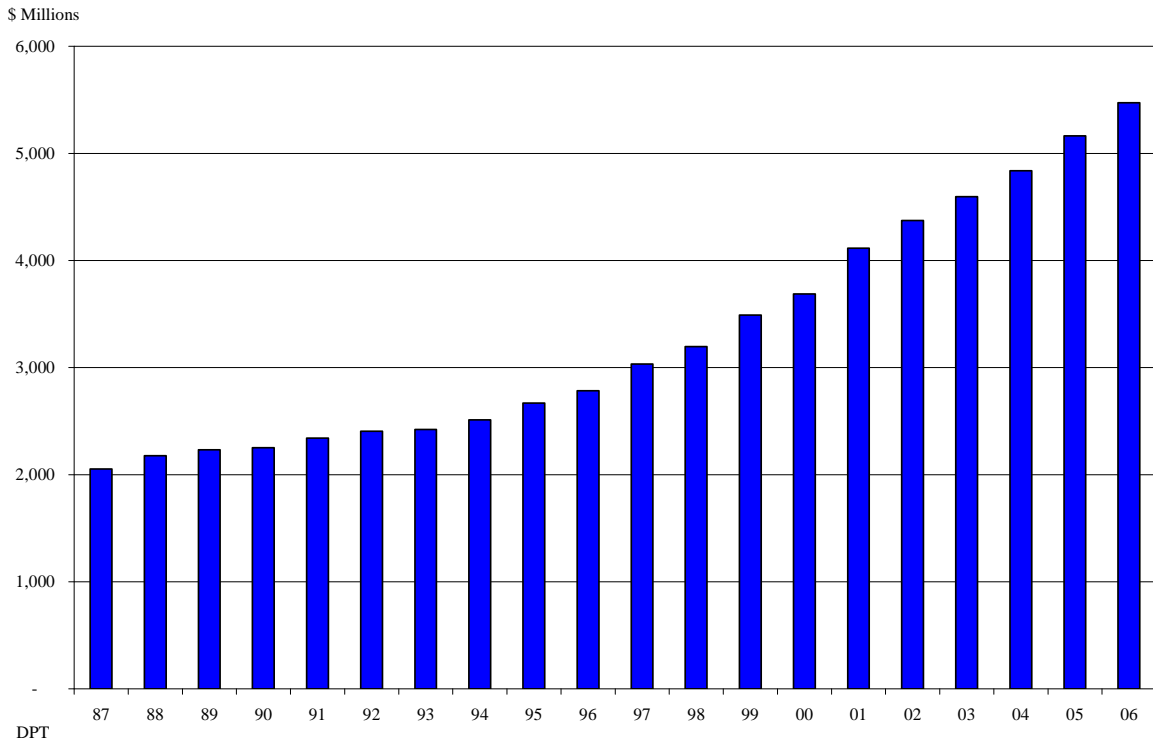
The next table shows the growth in assessed values during the past 20 years. Total assessed values increased from \$33 billion in 1987 to \$74.5 billion in 2006. Residential assessed values rose from \$16 billion to \$34 billion and non-residential assessed values increased from \$17 billion to more than \$40 billion. Non-residential property is assessed primarily at 29 percent of actual value, while residential is assessed on a floating rate, which declined from 18 percent to less than 8 percent by 2006.

Assessed Values, Residential and Non-Residential, 1987-2006



The final table shows property tax collections over the past 20 years. Property tax collections rose from \$2.05 billion in 1987 to \$5.47 billion in 2006. The large growth took place after 2000, reflecting growth in both actual and assessed values.

Property Tax Collections, 1987-2006



The Gallagher Amendment

The Gallagher Amendment established a ratio between residential and non-residential assessed values. Most non-residential property assessments were fixed at 29 percent of actual value and residential properties were set at 21 percent of actual value. However, the ratio between the two was to remain roughly 55 percent-45 percent respectively after each reassessment. Since implementation in 1987, the ratio has shifted slightly to 53 percent-47 percent as a result of new residential construction. The following table shows the change in the residential assessment rate since implementation in 1987.

RESIDENTIAL ASSESSMENT RATE	
Years	Rate
Prior to 1983	30%
1983-1986	21%
1987	18%
1988	16%
1989-1990	15%
1991-1992	14.34%
1993-1994	12.86%
1995-1996	10.36%
1997-1998	9.74%
1999-2000	9.74%
2001-2002	9.15%
2003-2004	7.96%
2005-2006	7.96%
2007-2008	7.96%
2009-2010	7.96%

Source: Division of Property Taxation, Annual Report 2009

In the Division of Property Taxation's Annual Report, the Division provides an estimate of the shift from residential to non-residential property owners as a result of the Gallagher Amendment's continuous lowering of the residential assessment rate.⁸¹ The estimates are based on a fixed residential assessment rate of 21 percent. Obviously, voters may have made constitutional changes during the past 20 years if that rate had remained fixed. This estimate shows a cumulative total of \$15.96 billion in property taxes shifted to non-residential property during the last two decades.

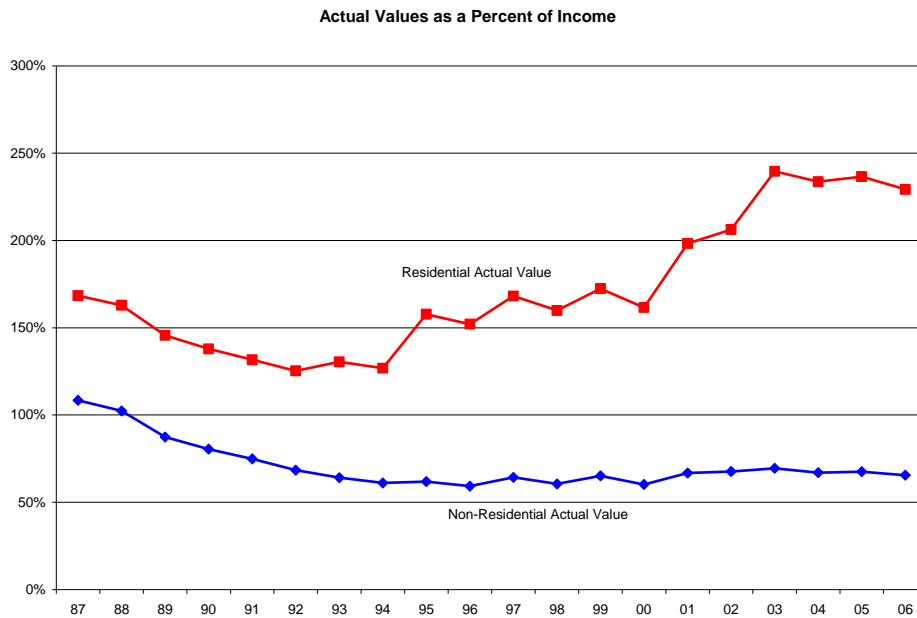
⁸¹ Ibid.

SHIFT OF PROPERTY TAX BURDEN DUE TO THE GALLAGHER AMENDMENT

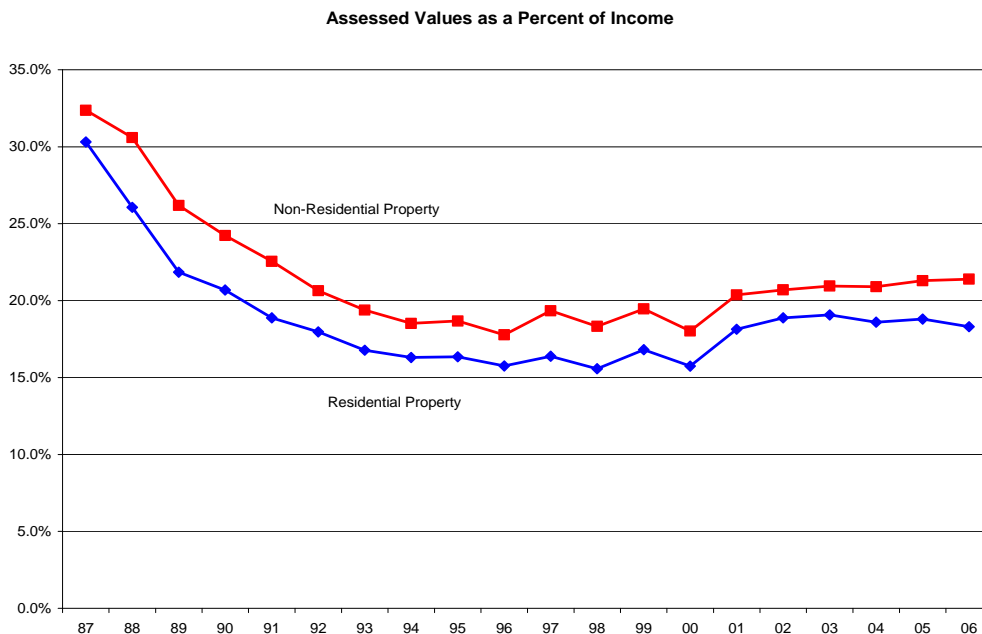
Tax Year	Res. Rate w/o Gallagher	Actual Res. Rate	Avg Actual Mill Levy	Avg. Levy at 21%	Total True Res. Assd. Value	Total True Assd. Value	Total Res. Assd. Value at 21%	Total Assd. Value at 21%	Total TRUE Revenue	Res. Revenue at 21%	Res. Revenue at True Rate	Savings to Res Taxpayers
Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9	Column 10	Column 11	Column 12	Column 13
1987	21%	18.00%	61.631	57.041	\$16,082,851,000	\$33,305,709,386	\$18,763,326,167	\$35,986,184,553	\$2,052,676,764	\$1,070,273,054	\$991,208,269	\$79,064,785
1988	21%	16.00%	68.941	60.260	\$14,565,525,000	\$31,594,514,873	\$19,117,251,563	\$36,146,241,436	\$2,178,165,007	\$1,152,001,612	\$1,004,165,343	\$147,836,269
1989	21%	15.00%	76.599	64.812	\$13,246,081,000	\$29,132,506,180	\$18,544,513,400	\$34,430,938,580	\$2,231,532,285	\$1,201,903,929	\$1,014,641,762	\$187,262,167
1990	21%	15.00%	77.543	65.465	\$13,393,681,000	\$29,039,235,830	\$18,751,153,400	\$34,396,708,230	\$2,251,797,175	\$1,227,553,345	\$1,038,589,762	\$188,963,583
1991	21%	14.34%	82.883	68.395	\$12,886,606,000	\$28,254,712,020	\$18,871,598,745	\$34,239,704,765	\$2,341,834,706	\$1,290,728,562	\$1,068,080,296	\$222,648,266
1992	21%	14.34%	84.618	69.563	\$13,256,627,000	\$28,447,544,980	\$19,413,470,502	\$34,604,388,482	\$2,407,175,164	\$1,350,453,688	\$1,121,749,638	\$228,704,050
1993	21%	12.86%	84.215	65.064	\$13,373,489,410	\$28,758,329,600	\$21,838,513,033	\$37,223,353,223	\$2,421,892,140	\$1,420,896,252	\$1,126,252,788	\$294,643,464
1994	21%	12.86%	84.423	65.084	\$13,970,427,000	\$29,761,160,460	\$22,813,294,479	\$38,604,027,939	\$2,512,514,138	\$1,484,786,121	\$1,179,419,579	\$305,366,542
1995	21%	10.36%	82.287	55.600	\$15,155,126,840	\$32,428,020,970	\$30,719,851,703	\$47,992,745,833	\$2,668,403,530	\$1,708,028,147	\$1,247,069,440	\$460,958,707
1996	21%	10.36%	82.951	55.931	\$15,788,272,000	\$33,563,472,960	\$32,003,254,054	\$49,778,455,014	\$2,784,139,391	\$1,789,961,545	\$1,309,660,357	\$480,301,188
1997	21%	9.74%	78.773	51.464	\$17,673,602,010	\$38,502,250,770	\$38,105,302,075	\$58,933,950,835	\$3,032,955,892	\$1,961,037,718	\$1,392,210,956	\$568,826,762
1998	21%	9.74%	80.042	52.162	\$18,452,519,220	\$39,910,771,429	\$39,784,692,363	\$61,242,944,572	\$3,194,557,668	\$2,075,251,197	\$1,476,985,652	\$598,265,545
1999	21%	9.74%	74.927	48.756	\$21,633,354,370	\$46,590,805,330	\$46,642,755,829	\$71,600,206,789	\$3,490,910,908	\$2,274,095,459	\$1,620,923,103	\$653,172,356
2000	21%	9.74%	75.733	49.182	\$22,729,547,584	\$48,673,508,510	\$49,006,211,423	\$74,950,172,349	\$3,686,192,349	\$2,410,218,895	\$1,721,377,541	\$688,841,354
2001	21%	9.15%	70.416	43.633	\$27,699,298,175	\$58,440,166,120	\$63,572,159,746	\$94,313,027,691	\$4,115,123,689	\$2,773,819,343	\$1,950,474,231	\$823,345,112
2002	21%	9.15%	72.350	44.696	\$28,882,504,491	\$60,456,523,380	\$66,287,715,225	\$97,861,734,114	\$4,374,011,505	\$2,962,784,501	\$2,089,640,619	\$873,143,882
2003	21%	7.96%	74.335	41.705	\$29,523,577,562	\$61,816,965,320	\$77,888,835,277	\$110,182,223,035	\$4,595,136,111	\$3,248,344,331	\$2,194,621,762	\$1,053,722,569
2004	21%	7.96%	74.969	42.274	\$30,470,840,993	\$64,541,293,358	\$80,387,897,092	\$114,458,349,457	\$4,838,584,603	\$3,398,298,534	\$2,284,362,993	\$1,113,935,541
2005	21%	7.96%	73.284	41.409	\$33,110,601,388	\$70,466,165,655	\$87,352,089,089	\$124,707,653,356	\$5,164,064,927	\$3,617,194,674	\$2,426,487,858	\$1,190,706,817
2006	21%	7.96%	73.480	41.859	\$34,350,208,817	\$74,489,498,610	\$90,622,410,196	\$130,761,699,989	\$5,473,511,765	\$3,793,334,198	\$2,524,064,138	\$1,269,270,060
2007	21%	7.96%	72.882	41.469	\$39,331,276,064	\$85,060,615,128	\$103,763,416,752	\$149,492,755,816	\$6,199,362,883	\$4,302,998,302	\$2,866,530,563	\$1,436,467,739
2008	21%	7.96%	72.748	41.405	\$40,409,568,301	\$87,449,633,973	\$106,608,157,578	\$153,648,223,250	\$6,361,812,205	\$4,414,115,983	\$2,939,727,397	\$1,474,388,587
2009	21%	7.96%	69.761	40.813	\$42,297,938,878	\$97,690,726,981	\$111,590,039,754	\$166,982,827,857	\$6,814,995,043	\$4,554,274,098	\$2,950,746,514	\$1,603,527,584
Estimated total savings to residential taxpayers from inception to 2009 =												\$15,943,362,927

Source: Division of Property Taxation, Annual Report 2009

The following charts show how the Gallagher ratio affected residential and non-residential property. The first chart shows residential and non-residential actual property values as a percentage of income. After declining in the first third of the 20-year period, residential values began a rise from less than 150 percent of income to nearly 250 percent a decade later. Non-residential values also declined in the first third of the period, but remained constant thereafter. This shows the tremendous growth in residential values compared with non-residential values during that last 20 years.



The next chart shows assessed value changes as a percentage of income for both residential and non-residential property. Both residential and non-residential assessed values declined in the first seven years and remained fairly constant throughout the rest of the period. They both show slight gains in the last six years. The impact of the Gallagher Amendment is notable in the difference between residential actual values in the second chart and residential assessed values in the third chart. The declining residential assessment ratio served to lower residential assessed values.



Property Tax Collections

Property taxes are a significant revenue source for funding local public services in Colorado. In 2008, property tax collections comprised about 60 percent of local government tax revenue in Colorado.⁸² In 2009, Colorado property tax receipts totaled \$6.8 billion.⁸³ Slightly less than one-half (49 percent) was generated to support public school districts and the next largest share (25 percent) supports county governments.⁸⁴

Colorado ranks 27th out of 50 states that collect local property taxes.⁸⁵ Property taxes in Colorado are \$29.82 per \$1,000 of income.⁸⁶ Colorado's property taxes are regressive. Colorado families that earn less than \$20,000 per year pay 2.6 percent of their income in property taxes, while those in the top 1 percent of all earners pay only 1.2 percent.⁸⁷

Business Personal Property Taxes

Local governments also collect a business personal property tax (BPPT). Business personal property is all the assets owned and used by a business. In Colorado it includes machinery, furniture, computers and "state assessed personal property", which is defined as cable lines, pipelines and utility lines.

Forty-one states tax at least some business personal property, however, it is very difficult to compare business personal property tax in Colorado to the business personal property tax in other states because property is taxed and valued in a large variety of ways.⁸⁸

The Colorado business personal property tax is assessed on the actual value (market value) of all the assets owned and used by a business greater than \$4,000 in value. In 2003, the business personal property tax generated \$634.4 million in local property taxes, which equals 13.8 percent of the \$4.6 billion collected in property taxes statewide.⁸⁹

Roughly 84,000 local business paid BPPT in 2003. Of these businesses, 1 percent of these companies paid 74 percent of the tax and 25 percent of these companies paid 96 percent of the total business personal property tax.⁹⁰

In an attempt to reduce the burden of the business personal property tax on small business, several exemptions have been adopted. For instance, business personal property with an acquisition cost of less than \$250 or a shelf life under one year is not taxed. Also, agricultural machinery and business inventory is not taxed. Finally, businesses are not required to pay business personal property tax if the total actual value of the property is assessed at \$4,000 or less (2010). This exemption based on HB08-1225 will increase over time as follows:

Year	Property Tax Exemption – Tax not imposed on property valued at less than:
Prior to 2009	\$2,500
2009 - 2010	\$4,000
2011 – 2012	\$5,500
2013 – 2014	\$7,000
2015 and later	Adjusted biennially to account for inflation

Source: General Assembly House Bill 08-1225

The business personal property tax funds local governments. In 2003, more than half of the business personal property tax revenues went towards funding school districts. The remaining revenues were distributed between counties, cities and special districts.⁹¹

⁸² Colorado Fiscal Policy Institute analysis of United States Census Bureau data found here: <http://www.census.gov/govs/estimate/>.

⁸³ 2009 Colorado Department of Revenue Annual Report.

⁸⁴ Ibid.

⁸⁵ Kirk, *How Colorado Compares in State and Local Taxes*.

⁸⁶ Ibid.

⁸⁷ *Who Pays? A Distributional Analysis of the Tax Systems of all 50 States*.

⁸⁸ *Business Personal Property Tax in Other States*, Colorado Legislative Council Memorandum, Aug. 19, 2004 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251599410195&ssbinary=true>.

⁸⁹ *Report by the Interim Committee on Economic Development – Business Personal Property Tax*, Research Publication No. 532, November 2004 at <http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251598505633&ssbinary=true>.

⁹⁰ Ibid.

⁹¹ Ibid.

County reliance on the business personal property tax varies dramatically. For example, in Hinsdale County, the business personal property tax makes up 1.87 percent of total assessed value, while in Morgan County, the tax makes up 44.16 percent. Since business personal property tax is assessed on power plants and pipelines, rural counties are generally more dependent on BPPT than urban counties.⁹²

Local Sales Taxes

Many cities and counties impose their own local sales/use tax on purchases and transactions within their boundaries. The Colorado Department of Revenue, in addition to collecting state sales and use tax, collects sales tax on behalf of many cities and counties. These jurisdictions are referred to as "state-collected." Most Colorado counties that impose sales tax are state collected; however, Broomfield and Denver counties collect their own county sales tax.⁹³

Cities which have enacted a "home-rule" charter, and which have elected to administer their own local sales and use taxes, are referred to as "self-collected" or "self-administered." Self-administered jurisdictions have the right to establish their own regulations regarding those goods and services upon which to impose their local sales and use taxes.⁹⁴

In 2008, local sales tax revenues totaled more than \$3.2 billion.⁹⁵ This amount equals a little more than 30 percent of the \$10 billion in taxes collected at the local level annually. Colorado ranks 2nd out of 35 states that collect local sales taxes (per \$1,000 of income).⁹⁶

⁹² Ibid.

⁹³ *Sales Tax*, Colorado Department of Revenue, accessed January 10, 2011 at <http://www.colorado.gov/cs/Satellite/Revenue/REXX/1176842266427>.

⁹⁴ Ibid.

⁹⁵ Colorado Fiscal Policy Institute analysis of United States Census Bureau data found here: <http://www.census.gov/govs/estimate/>.

⁹⁶ Kirk, *How Colorado Compares in State and Local Taxes*.