IN THE KNOW: COLORADO TAXES

Colorado's tax system can be hard to understand. The combination of state taxes and local taxes leads to different tax experiences across the state. Making matters more difficult, we have some of the most unique rules for setting tax policy in our state's constitution and statutes. The ongoing debate over the adequacy, fairness, and sustainability of public funding counts on voters to be the decision makers. **The three primary taxes paid by everyday Coloradans are:**

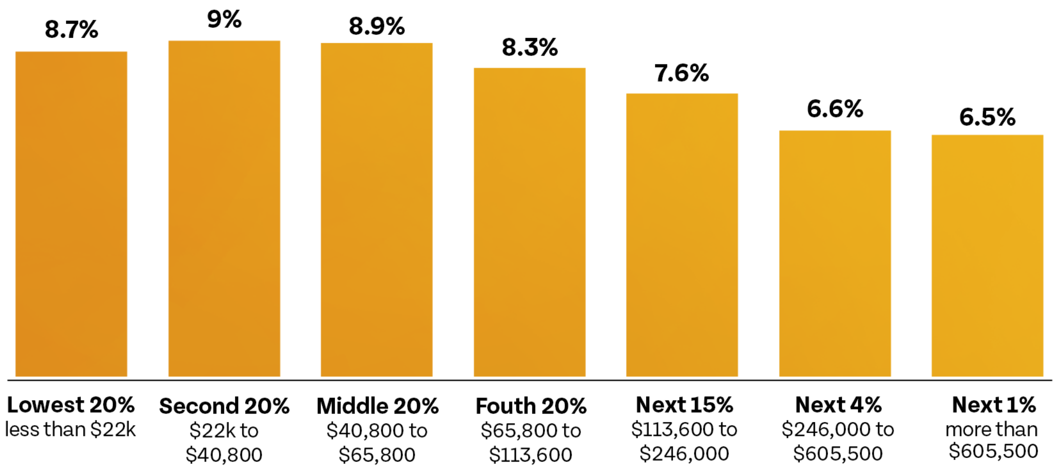
Income Tax – Income tax is paid on most income individuals receive. This tax is assessed at the state level (local governments in Colorado are banned from enacting their own income tax) and makes up approximately two-thirds of General Fund revenue on an annual basis. This tax is currently assessed at a flat rate of 4.55 percent.

Sales, Use, and Excise Taxes – Sales and use taxes are assessed when we buy or use goods and services. Excise taxes are a special type of sales tax placed on goods like alcohol, tobacco, and marijuana. Sales, use, and excise taxes can be assessed at both the state and local level. At the state level, sales tax is a flat 2.9 percent, and local tax rates vary. In Colorado, sales taxes are cumulatively about 35 percent of local budgets.

Property Tax – Property taxes are assessed yearly on the property someone owns. This tax can only be assessed by local governments – there is a ban on statewide property taxes. Counties, cities, and special districts (like fire, police, school, and water districts) use property taxes to pay for local services. Property taxes are especially important for local school district funding. Property tax rates are dependent upon the choices of local governments, but influenced by the state, which sets assessment rates, and can enact exemptions and other tools to reduce the overall revenue from property taxes.

When taken together, our tax system across Colorado is regressive, meaning that lower and middle-income Coloradans pay a higher share of their income in taxes than the wealthy, leaving working families with less to cover basic needs and expenses such as food and shelter. Regressivity in our tax code is largely due to our flat income tax and high local taxes, such as sales taxes, that are not tiered by income. While Colorado taxes many goods, it does not tax many services. Given that services are used more by wealthier Coloradans, the disparity results again in taxes falling disproportionately on those at the lower end of the income scale. Graduated income taxes are fairer because those making more money are asked to pay a higher proportion of their earnings in taxes as their income increases.

Total State & Local Taxes in Colorado as Share of Family Income



Source: Institute for Taxation and Economic Policy, "Who Pays? 6th Edition"

Key Context

- Colorado has had a flat income tax since 1987, and it has been enshrined in our state constitution since 1992 when Colorado passed TABOR. Eight other states have flat income taxes, nine states have no income tax, and every other state has a graduated income tax, where rates go up with more income earned. Those states have tax structures similar to the federal income tax structure. Your federal income taxes are calculated on a graduated basis.
- Below is a chart of how a flat income tax structure works compared to a graduated income tax structure. In this example, there is a person or family with $2 million in income. In the graduated income tax structure, the rates change as the income gets higher. But what is important to note is that only the dollars in those particular brackets are taxed at that rate. So only the income between $200,000 and $300,000 is taxed at 5 percent. And only the income above $1 million is taxed at 9 percent.

Hypothetical Tax Table for Person Making $2 Million

Income Levels	Flat Tax Rate	Flat Tax Total	Marginal Tax Rate	Marginal Tax Total
$200,000	4.55%	$9,100	4.50%	$9,000
$300,000	4.55%	$13,650	5.00%	$14,000
$500,000	4.55%	$22,750	6.00%	$26,000
$1,000,000	4.55%	$45,500	7.50%	$63,500
$2,000,000	4.55%	$91,000	9.00%	$153,000
Effective Tax Rates on $2m in Income	**4.55%**		**7.65%**	

- Our income tax rate was lowered by the legislature in 1999 and 2000, and then lowered again at the ballot in 2020. These changes have led to a drop in the statewide income tax from 5 percent to 4.55 percent. Of the nine states with a flat income tax, Colorado's is 3rd lowest.
    - When income taxes are cut under the current flat tax system, it disproportionately benefits the wealthy. For example, 24 percent of income tax cut savings go to the top 1 percent (those making more than approximately $600,000).
    - From 1999-2019, cutting taxes from 5 percent to 4.63 percent cost the state $10 billion in revenue (inflation-adjusted). This is vital revenue which could have gone to funding schools, providing health care, or fixing roads.

- Colorado cannot invest all of the tax revenue it lawfully collects under the current tax code.
    - TABOR mandates an arbitrary revenue cap, where any revenue above that cap has to go back to taxpayers instead of being invested in public education, roads, bridges, and transit, health care, environmental protection, or any other public good.
    - A recent restructuring of the TABOR rebate mechanism provides a timely example of how tax fairness can work. Colorado lawmakers in the 2022 legislative session passed SB22-233, which changed the rebate structure so that every taxpaying Coloradan got the same size rebate check. However, this was just for this year. In future years, without legislative action, the rebate structure will go back to its regressive past. That would mean that there would be an automatic tax cut, where the top 1 percent of Colorado incomes would see 24 percent of the benefits, and a rebate where the top 7 percent would get 16 percent of the rebate.

- According to the Colorado Department of Revenue, as of 2018 data, Colorado was the 5th lowest in statewide taxes, but 6th highest in local taxes.
    - The disparities between localities can be stark, however. For example, El Paso County relies heavily on sales taxes, with 65 percent of its budget coming from sales and use taxes. On the other hand, Weld County's budget is only 28 percent from sales taxes, but 43 percent from property taxes.

- Nationally, local budgets are 72 percent from property taxes and 17 percent from sales taxes. In Colorado, 61 percent of local budgets are from property taxes and 35 percent are from sales taxes.

As voters grapple with tax decisions, they should consider the value of what taxes pay for compared to what they personally might save when taxes are cut. They should also consider the relationship between continued reductions in statewide income tax revenue and their local communities' taxes. Finally, voters should consider if our state needs more tools on the table, as others do, to ensure fairness and sustainability to meet the needs of a growing and wealthy state.