

# TAX BASICS and COLORADO TAX DETAIL

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# What Are We Going to Talk About

Some definitions

Context—Policy and Constitutional

A look at Colorado Taxes --income Taxes, sales taxes, property taxes

Who Pays Colorado Taxes

More Context –Wrap up

# Tax Terms:

**Tax Base-** measure of value upon which tax is levied

- Income—wages, salary
- Sales— purchase of tangible goods
- Property—assessed value of real property

**Tax Rate-** portion of base paid in taxes

- State income tax -- 4.63%
- State sales tax -- 2.9%
- Property—rate is called a mill varies by district. (\$1 per \$1000 of value)

# Tax Terms:

**Regressive Taxation-** % of income paid in taxes **falls** with increased income

- Example: sales tax that takes larger share income of individuals with lower income than upper

**Progressive Taxation-** % of income paid in taxes **increases** with income

- Example: Graduated (stepped) income tax structure that applies higher rates to higher income

# Tax Terms:

**Single or Flat Income Tax-** constant rate on all income

**Graduated Income Tax-** rate increases as income increases (also called a progressive income tax)

Graduated Tax Example:

\$0-\$10 is taxed at 2%

\$10-\$20 is taxed at 3%

\$20-\$30 is taxed at 4%

\$40+ is taxed at 5%

What are taxes if Person A earns \$25?

$$= \$10(.02) + \$10(.03) + \$5(.04)$$

$$= \$0.70 \text{ in taxes}$$

# Tax Terms:

**Marginal Rate:** rate paid on last addition dollar of income

**Effective Rate:** rate of taxation after varying rates applied as well deductions, exemptions, credits

Graduated Tax Example:

\$0-\$10 is taxed at 2%

\$10-\$20 is taxed at 3%

\$20-\$30 is taxed at 4%

\$40+ is taxed at 5%

**MARGINAL RATE—5%**

What are taxes if Person A earns \$25?

$$=\$10(.02) + \$10(.03) + \$5(.04)$$

$$=\$0.70 \text{ in taxes}$$

**EFFECTIVE RATE 2.8%**

Marginal Rate on last dollar: 4%

Effective Rate:  $\$0.70/\$25 = 2.8\%$

# Tax Terms

**Tax Deduction:** a tax code provision that reduces the amount of tax liability by reducing the tax base.

**Tax Credit:** a tax code provision that reduces the tax liability by subtracting from the amount of tax owed.

**Tax Exemption:** a tax code provision that excludes or “exempts” an item or an amount from taxation.

# Tax Deductions

Tax Deduction: a tax code provision that reduces the amount of tax liability by reducing the tax base.

What are taxes if Person A earns \$25 and claims a \$.50 deduction?

**Tax Liability w/out deduction=**

$$=\$10(.02) + \$10(.03) + \$5(.04)$$

= \$0.70 in taxes owed

**EFFECTIVE RATE 2.8%**

**Tax Liability with the deduction**

- $=\$10(.02) + \$10(.03) + (\$5-.50)(.04)$

- = \$0.68 in taxes

- **EFFECTIVE RATE With Deduction: 2.72%**



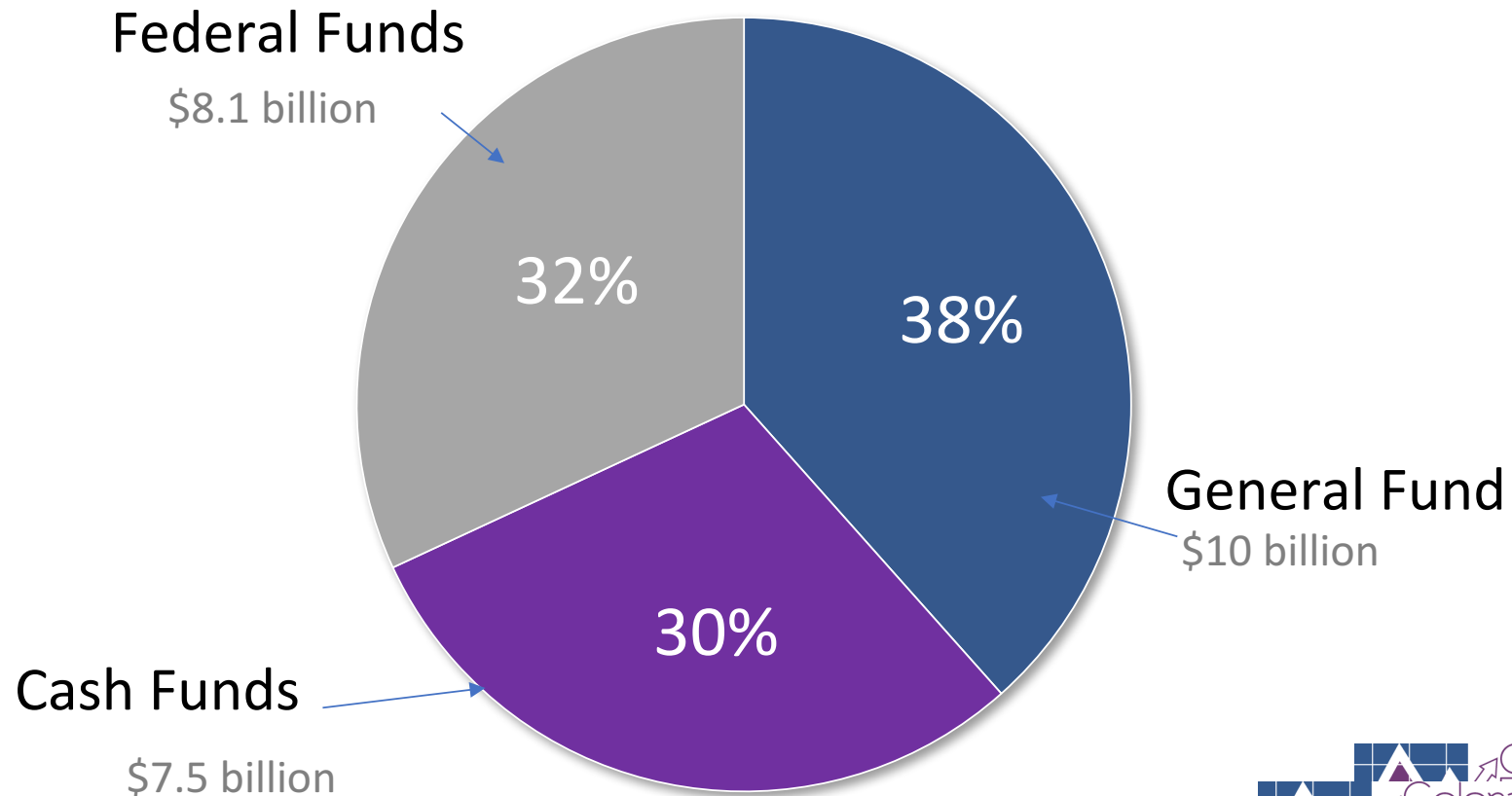
# Tax Credit

Tax Credit: a tax code provision that reduces the tax liability by subtracting from the amount of tax owed.

- What are taxes if Person A earns \$25 and claims a \$.50 credit?
- Tax Liability w/out credit=
- $=\$10(.02) + \$10(.03) + \$5(.04)$
- $=\$0.70$  in taxes owed
- **EFFECTIVE RATE 2.8%**
- Tax Liability with credit of \$.50=
- $\$.70$  (taxes owed) - **\$.50** (credit)
- $= \$.20$  in taxes
- **EFFECTIVE RATE 0.8%**

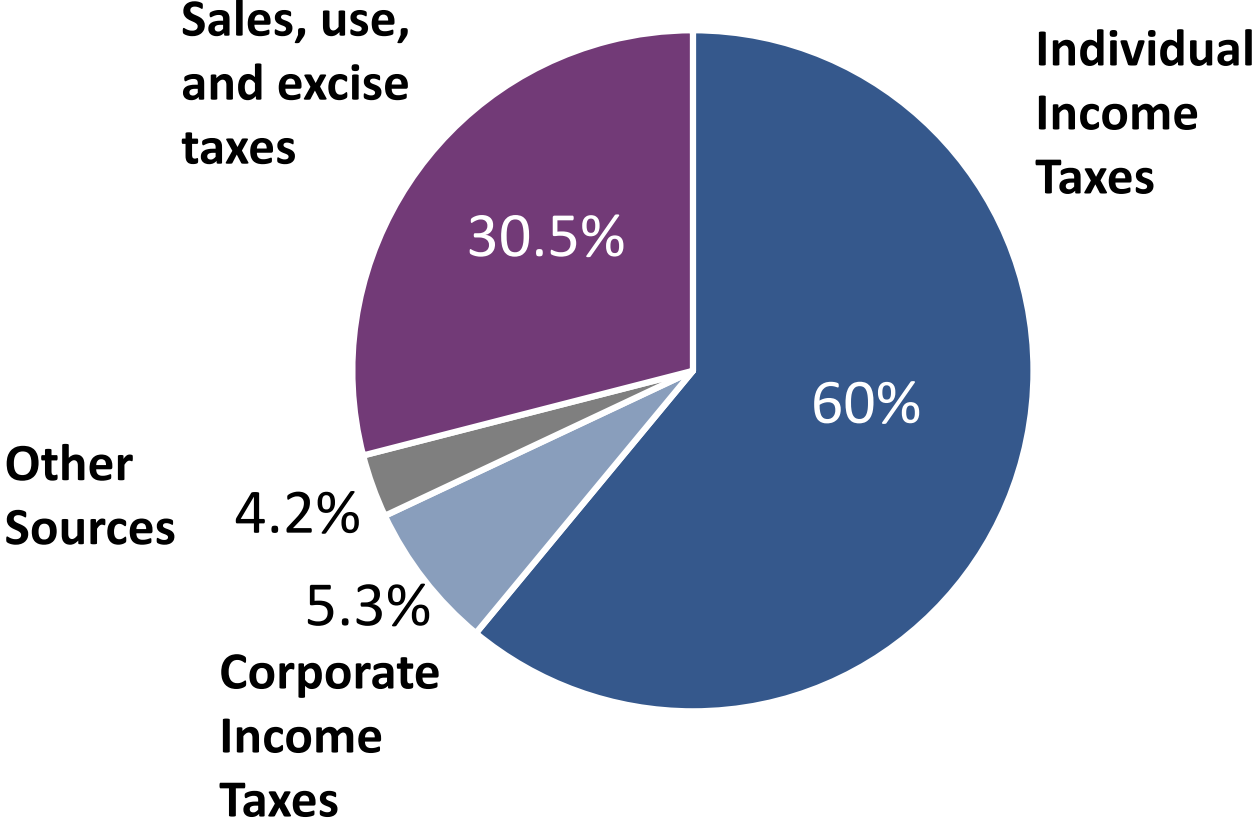
# Three basic pots of money in the State budget

\$27.1 billion total budget in FY2016-17



Total budget includes \$1.5 billion "reappropriated funds"

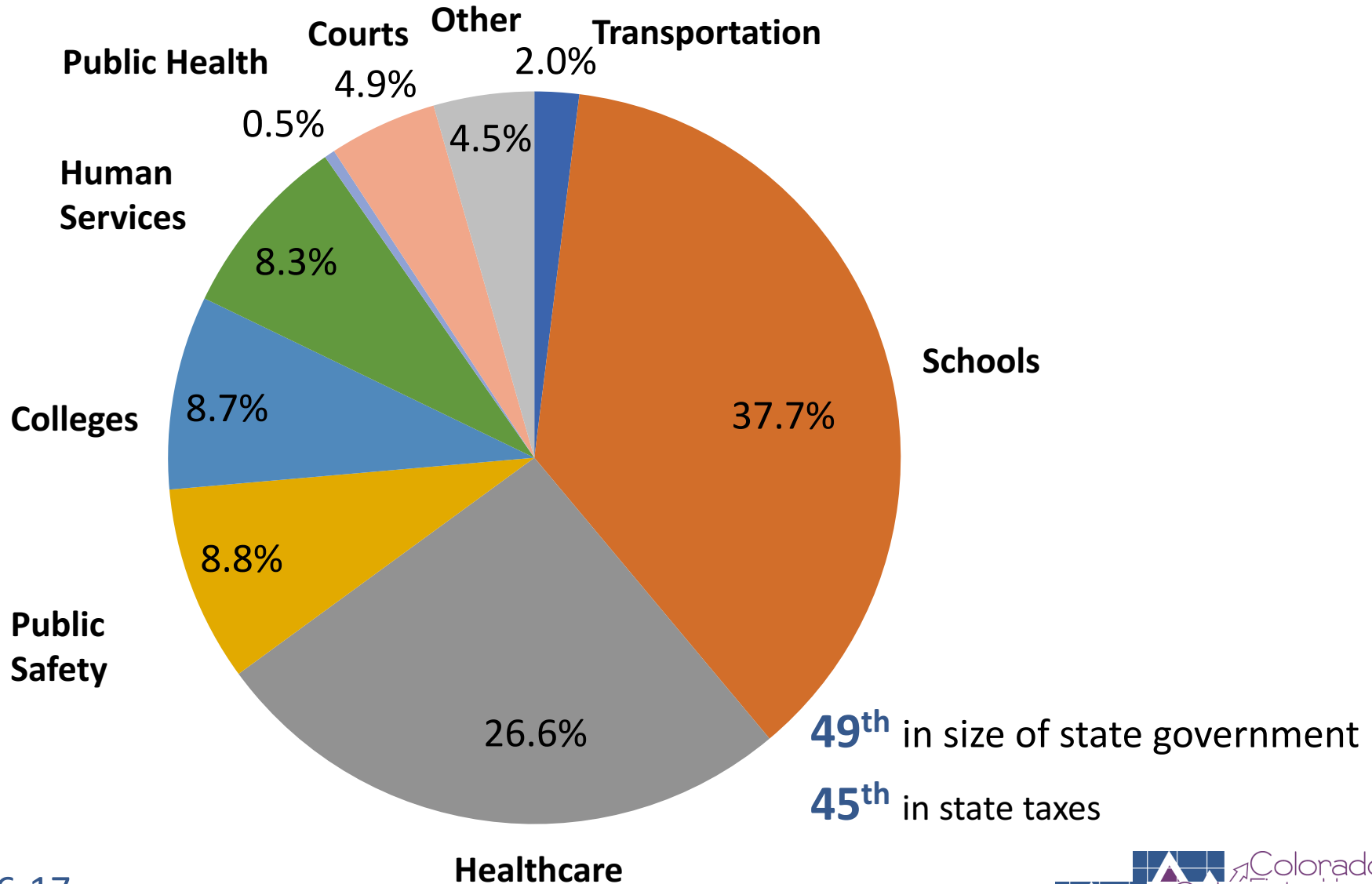
# General Fund Revenue Sources



FY2016-17 \$10.5 billion



# What does the money buy?



49<sup>th</sup> in size of state government

45<sup>th</sup> in state taxes

FY2016-17  
Colorado General Fund \$10 billion



# Constitutional Constraints on Tax Policy

## The Legislature Can't Raise Taxes-

Art X Sec 20 (4):

**“districts must have voter approval in advance for: ...any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase for a property class, or extension of an expiring tax, or a tax policy change directly causing a net tax revenue gain to any district.”**

# Constitutional Constraints on Tax Policy

## The Legislature Can't Use the Money it Collects At Current Tax Rates:

Art X Sec 20 (7):

(b)The maximum annual percentage change in each local district's fiscal year spending equals inflation in the prior calendar year plus annual local growth..."

(d) If revenue from sources not excluded from fiscal year spending exceeds these limits in dollars for that fiscal year, the excess shall be refunded ....

(Definition of Fiscal Year spending—all revenue from taxes and fees and savings. Art X Section (1)(e) "Fiscal year spending" means all district expenditures and reserve increases.....)

# Constitutional Constraints on Tax Policy

## The Legislature Can't Use the Certain Policy Options for Taxation:

Art X Section 20(8):

Revenue limits.

- (a) New or increased **transfer tax rates on real property are prohibited. No new state real property tax or local district income tax** shall be imposed. Neither an income tax rate increase nor a new state definition of taxable income shall apply before the next tax year. Any income tax law change after July 1, 1992 shall also require **all taxable net income to be taxed at one rate**, excluding refund tax credits or voter-approved tax credits, with no added tax or surcharge.

# Context--Individual Income Taxes in Colorado

- 43 states have income taxes
- Only 10 states have single rate income taxes
- Only 8 of the 42 have a top rate lower than Colorado's 4.63%
- Prior to 1987 Colorado had a graduated tax
- Switched to a flat rate of 5% in 1987
- Rate has been lowered twice since 1999



# State Individual Income Taxes Facts

Type: **Single Rate** both individual and corporate

Base: Federal Taxable Income

Marginal Rate: 4.63%

Effective Rate: Depends on deductions, exemptions and credits

Revenue Generated in 2016: Individual \$6.4

Total Value of Tax expenditures: \$800 million (combined ind and corp)



# Corporate Income Taxes in Colorado

- Thirty-one states, including Colorado, have a flat corporate income tax rate.
- Colorado's is the third lowest rate at 4.63%
- Thirteen states have a graduated corporate income tax
- Federal taxable income “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.
- 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.

# State Corporate Income Taxes

Rate: 4.63%

Base: Federal Taxable income apportioned

Marginal Rate: 4.65%

Effective Rate: Depends on credits and deduction

Colorado ranks 29<sup>th</sup> out of 46 states for corporate income taxes per \$1,000 of income. The national average for all 46 states is \$3.21. Colorado corporations pay \$2.38

Revenue Generated in 2016: \$626 Million



# Sales Taxes in Colorado

State and Municipal source of revenue.

In 2012, local sales tax revenues totaled more than \$3.8 billion or 33% of local taxes.

Colorado ranks 2nd out of 35 states that collect local sales taxes (per \$1,000 of income).

2016, Colorado collected a little over \$3.97 billion in state sales and use tax revenues.

Sales taxes are a declining share of state funding. In 1976, sales and use taxes generated 37 percent of the General Fund. In 2016, sales and use taxes are estimated to generate 30.6%.

Colorado taxes fewer services than any other state.



# State Sales and Excise Taxes Facts

Rate: 2.9%

Base: Sales Price of Tangible Property

Effective Rate: Depends on deductions, exemptions and credits

Two largest are products used in manufacturing and food for home consumption

Colorado's sales tax ranks 44th of 45 states per \$1,000 of personal income.

Revenue Generated in 2015: \$2.99 B

Total Value of Tax expenditures: \$3.7 B



# Sales Taxes A Local Source of Funding

## Lakewood Example

For most of Lakewood, the combined sales tax rate is 7.5%

<b>State of Colorado</b>	<b>2.9%</b>
<b>Jefferson County</b>	<b>0.5%</b>
<b>RTD (1.0%) + Cultural (0.1%)</b>	<b>1.1%</b>
<b>City of Lakewood</b>	<b>3%</b>
<b>TOTAL COMBINED RATE</b>	<b>7.5%</b>

# Property Taxes in Colorado

No State Property tax. Prohibited in Art X, Sec 20 (8)

Rate (mill) set locally, Value determined locally by state prescribed method

Base: Appraised amount of real and business personal property

Rank: Colorado ranks 27th out of 50 states that collect local property taxes. Property taxes in Colorado are \$29.82 per \$1,000 of income.

Revenue Generated: In 2013, property tax collections comprised 63 percent of local government tax revenue in Colorado, totaling more than \$7.3 billion.

Lots of exemptions—TIFs and lots of other exemptions



# Property Taxes in General

Percentage of the value of the property subject to taxation

$$\text{Property Tax} = \text{Property Value} \times \text{Assessment Rate} \times \text{Mill Levy}$$

determined locally by market value

set by the state by property category —e.g. residential, commercial

established at local district level

The “rate” for Property tax

## In Lakewood

$$\text{\$1862.94} = \text{\$266,280} \times \text{7.96\%*} \times \text{87.8910}$$



# Example of Lakewood Tax Bill

Mill levy—6.75 mills

Tax Authority / Other Charges	\$ per thousand of assessed value Tax Mill Levy	Original Amount Due	Valuation	Actual	Assessed
R1 SCHOOL BOND REDEMPTION FUND	6.7500	143.07	Total	266,280	21,196
R1 SCHOOL GENERAL FUND	40.7370	863.46	<b>Messages</b>		
*CAPITAL EXPENDITURES	0.9420	19.97	• Complete Legal Description is on file in the Assessor's Office.		
*COUNTY GENERAL FUND	15.5950	330.55			
*DEPT OF SOCIAL SERVICES	1.3060	27.68			
DEVELOPMENTAL DISABLITY FUND	1.0000	21.20			
*LIBRARY FUND	4.1210	87.35			
*ROAD & BRIDGE FUND	1.2480	26.45			
*LAKEWOOD	2.0310	43.05			
*URBAN DRAINAGE&FLOOD C SO PLAT	0.0580	1.23			
*URBAN DRAINAGE&FLOOD CONT DIST	0.5530	11.72			
WEST METRO FIRE PROTECTION D	13.5500	287.21			
<b>Sub Total</b>	<b>87.8910</b>	<b>1,862.94</b>			

**Total** 1,862.94

Type	Charge/Adjustment
Original	1,862.94
Current Tax Year Amount	1,862.94
Payments	0.00
<b>Current Year Taxes Due</b>	<b>1,862.94</b>

Tax Due

\* Represents a Mill Levy Reduction \*\* Reduction in actual value



# Property Taxes in Lakewood

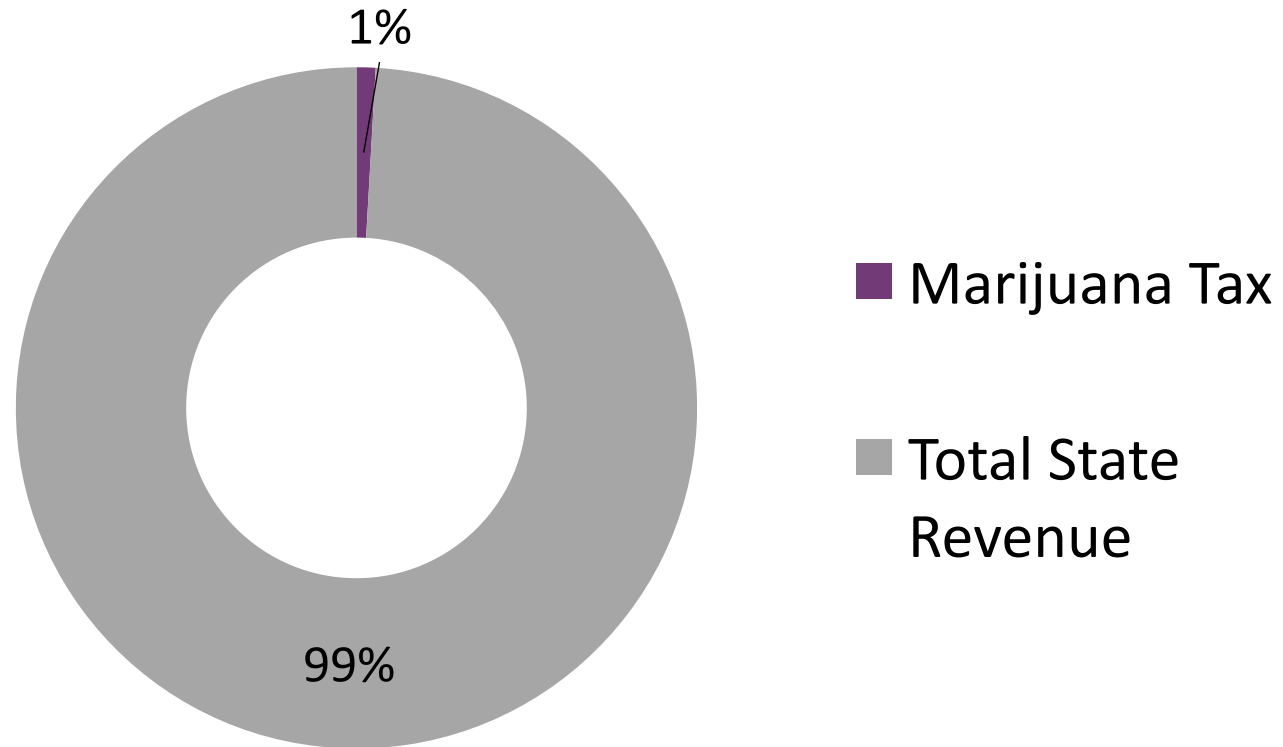
## Residential

$$\mathbf{\$1862.94} = \$266,280 \times \mathbf{7.96\%*} \times \mathbf{87.8910}$$

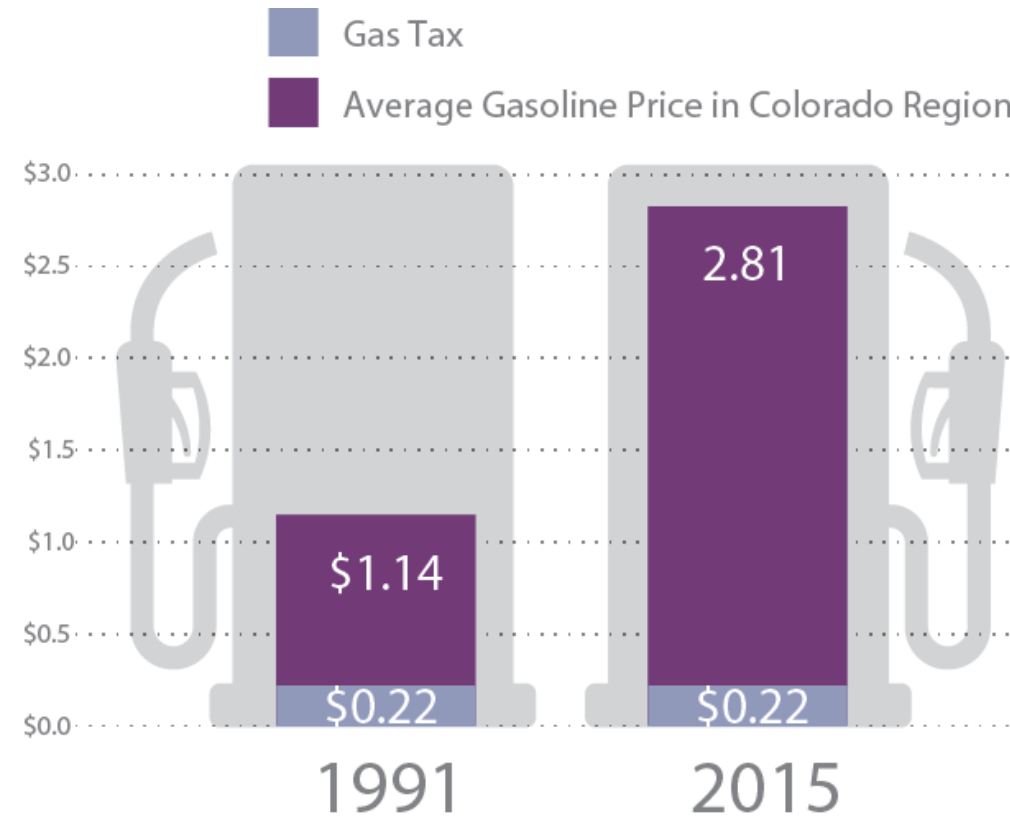
## Commercial

$$\mathbf{\$6787.04} = \$266,280 \times \mathbf{29\%} \times \mathbf{87.8910}$$

# Marijuana Revenue is Small Compared to Total Income and Sales Tax



# How Does Colorado Fund its Roads?



In 1991, Colorado's 22 cents per gallon tax was higher than national average, today Colorado's gas tax ranks 37<sup>th</sup>.

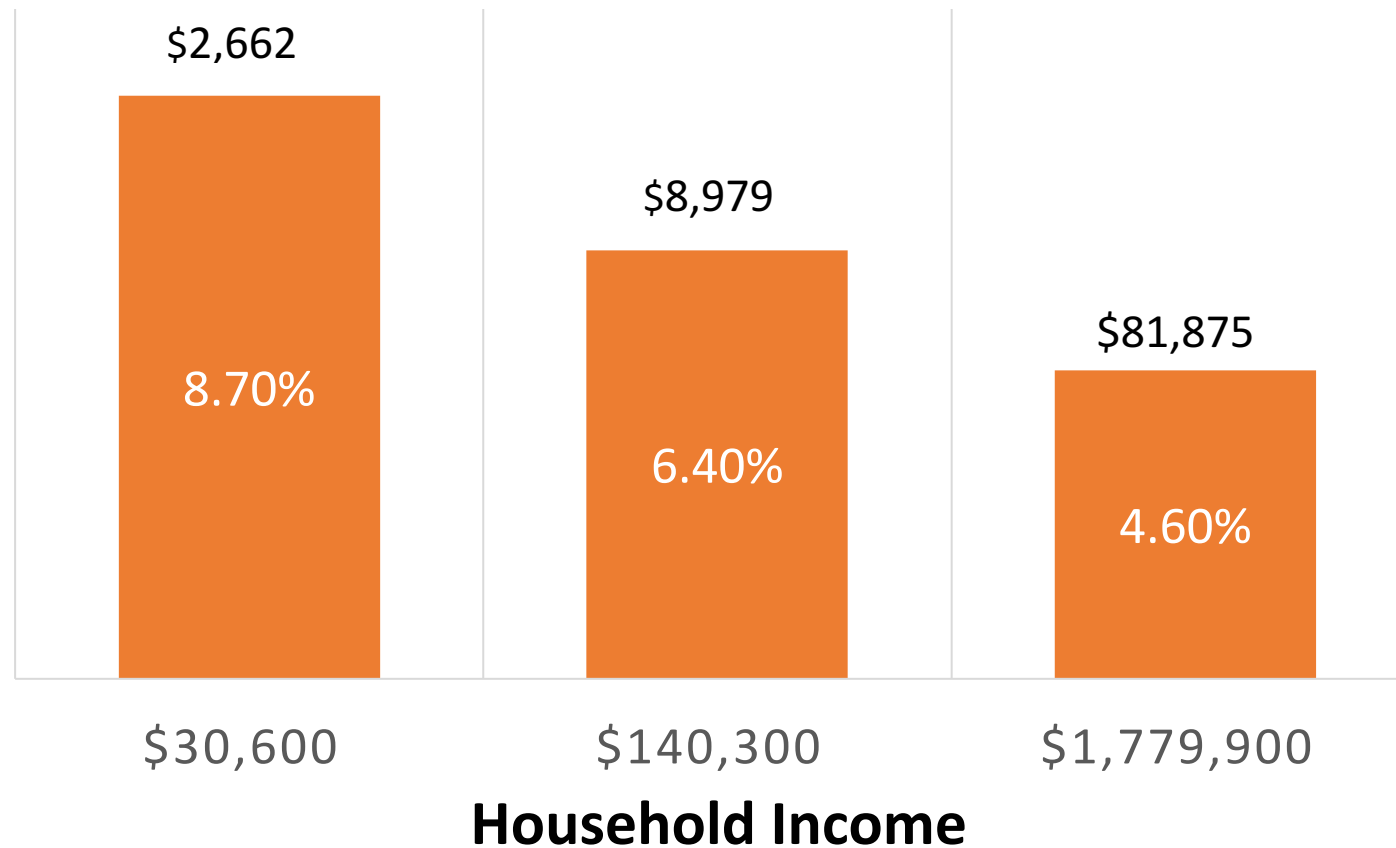
# Who pays taxes in Colorado?

Consider how much three different households pay, as a portion of their income, in local and state taxes?

Household 1: \$30,600	_____ %
Household 2: \$140,000	_____ %
Household 3: \$1.7 million	_____ %

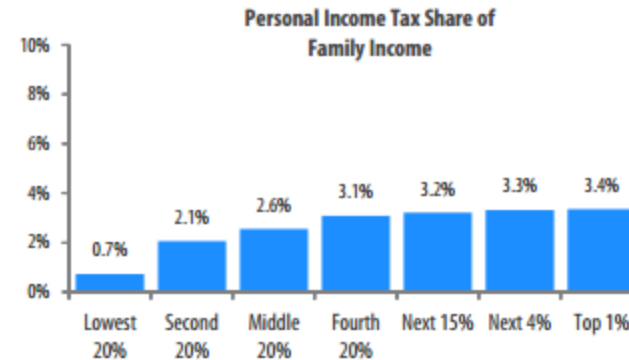
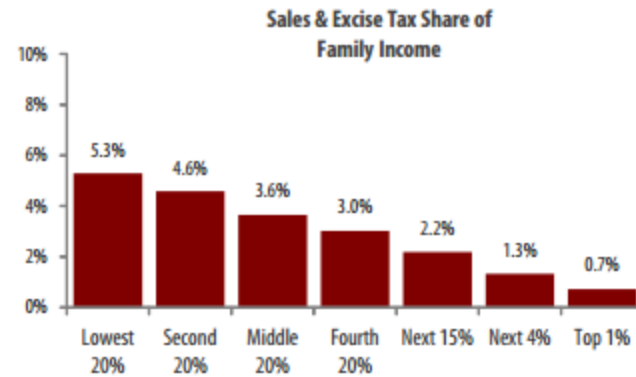
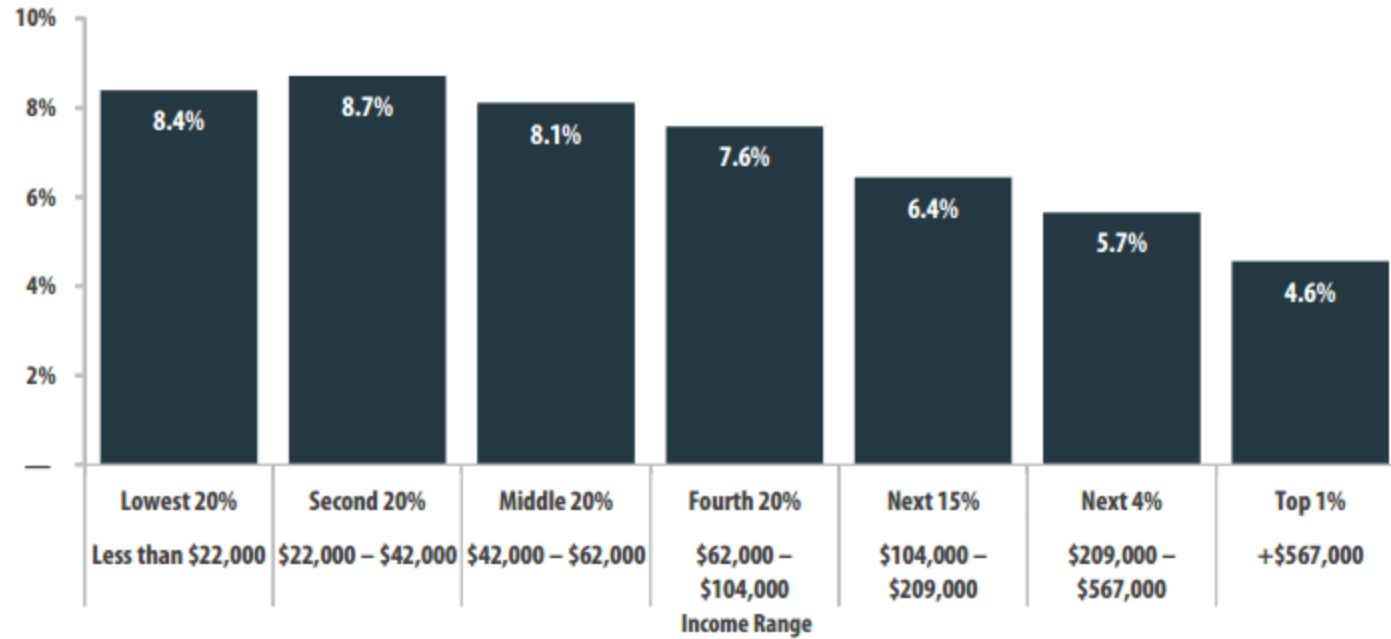
# An upside down tax system: lowest income pays the highest share.

Share of income paid in state and local taxes in CO



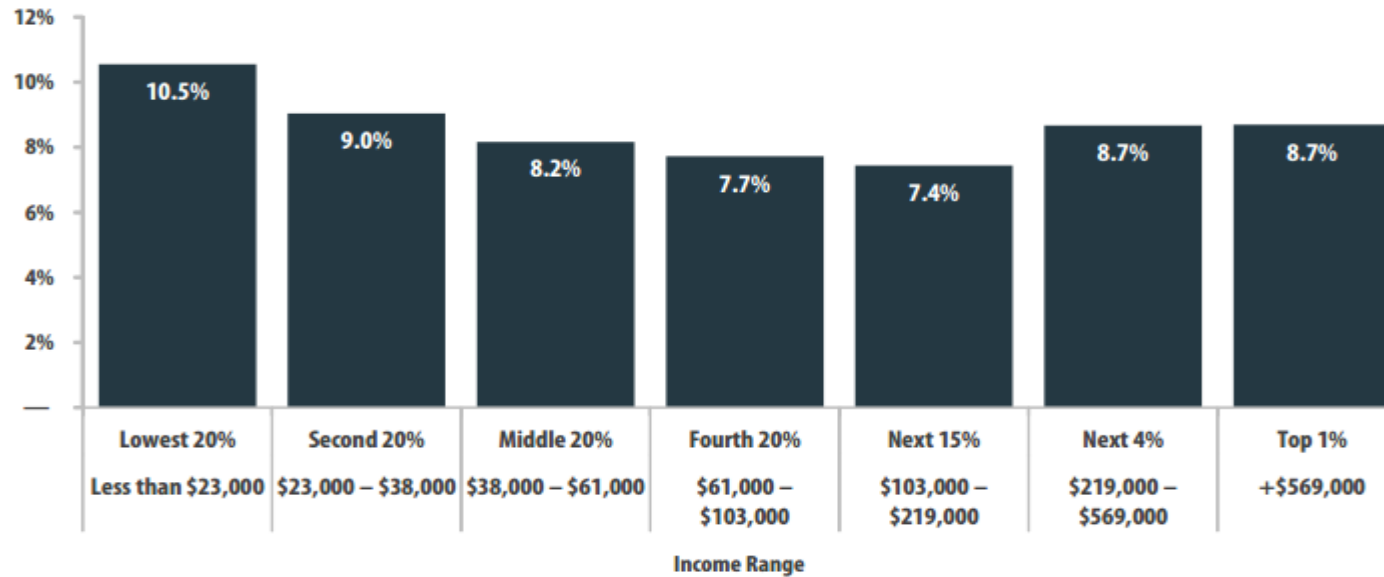
# Colorado State & Local Taxes in 2015

Shares of family income for non-elderly taxpayers



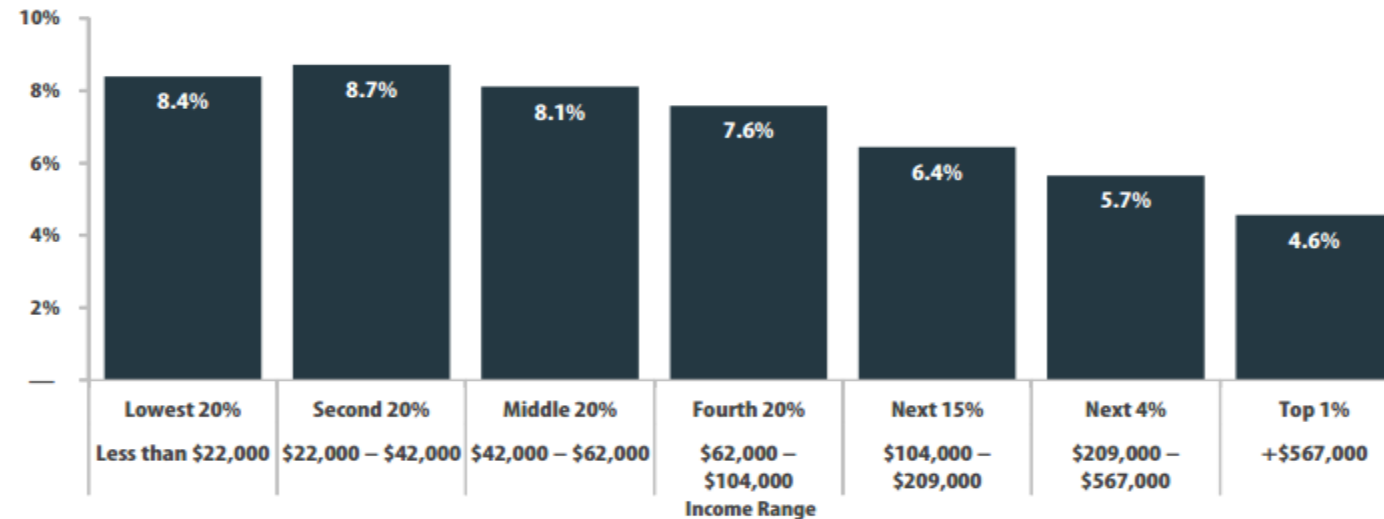
# California State & Local Taxes in 2015

Shares of family income for non-elderly taxpayers



# Colorado State & Local Taxes in 2015

Shares of family income for non-elderly taxpayers





# Options for Raising State Revenue

Increase income tax rate

Change income tax structure to graduated and raise upper bracket rates

Limit credits and deductions

Increase state sales tax rate

Expand the sales tax base

Limit exemptions

Increase the gas tax rate

Eliminate the severance tax ad valorem offset

RED means voter approval ALWAYS required