

Comparing State and Local Tax Revenue in Colorado – FY 2004-05

Local taxes in Colorado are among the highest in the nation, however, state taxes here are relatively low and the combined burden on taxpayers is modest compared to other states.

Colorado's tradition of fiscal decentralization, with strong local governments and a limited state government, is reflected in the latest revenue collection data from the U.S. Census Bureau. The Center for Colorado's Economic Future compared the FY 2004-05 figures – released in March 2008 – to census population estimates and income data from the U.S. Bureau of Economic Analysis.

The Center's analysis shows that Colorado ranked 47th in **combined state and local taxes**, with residents paying about \$89 per \$1,000 of personal income compared to the U.S. average of \$107. Looking at **state government taxes alone**, Colorado ranked 48th in taxes per \$1,000 of personal income. However, its **local government taxes** were 13th highest in the nation.

Two methodologies

There are two primary ways of comparing state and local revenue collections. The method that divides tax collections by residents' total personal income (the sum of wages, salaries, dividends, interest and other sources of income) measures the ability of taxpayers to pay taxes. The other method divides governmental revenue by the total population to produce a per capita measure.

Colorado's local tax burden ranked even higher – 10th in the nation – on a per capita basis in FY 2004-05. Local governments here collected \$204 per resident more than the national average. But state taxes still were low by this measure – exceeding only South Dakota, Texas and New Hampshire – and the **combined per capita burden** put Colorado 28th, below the national average by \$350. Colorado's state and local governments together collected about \$15.7 billion in taxes in FY 2004-05 – \$3,355 per resident compared to an average of \$3,705 nationally. Colorado ranked 5th best, at 91.1 percent, in the **percentage of per capita income remaining after state and local taxes** are paid. The national average was 89 percent.

State and Local Shares

Colorado was one of only four states in which the state government collected less tax revenue than local governments, with 48.8 percent of combined taxes generated at the state level. Only Texas, New Hampshire and New York had a lower **state government share** of combined state and local taxes. Conversely, Colorado ranked fourth in the share of state and local government taxes going to local governments.

Local governments in Colorado predominantly use **property and sales taxes** to raise revenue, while sales and **income taxes** generate most of the revenue for the state government. Colorado's fiscal

decentralization is clearly evident in its high local sales taxes and low state sales taxes. Colorado's local sales tax burden was third highest in the nation in FY 2004-05, amounting to nearly \$14 per \$1,000 of personal income. The U.S. average was \$6 per \$1,000 of personal income. In the ranking, the District of Columbia placed first and Colorado was second among the states after Louisiana, which allows its school districts to levy a sales tax. Among the 45 states with a **state sales tax**, Colorado ranked 44th, collecting about \$11 per \$1,000 of personal income compared to a U.S. average of \$21.

The historical pattern of a limited state government and growing local governments in Colorado was reinforced in recent years as local governments tended to win voter permission to exceed **TABOR revenue limits** more frequently and for longer time frames than the state government. The impact of **Referendum C**, which provided a five-year "time out" from TABOR limits on state government, is not reflected in the Center's analysis. Referendum C was passed in November 2005 and did not become effective until the subsequent fiscal year, after 2004-05 revenue collections.

Tax Policy Considerations

About one-half of Colorado's state receipts came from individual income taxes; the national average was slightly more than one-third. Colorado's dependence on income taxes makes the state more vulnerable during **economic downturns** because income tax receipts are affected by fluctuations in employment, wages, salaries and corporate profits.

Colorado's local governments received 30 percent of their tax revenue from general sales taxes, nearly three times the national average of 11 percent. Dependence on sales taxes significantly impacts land-use decisions in Colorado as municipalities seek to expand and enhance revenue-generating commercial property within their jurisdictions. This has exacerbated fiscal disparities among local governments.

Total Revenue

Colorado's state and local governments together received \$29.8 billion in total general revenue in FY 2004-05. This included revenue from the federal government, taxes, fees and other miscellaneous receipts. Colorado ranked 31st among the states and District of Columbia in combined state and local revenue collected per capita. It ranked 47th in total revenue collected per \$1,000 of income.

Intergovernmental Revenue

State and local governments in Colorado received more than \$5.1 billion from the federal government in FY 2004-05, which put the state 49th per capita and 47th per \$1,000 of income. Colorado received less federal assistance than nearly all other states because of its relatively young and higher-income population. Many federal programs are based on a per capita income formula and many are aimed at helping senior citizens.

Charges and Miscellaneous Revenue

Various state and local government fees, fines and other charges totaled \$9 billion in FY 2004-05. That included charges by institutions of higher education (\$1.6 billion), hospitals (\$1.1 billion), airports (\$591 million) and miscellaneous revenue of \$3.3 billion. Colorado ranked fifth in per capita charges and miscellaneous revenue; it ranked 19th in charges per \$1,000 of income.

Other Comparisons

- Colorado is close to the national average for **state and local property taxes**, ranking 25th per capita and 33rd per \$1,000 of personal income. Colorado's state government receives no property tax receipts.
- Colorado ranked 30th in per capita state **motor fuels tax** collections and 36th per \$1,000 of personal income.
- **State individual income** taxes accounted for nearly one-quarter of combined state and local taxes in Colorado, compared to a national average of about one-fifth.
- Colorado ranked 18th in per capita **state individual income tax** receipts but \$95 below the national average. It was 32nd per \$1,000 of personal income among the 43 states that levy an income tax.
- Among the 46 states with **corporate income taxes**, Colorado placed 41st per capita and 44th per \$1,000 of personal income.

Summary of Colorado State and Local Revenue, FY 2004-05

	Per Capita		Per \$1,000 of Income		Colorado Ranking		Number State + D.C.
	Colorado	US Avg*	Colorado	US Avg*	Per Capita	Per \$1,000	
Revenue							
State and Local General Revenue	6,374	6,830	169.51	196.50	31	47	50+DC
State and Local Intergovernmental Revenue	1,092	1,481	29.03	42.60	49	47	50+DC
State and Local Charges and Misc. Revenue	1,927	1,644	51.24	47.29	5	19	50+DC
State and Local Taxes	3,355	3,705	89.23	106.61	28	47	50+DC
State Government Taxes	1,636	2,195	43.52	63.21	47	48	50
Local Government Taxes	1,719	1,515	45.71	43.59	10	13	50+DC
<i>State Government Share of State and Local Taxes</i>	48.8%	59.3%			47		50
<i>Local Government Share of State and Local Taxes</i>	51.2%	40.7%			4		50
State and Local Property Taxes	1,057	1,134	28.11	32.64	25	33	50+DC
State and Local General Sales Taxes	940	909	24.99	26.13	16	28	46+DC
State Government General Sales Taxes	429	739	11.40	21.28	44	44	45
Local Government General Sales Taxes	511	207	13.59	6.05	4	3	35+DC
State Government Motor Fuels Taxes	126	117	3.35	3.37	30	36	50
State Government Individual Income Taxes	807	902	21.46	25.93	18	32	43
State Government Corporation Income Taxes	68	147	1.80	4.22	41	44	46
<i>Percentage of Income Remaining After State/Local Taxes</i>	91.08%	89.34%			5		50+DC

*U.S. averages computed by the number of states levying the tax

SOURCE: U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State: 2004-05*, released May, 2007; Population, Census Bureau, *Annual Estimates* series, July 1, 2005, released December 27, 2007; Income, Bureau of Economic Analysis, *Annual State Personal Income* series, 2005; revised, released march, 2008.