LEGISLATIVE COUNCIL

REPORT TO THE

COLORADO GENERAL ASSEMBLY

COLORADO TAX STRUCTURE

THE INCOME TAX

RESEARCH PUBLICATION NO. 9

1954

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INTRODUCTION

Senate Joint Resolution No. 23, by Senator Dunklee, approved by the Thirty-ninth General Assembly at its First Regular Session, 1953, provided:

"WHEREAS, It has become very apparent that a study is necessary of the tax system and its structure in the State of Colorado; and

WHEREAS, There are some 287 ear-marked funds, most of which are statutory; and

WHEREAS, It is highly important to every individual within our State that the most efficient tax system be worked out for the benefit of all of our State, now therefore,

Be it resolved by the Senate of the Thirty-ninth General Assembly of the State of Colorado, the House of Representatives concurring herein:

That the Legislative Council, created by S. B. No. 18 which was adopted by this General Assembly, if said bill is approved by the Governor, is hereby directed to make, as one of its first and foremost assignments, a thorough investigation and study of the tax system and its structure in the State of Colorado, with special emphasis upon the feasibility of un-earmarking as many ear-marked funds as possible in view to accumulating this money in the General Fund so that the representatives of the people can distribute it equitably at the annual sessions. The Council shall report its findings and recommendations thereon to the Second Regular Session of the Thirty-ninth General Assembly."

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Therefore, in compliance with the provisions of this resolution, the Legislative Council through its staff undertook an analysis of Colorado's several state taxes and the ear-marking of the revenue therefrom. The first phase of the study was presented in Research Publication No. 1, entitled Colorado's Fund Structure, and set forth the extent and nature of the earmarking of state revenues. Following the completion of this phase of the subject, the Council undertook to prepare analyses of the sources of the revenues, and it placed first emphasis upon the major sources of revenue to the General Fund and also the property tax.

The Council took particular note of the income tax for these reasons:

a. Each session of the Legislature brings greaterddemands for General Fund appropriations.

b. The income tax is the major single source of General Fund receipts.

c. At each session of the Legislature there are several major amendments to the income tax law proposed and debated, most of which affect the revenue from said tax.

Consequently, the Council felt that it was necessary to make as detailed and thorough going analysis of this tax as its resources permitted, and in this regard, the services of Dr. Earl Crockett, Professor of Economics, University of Colorado, were secured to make the study. Dr. Crockett has completed studies on this and other state tax problems from time to time during his twenty years in the field of government finance in Colorado, and he is recognized as one of Colorado's more informed authorities on state taxes.

The material presented herein is factual in its nature and does not make any recommendations with respect to any of the issues discussed. The purpose, as set forth in the authorizing resolution, is to provide the members of the General Assembly with a report on the investigation and study made on this element of the State's tax system.

THE COLORADO INCOME TAX

SECTION I -- SUMMARY

1. Colorado's income tax dates back to 1937. Previously, 31 states had enacted income tax measures. At first the Colorado tax was a meager revenue producer. However, during the time since 1937 (15 full years of tax collections) the revenue trend has been sharply upward. Reasons for increasing revenue include the following: (1) an ever-rising level of income going to the people of the state, (2) amendments to the law, especially in 1947, when rates were raised and exemptions lowered, and (3) improvement in tax administration. As a consequence, by 1953 net income tax collections ($18,156,000) represented over 60 per cent of general fund revenue.

2. As in most other states, the Colorado income tax applies to both individuals and corporations. In Colorado individuals pay about three-fourths and corporations one-fourth of the total tax. Exclusions from gross income, adjusted gross income and net taxable income correspond closely with the Federal law. This greatly simplifies the tax for both taxpayers and the Revenue Department.

3. Ten states in addition to Colorado, in the western half of the nation have income taxes. Colorado compared with these ten Pacific Coast, Rocky Mountain, and neighboring Plains states show the following:

a) Colorado's permanent tax rates on individual income (1% - 10%) are second highest (North Dakota being highest) among the 11 states.

b) Due to variations among the states relative to exemptions, the split-income and Federal income tax deductibility features, etc., a comparison of _effective_ tax rates for various income levels is advisable.

c) For most income levels, effective tax rates in Colorado are either third or fourth highest among the 11 states of the West. In the low income brackets Oregon, Utah and Idaho have higher rates, while in the upper brackets of income California, North Dakota and Oregon tend to have higher effective rates than Colorado. States with lowest effective rates (all levels of income) are New Mexico, Kansas, Montana, Arizona and Oklahoma.

d) States with generally heavier corporation income taxes than Colorado are Idaho, North Dakota, and Oregon. Those with lower rates than Colorado's permanent rate of 5 per cent are California, Kansas, Montana, New Mexico, Oklahoma and Utah.

e) Seventeen per cent of Colorado's state revenue comes from the income tax. This is slightly above the average of the 11 states, the range being 5 per cent (New Mexico - the lowest) and 47 per cent (Oregon - the highest state).

4. During the last 15 years the impact of the Colorado income tax, particularly as it affects individuals, has been greatly broadened. In 1939, only 4 per cent of the people paid an income tax. However, by 1953 the number had increased to 25 per cent. Thus the tax has changed from a levy on the wealthy to a levy on a majority of householders.

5. Since Colorado passed her income tax law in 1937 Federal income tax rates have sharply risen. Consequently, the impact of the income method of taxation has become much heavier than formerly if both State and Federal taxes are considered together. For example, the average per capita income tax paid in Colorado (Federal and State) in 1939 was $7.08. Eleven years later by 1950, the average per capita tax had risen to $129.24. Since 1950 the average has probably declined slightly although final figures are not yet available.

6. With the broadening scope of the Colorado tax, accompanied by population growth and a rise of individual incomes, the number of tax returns

filed with the Department of Revenue has sharply increased. In 1939, only 65,000 (taxable and non-taxable returns) were filed. By 1953 the total had grown to 434,000. This increase has significantly added to the administrative load in the Revenue Department.

7. Since 1942, when the Department of Revenue assumed responsibility for income tax administration, cost of collection of the tax has averaged 2.77 per cent of total tax revenue. The percentage has remained fairly constant from year to year.

8. This study includes a report on several special income tax issues. They include the following:

a) A 2 per cent surtax on income from intangibles was imposed in the original law of 1937. It was considered a replacement tax for the old ad valorem levy on intangible property which had been repealed the same year, 1937. Since then intangible income exemptions have been introduced and currently are $600 per taxpayer. As a result of these exemptions few people now pay a surtax on intangible income (only 17,879 individuals in 1952). Surtax revenue amounts to approximately $1,000,000 annually. As changes in the law have largely nullified the surtax effects originally desired, there is less justification than previously, for continuing this special levy on intangible income. Perhaps the General Assembly might well re-examine this surtax issue.

b) The proper amount permitted for personal exemptions is almost continuously an issue in Colorado, as well as elsewhere. Several times in the past, following changes in the Federal law, exemptions in Colorado have been reduced. Now there is some consideration being given to raising exemptions, perhaps $100 per taxpayer, spouse and dependent. If this were done an estimated loss of about $900,000 revenue annually would result. Most of the benefits of the tax reduction would go to the smaller income receivers.

c) Another proposal receiving some consideration is to amend the Colorado income tax so as to permit the split-income method of tax calculation for a married couple. At present the Federal government permits this method of calculation. If Colorado were to adopt the split-income method an estimated reduction of $2,700,000 of income tax revenue would occur. Most of the benefits from this reduction would go to taxpayers in the higher income brackets.

d) Another issue relating to the income tax is the gross income tax proposal. A gross income tax could either supplement or replace the current Colorado net income tax. It is now being utilized in several states and numerous cities (largely in Pennsylvania and Ohio). When applied to business, the gross income tax is considered a multiple sales tax. When applied to individuals, all income is included without deductions or exemptions. The tax produces a great deal of revenue.

e) In 1953, the Colorado General Assembly amended the income tax law, by introducing a special levy on gross income from the production of crude oil and natural gas. As this special levy is actually a severance tax rather than a net income tax, it will be discussed in a separate report.

f) In 1954, the Colorado General Assembly provided for a tax-withholding plan for collecting the income tax on wages and salaries. The new system was introduced July 1, 1954. The Federal Government, five other states and various cities are now utilizing this method of tax collection. The Colorado law requires the withholding of an amount equal to 4 per cent of that withheld for the Federal income tax.

g) Another issue regarding the Colorado income tax is whether or not it would be desirable to discontinue permitting deduction from adjusted gross income of the Federal income tax paid by a taxpayer. About one-half of the income tax states of the nation do not permit such deduction. Should Colorado make this change in her law, estimated additional annual revenue of about $9\frac{1}{2}$ million would be forthcoming. Most of this additional revenue would come from individuals in the middle and upper brackets of income. Thus, effective tax rates would become more progressive than at present (now they are regressive on the higher incomes). However, due to the fact that the Federal government permits deduction of the state income tax from adjusted gross income for Federal tax purposes, the larger income taxpayers would contribute additional revenue to Colorado with "12 or 15 cent" dollars.

SECTION II -- HISTORICAL DEVELOPMENT

A. Historical Summary -- United States

In the United States the net income tax, as a regular and important revenue measure, is a Twentieth Century development. The tax had been tested and proven by various foreign countries, notably England, long before it gained a foothold here. In our country the real beginning was the introduction of an income tax in Wisconsin in 1911 and by the national government in 1913. Both measures taxed corporations as well as individuals.

The modern development of the income tax at the state level is shown in Table 1.

TABLE I

STATES WITH INCOME TAXES SHOWING DATES WHEN LAWS WERE ENACTED

State		Income Tax Enacted	State		Income Tax Enacted
1.	Wisconsin	1911	19.	Utah	1931
2.	Mississippi	1912	20.	Vermont	1931
3.	Connecticut(1)	1915	21.	Alabama	1933
4.	Montana	1917	22.	Arizona	1933
5.	Massachusetts	1917	23.	Kansas	1933
6.	Missouri	1917	24.	Minnesota	1933
7.	New York	1917	25.	New Mexico	1933
8.	North Dakota	1919	26.	Iowa	1934
9.	Delaware(2)	1921	27.	Louisiana	1934
10.	North Carolina	1921	28.	California	1935
11.	New Hampshire(2)	1923	29.	Oklahoma	1935
12.	South Carolina	1926	30.	Pennsylvania(1)	1935
13.	Virginia	1926	31.	Kentucky	1936
14.	Arkansas	1929	32.	Colorado	1937
15.	Oregon	1929	33.	Maryland	1937
16.	Georgia	1931	34.	District of Columbia	1939
17.	Idaho	1931	35.	Rhode Island(1)	1947
18.	Tennessee	1931			

(1) Corporation income tax only
(2) Personal income tax only

Source: Tax Systems, 11th Edition, Commerce Clearing House. Also State Tax Guide, 1954, Commerce Clearing House.

It may be seen that there was a rather continuous but slow increase in the number of states, until the onset of the depression of the thirties, when the movement gained rapid momentum. However, the development almost came to an end by 1939 as only one state, Rhode Island, has been added to the list since that time. This stoppage or check to the further development of state income taxation was primarily due to rising prosperity of the war years and since, and to the near-preemption of the field by the national government beginning with drastic changes in exemptions (downward), and rates (upward) in 1941.

Currently, 30 states have both a corporation and personal income tax, three states have a corporation income tax only, while two states apply the tax only to persons. In addition to the 35 income tax states indicated in the table, at least four other states in the past have enacted measures which were either invalidated for constitutional reasons, or else were repealed. These states were Illinois and Washington (laws, unconstitutional) and South Dakota and West Virginia (laws, repealed).

B. Historical Development -- Colorado

After enactment of the Wisconsin income tax law of 1911, the Colorado Tax Commission officially recommended a similar revenue measure for this state. The first recommendation came in 1912 and was repeated almost biennially over a period of 20 years. The Tax Commission's interest in an income tax was largely a desire for reform of the property tax which had proven very inadequate relative to intangible property.

In 1922, the Colorado State Tax Revision Committee was formed to sponsor an income tax amendment to the constitution. This committee was backed by farmers who wished property tax relief as well as by others who were generally interested in making the state tax system more equitable. A proposal was initiated and presented to the people of the state but was defeated in the November election of 1922.

During Governor William E. Sweet's administration in 1923 and 1924 efforts were made under his leadership to obtain an income tax but to no avail. Economic recovery was under way and the state was again receiving property tax revenue sufficient to match its expenditures without very much difficulty. Consequently, for a few years tax reform was largely forgotten.

In 1932, two initiated income tax amendments were submitted to the people of the state and both voted down. Although, due to the great depression, the state was having considerable financial difficulty, there was effective organized opposition to the adoption of an income tax. Another measure was submitted to the people by the General Assembly in 1933 and again voted down, however, this time by a narrow margin.

Some legal authorities expressed the opinion that Colorado could legally establish a graduated income tax even though the constitution was not amended. There was precedent for such a decision in a number of states whose constitutions contained uniformity clauses similar to the constitutional limitation in Colorado.

Such legal opinion, together with past failures in amending the constitution, induced the legislature of 1935 to pass a graduated income tax bill. The bill allocated the proceeds of the tax to the support of public schools and required a corresponding reduction in the property tax for the support of these schools. However, Governor Edwin C. Johnson vetoed the bill, stating that in his opinion the measure was unconstitutional. The House failed by two votes to over-ride the Governor's veto.

Apparently nothing was left to do except to make another attempt at amending the constitution. Accordingly, the same legislature submitted an amendment to the constitution which, if adopted by the people, would clearly remove any constitutional question as to the power of the legislature to pass a graduated income tax law. The measure was approved in the House by a unanimous vote. In the Senate only three votes were recorded against the amendment.

This amendment appeared on the election ballot of November 1936 as Amendment No. 2. During the summer and fall preceding election, considerable debate occurred throughout the state -- in the press, over the radio and in public forums -- relative to the issue. Organized groups supporting the income tax amendment included the State Federation for the Graduated Income Tax Amendment, the Colorado Education Association, Colorado State Grange, Colorado Farmers' Union, Colorado Farm Bureau, Denver Central Committee of the American Federation of Labor, and Colorado Congress of Parent Teachers Association. Also several newspapers, including the Rocky Mountain News, endorsed the proposal.

Most frequent arguments presented in favor of the amendment were: (1) Thirty-two other states already had successful income taxes, (2) a graduated income tax is in accordance with tax-paying ability of the people, (3) the amendment would make it possible for the state to contribute tax revenues to local units of government including schools, (4) instead of hopelessly trying to tax intangibles as property, the legislature could tax the income derived from these intangibles, and (5) the income tax would relieve the tax burden upon owners of real estate including homes and farms.

Principal arguments against the amendment were: (1) an income tax would drive industry out of the state, and (2) people of Denver would be required to pay most of the state tax, whereas, principal benefits from the tax would be received by schools in other parts of the state.

In the election the amendment passed by a vote of 167,268 to 159,143 --

a majority of 8,125 votes.

The amendment added a new section to Article X of the Constitution as follows:

"Section 17. Income Tax. The General Assembly may levy income taxes, either graduated or proportional or both graduated and proportional for the support of the State, or any political subdivision thereof, or for public schools, and may, in the administration of an income tax law, provide for special classification or limited taxation or the exemption of tangible and intangible personal property."

Finally, after years of struggle, uncertainty and defeat, the legislature had clear authority to enact a graduated income tax. Accordingly, a measure was introduced in the Thirty-first General Assembly, January, 1937.

After heated debate, especially in the Senate, and after considerable compromise, the bill was finally passed and signed by Governor Ammons June 3, 1937 to become effective the first of July of the same year.

C. Provisions of the Law of 1937

Briefly, the law of 1937 levied a tax on the individual net incomes of all residents, and of non-residents if derived from sources within the state, from corporations and from fiduciaries.

A single person was allowed an exemption of $1,000 and a married person or the head of a family, $2,500. For each dependent, other than husband or wife, a further exemption of $400 was allowed.

Tax rates upon net income of individuals after exemptions were applied as follows:

Net Income	Per Cent
Under $2,000	1
$2,000 and under $4,000	2
$4,000 and under $6,000	3
$6,000 and under $8,000	4
$8,000 and under $10,000	5
All over $10,000	6

In addition, without exemptions, a surtax of 2 per cent was imposed upon the income received by individuals from intangible property. This surtax was in lieu of all property tax levies upon intangibles which previously had legally been included under the property tax.

Corporations were required to pay 4 per cent on their entire net income and banks, trust companies, financing and loan associations 6 per cent. Various non-profit organizations were made exempt under the law.

Income tax revenue was earmarked in a special fund for the support of public schools of the state. The revenue was to be distributed as a replacement for local property tax levies.

Fiduciaries. The Colorado law, in accordance with usual practice among the states, required fiduciaries to file income tax returns and to pay an income tax whenever there was tax liability. A fiduciary, for income tax purposes, is a person who holds in trust an estate to which another has a beneficial title or interest, or who received and controls income of another, such as trustees, executors, and administrators. The exemptions and rates correspond to those contained in the personal income tax and statistically the revenue collected should be included as personal income tax receipts.

Tax collections from fiduciaries have never represented more than a small fraction of total receipts. However, the provision for taxing fiduciaries is important -- otherwise this trust device could provide an important means of income tax avoidance.

D. Amendments to the Income Tax Law of 1937

Significant amendments may be summarized as follows:

1939 - 65 per cent of the income tax revenue was diverted from the school fund to the state's general fund.

1943 - $200 income exemption was permitted for the 2 per cent surtax on income from intangibles.

1947 - Earmarking was completely abandoned, the general fund being given all revenue.

1947 - Personal income tax exemptions (normal tax) were made $750 each for the taxpayer, his spouse and each dependent.

Rates were increased as shown below. The table compares the new rates with those in the original law of 1937.

PERSONAL INCOME TAX

Net Income	1947 (Per Cent)	1937 (Per Cent)
Under $ 1,000	1	1
$ 1,000 to $ 1,999	1½	1
2,000 to 2,999	2	2
3,000 to 3,999	2½	2
4,000 to 4,999	3	3
5,000 to 5,999	4	3
6,000 to 6,999	5	4
7,000 to 7,999	6	4
8,000 to 8,999	7	5
9,000 to 9,999	8	5
10,000 to 10,999	9	6
All over 11,000	10	6

SURTAX ON INCOME FROM INTANGIBLES

Exemption		Tax Rate (Per Cent)	
1937	1947	1937	1947
None	$200	2	2

CORPORATION INCOME TAX

	Tax Rate (Per Cent)	
	1937	1947
General Corporations	4	5
Financial Corporations	6	6

1950 - Income tax rates, on a temporary basis, were reduced 20 per cent for all taxpayers -- individual and corporate. This temporary reduction of 20 per cent has periodically been reenacted and currontly (1954) is still in effect.

1951 - $600 exemption was permitted for income from intangibles (2 per cent surtax). $600 also was made the standard exemption for each taxpayer, spouse and dependent for the normal tax.

1954 - A payroll withholding tax plan was introduced to become effective July 1, 1954. This amendment is discussed elsewhere in this report.

currontly (1954) is still in effect.

1951 - $600 exemption was permitted for income from intangibles (2 per cent surtax). $600 also was made the standard exemption for each taxpayer, spouse and dependent for the normal tax.

1954 - A payroll withholding tax plan was introduced to become effective July 1, 1954. This amendment is discussed elsewhere in this report.

SECTION III -- THE PERSONAL INCOME TAX

Need for Analyzing Taxes Separately. As in most other jurisdictions of this country, Colorado's income tax law is a combination personal and corporation income tax. Therefore, the two taxes (personal and corporate) are often considered together when reporting tax yields, when discussing administrative problems, etc. However, it may be beneficial when analyzing the income tax to make a separation between the two. By considering the personal (individual) and the corporation income taxes separately, one may learn whether or not one tax is being unduly stressed as compared with the other (judged by rates, exemptions, tax collections, etc.) Also it is easier to make comparisons among the several states.

A. Qualitative Analysis of Personal Income Tax

A brief descriptive outline of Colorado's personal income tax, as indicated by legislation, administrative rulings and court decisions, follows. Also from time to time comparisons will be indicated relative to the Federal government and to other states.

Gross Income. Gross income for Colorado personal income tax purposes corresponds to the gross income definition for corporations. It is an all-inclusive concept comprising all income from whatever source derived unless specifically excluded by law.

Exclusions From Gross Income. 1. Income, such as interest on Federal bonds, which may not be taxed because of the Federal Constitution;

2. Life insurance benefits by reason of the death of the insured;

3. Return of premiums under life insurance, endowment or annuity contracts, except that at least 3 per cent of the cost of annuities is taxable annually, if received;

4. Gifts, bequests and inheritances;

5. Benefits from accident, health or workmen's compensation insurance;

6. Stock dividends;

7. Rental value of a parsonage or rectory;

8. Until termination of the state of war, $2,000 per year of compensation received for service in armed forces, mustering-out payments and payments to dependents;

9. Refunds from cooperatives on living expenses.

Business Deductions From Gross Income to Obtain Adjusted Gross Income.

1. Trade or business expenses of others than employees;

2. Travel and lodging expenses in connection with employment;

3. Reimbursed expenses in connection with employment;

4. Deductions regularly allowable on property for the production of rents or royalties;

5. Commutation expenses;

6. 50 per cent of gains from capital assets held over six months;

7. Gambling losses, to the extent of gambling gains.

Personal Deductions From Adjusted Gross Income. Resident individuals on a full calendar year basis with adjusted gross income of $5,000 or less may compute their normal tax in accordance with a tax table prescribed by the Department of Revenue. This table (see Table 2) reflects standard personal deductions (10 per cent of adjusted gross income) plus an amount for Federal income taxes paid.

Individuals with adjusted gross income above $5,000 may also use a standardized deduction amounting to 10 per cent of adjusted gross income or $1,000, whichever is the lesser, plus an amount equal to their Federal Income Tax.

If instead of using the tax table or the standardized deduction method,

TABLE 2

TAX TABLE FOR ADJUSTED GROSS INCOME OF $5000 OR LESS (1953)

TAX TABLE Read down the columns below until you find the line covering the total income you entered as item 7, Page 1. Then read across to the column headed by the number corresponding to the number of exemptions claimed in item 1, Page 1. Enter the tax you find there as item 8, Page 1.

If Total Income in item 7, Page 1, is—		See General Instruction 6	And the number of exemptions claimed in item 1, Page 1, is—			
At least	But less than		1	2	3	4
			Your normal tax is—			
$ 0	$ 700		.00	0	0	0
700	750	(*$12*)	.30	0	0	0
750	800	(*22*)	.60	0	0	0
800	850	(*32*)	.90	0	0	0
850	900	(*42*)	1.20	0	0	0
900	950	(*52*)	1.40	0	0	0
950	1,000	(*62*)	1.70	0	0	0
1,000	1,050	(*72*)	2.00	0	0	0
1,050	1,100	(*82*)	2.30	0	0	0
1,100	1,150	(*92*)	2.60	0	0	0
1,150	1,200	(*102*)	2.80	0	0	0
1,200	1,250	(*112*)	3.10	0	0	0
1,250	1,300	(*122*)	3.40	0	0	0
1,300	1,350	(*132*)	3.70	.00	0	0
1,350	1,400	(*142*)	4.00	.20	0	0
1,400	1,450	(*152*)	4.20	.50	0	0
1,450	1,500	(*162*)	4.50	.80	0	0
1,500	1,550	(*172*)	4.80	1.10	0	0
1,550	1,600	(*182*)	5.10	1.30	0	0
1,600	1,650	(*192*)	5.40	1.60	0	0
1,650	1,700	(*202*)	5.60	1.90	0	0
1,700	1,750	(*212*)	5.90	2.20	0	0
1,750	1,800	(*222*)	6.20	2.50	0	0
1,800	1,850	(*232*)	6.50	2.70	0	0
1,850	1,900	(*242*)	6.80	3.00	0	0
1,900	1,950	(*252*)	7.00	3.30	0	0
1,950	2,000	(*262*)	7.30	3.60	.00	0
2,000	2,050	(*272*)	7.60	3.90	.10	0
2,050	2,100	(*282*)	7.90	4.10	.40	0
2,100	2,150	(*292*)	8.20	4.40	.70	0
2,150	2,200	(*302*)	8.70	4.70	1.00	0
2,200	2,250	(*312*)	9.10	5.00	1.30	0
2,250	2,300	(*322*)	9.50	5.30	1.50	0
2,300	2,350	(*332*)	9.90	5.50	1.80	0
2,350	2,400	(*342*)	10.30	5.80	2.10	0
2,400	2,450	(*352*)	10.80	6.10	2.40	0
2,450	2,500	(*362*)	11.20	6.40	2.70	0
2,500	2,550	(*372*)	11.60	6.70	2.90	0
2,550	2,600	(*382*)	12.00	6.90	3.20	0
2,600	2,650	(*392*)	12.40	7.20	3.50	0
2,650	2,700	(*402*)	12.90	7.50	3.80	.00
2,700	2,750	(*412*)	13.30	7.80	4.10	.30
2,750	2,800	(*422*)	13.70	8.10	4.30	.60
2,800	2,850	(*432*)	14.10	8.50	4.60	.90

If Total Income in item 7, Page 1, is—		See General Instruction 6	And the number of exemptions claimed in item 1, Page 1, is—						
At least	But less than		1	2	3	4	5	6	7
			Your normal tax is—						
$2,850	$2,900	(*$442*)	14.50	8.90	4.90	1.20	0	0	0
2,900	2,950	(*452*)	15.00	9.40	5.20	1.40	0	0	0
2,950	3,000	(*463*)	15.40	9.80	5.50	1.70	0	0	0
3,000	3,050	(*474*)	15.80	10.20	5.70	2.00	0	0	0
3,050	3,100	(*485*)	16.20	10.60	6.00	2.30	0	0	0
3,100	3,150	(*496*)	16.60	11.10	6.30	2.60	0	0	0
3,150	3,200	(*507*)	17.00	11.50	6.60	2.80	0	0	0
3,200	3,250	(*518*)	17.40	11.90	6.90	3.10	0	0	0
3,250	3,300	(*529*)	17.80	12.30	7.10	3.40	0	0	0
3,300	3,350	(*541*)	18.20	12.70	7.40	3.70	.00	0	0
3,350	3,400	(*552*)	18.60	13.20	7.70	4.00	.20	0	0
3,400	3,450	(*563*)	19.00	13.60	8.00	4.20	.50	0	0
3,450	3,500	(*574*)	19.40	14.00	8.40	4.50	.80	0	0
3,500	3,550	(*585*)	19.90	14.40	8.80	4.80	1.10	0	0
3,550	3,600	(*596*)	20.30	14.80	9.20	5.10	1.40	0	0
3,600	3,650	(*607*)	20.90	15.30	9.70	5.40	1.60	0	0
3,650	3,700	(*618*)	21.40	15.70	10.10	5.70	1.90	0	0
3,700	3,750	(*629*)	22.00	16.10	10.50	5.90	2.20	0	0
3,750	3,800	(*640*)	22.50	16.50	10.90	6.20	2.50	0	0
3,800	3,850	(*651*)	23.10	16.90	11.30	6.50	2.80	0	0
3,850	3,900	(*662*)	23.60	17.40	11.70	6.80	3.00	0	0
3,900	3,950	(*673*)	24.10	17.80	12.20	7.10	3.30	0	0
3,950	4,000	(*684*)	24.70	18.20	12.60	7.30	3.60	.00	0
4,000	4,050	(*696*)	25.20	18.60	13.00	7.60	3.90	.10	0
4,050	4,100	(*707*)	25.80	19.00	13.40	7.90	4.20	.40	0
4,100	4,150	(*718*)	26.30	19.50	13.90	8.30	4.40	.70	0
4,150	4,200	(*729*)	26.90	19.90	14.30	8.70	4.70	1.00	0
4,200	4,250	(*740*)	27.40	20.40	14.70	9.10	5.00	1.30	0
4,250	4,300	(*751*)	27.90	20.90	15.10	9.50	5.30	1.50	0
4,300	4,350	(*762*)	28.50	21.50	15.50	9.90	5.60	1.80	0
4,350	4,400	(*773*)	29.00	22.10	15.90	10.40	5.80	2.10	0
4,400	4,450	(*784*)	29.60	22.60	16.40	10.80	6.10	2.40	0
4,450	4,500	(*795*)	30.10	23.20	16.80	11.20	6.40	2.70	0
4,500	4,550	(*806*)	30.70	23.70	17.20	11.60	6.70	2.90	0
4,550	4,600	(*817*)	31.20	24.30	17.60	12.00	7.00	3.20	0
4,600	4,650	(*828*)	31.70	24.90	18.10	12.50	7.20	3.50	0
4,650	4,700	(*839*)	32.30	25.40	18.50	12.90	7.50	3.80	.00
4,700	4,750	(*851*)	32.80	26.00	18.90	13.30	7.80	4.10	.30
4,750	4,800	(*862*)	33.40	26.50	19.30	13.70	8.10	4.30	.60
4,800	4,850	(*873*)	33.90	27.10	19.70	14.10	8.50	4.60	.90
4,850	4,900	(*884*)	34.50	27.70	20.20	14.60	9.00	4.90	1.20
4,900	4,950	(*895*)	35.00	28.20	20.80	15.00	9.40	5.20	1.40
4,950	5,000	(*906*)	35.50	28.80	21.30	15.40	9.80	5.50	1.70

These amounts in italics are the Federal Income Tax deducted in computing the Colorado Tax and are for use only if husband and wife filed joint returns with the United States and are filing separate returns with Colorado personal deductions are itemized, the following are permitted in the law:

(1) Interest paid, but not that already deducted under business expenses;

(2) Contributions, not exceeding 15 per cent of net income, made for religious, charitable, scientific, literary or educational purposes, or for the prevention of cruelty to children or animals;

(3) Taxes, except the following: state income taxes, taxes on inheritance, estates and gifts, Federal excise, liquor and tobacco taxes, special assessments and water rent;

(4) Losses arising from fire, storm, shipwreck, or other casualty, or for theft and if not compensated for by insurance or otherwise;

(5) Bad debt losses;

(6) Medical and dental expenses in excess of 5 per cent of adjusted gross income, but not exceeding $1,250 for individuals claiming a single exemption. Additional maximums are set for those with more than one exemption depending upon the number of exemptions, however, not to exceed $5,000 for one taxpayer.

(7) Traveling expenses to and from the place of employment up to $75 for entire year (standard fixed amount), or if more than $75, as shown by a carefully prepared itemized expense account.

<u>Similarity to Federal and Other State Income Tax Laws</u>. The definition of gross income, the specific exclusions from gross income, and the business and personal deductions from gross income to obtain net income as outlined above, are provisions very similar to those in the Federal and other state income tax laws. One notable exception may be mentioned. It is not customary to permit a personal deduction for the expense of travel to and from one's regular place of employment. This provision was first permitted in Colorado through an amendment passed by the General Assembly in 1949.

B. Colorado Compared with Other States in the Region

For various comparative purposes, including this income tax analysis, it is helpful to compare Colorado with the states in the western half of the nation. The 97° Meridian is the approximate dividing line separating East from West. On this basis the West includes not only the traditionally regarded 11 western states, but also the tier of states extending from North Dakota to Texas. It is advantageous to include these neighboring plains states in any Colorado study, as many of the geographic and economic features are similar. In other words, Colorado is a state of the plains as well as of the mountains.

By following this regional arrangement we see that the states of the West are the ones listed in Table 3 (also shown on accompanying map). Among these 17 states, 11 have income taxes, all of which apply the tax to both individuals and corporations. Consequently, in our comparative analysis, we shall include these 11 states with income taxes.

TABLE 3

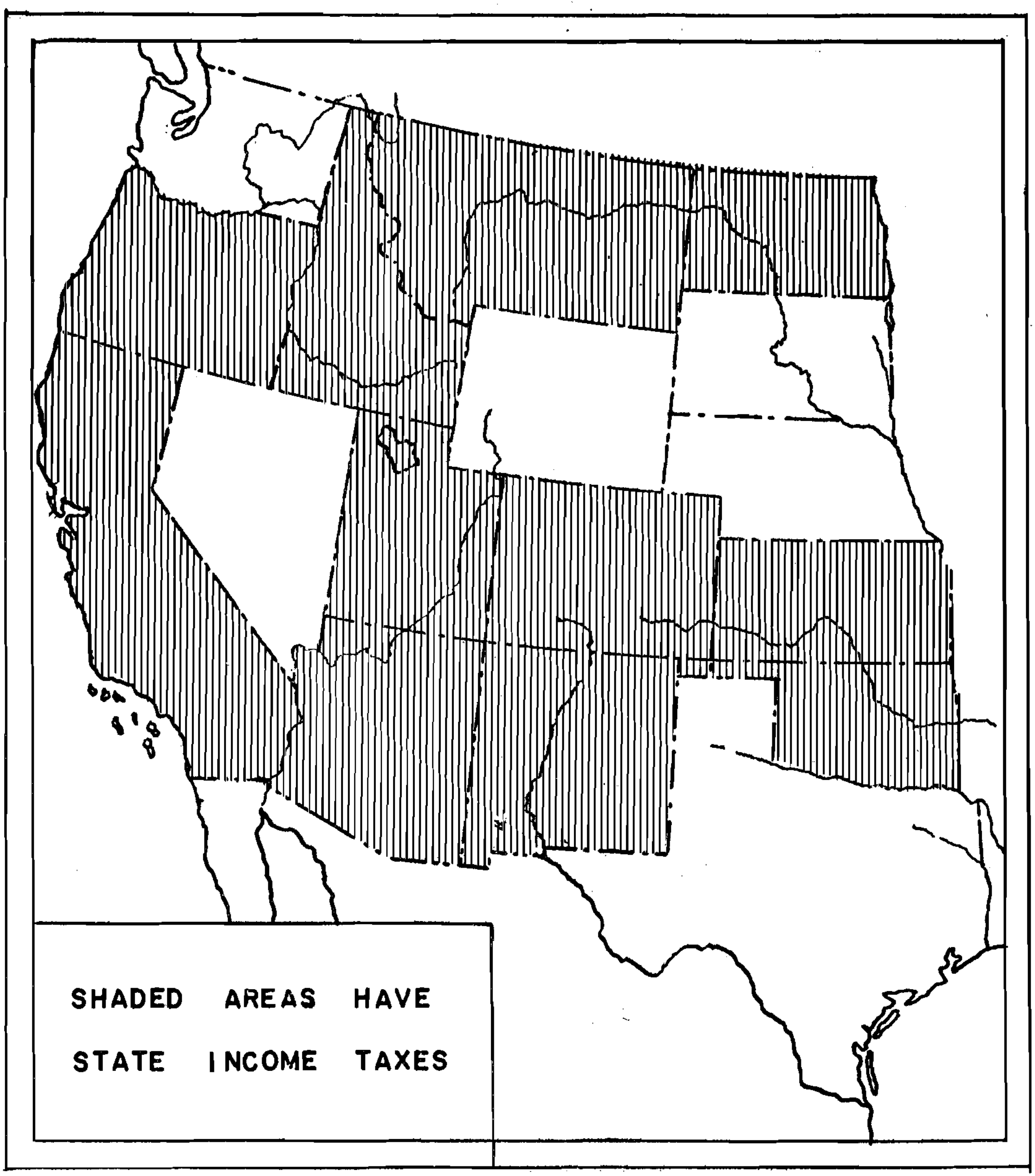
STATES IN THE WEST SHOWING THOSE WITH INCOME TAXES

State	Income Tax	State	Income Tax
Arizona	Yes	North Dakota	Yes
California	Yes	Oklahoma	Yes
Colorado	Yes	Oregon	Yes
Idaho	Yes	South Dakota	No
Kansas	Yes	Texas	No
Montana	Yes	Utah	Yes
Nebraska	No	Washington	No
Nevada	No	Wyoming	No
New Mexico	Yes		

Source: State Tax Guide, 1954, Commerce Clearing House

FIGURE I

STATES WEST, OR LARGELY WEST, OF THE 97°. MERIDIAN SHOWING THOSE WITH INCOME TAXES



Personal Exemptions. The personal exemptions permitted in the income tax of Colorado and of the other western states are shown in Table 4.

TABLE 4

PERSONAL EXEMPTIONS PERMITTED IN COLORADO AND IN THE OTHER TEN INCOME TAX STATES OF THE WEST, 1954.

State	Single Individual	Married Couple	Each Dependent	Additional for Blind	Additional for Taxpayer or Spouse Over 65 Years
COLORADO	$ 600	$1200	$600	$600	$600
Arizona	1000	2000	600	500	---
California	2000	3500	400	500	---
Idaho	700	1500	200	---	---
Kansas	600	1200	600	---	600
Montana	1000	2000	300	---	---
New Mexico	1500	2500	200	---	---
North Dakota	600	1500	600	---	600
Oklahoma	1000	2000	500	---	---
Oregon	600	1200	600	600	---
Utah	600	1200	600	---	---

Source: State Tax Guide, 1954, Commerce Clearing House.

Colorado's $600 exemption per taxpayer, spouse, or dependent is the same as that in four of the 11 states being compared. Deviations from this, the most common pattern, are generally in the form of permitting higher exemptions for the taxpayer and spouse (California, the extreme, permitting $2,000 for a single person and $3,500 for married couple) and somewhat lower for dependents (New Mexico, permitting only $200 per dependent). Colorado is the most liberal state among the 11 relative to the blind and to those over 65 years of age, $600 additional exemption is permitted in each case. Colorado is the only state in the West permitting exactly the same exemption arrangements as those in the Federal law. (1953).

Net Taxable Income. After deducting personal exemptions from net income, the remainder is net taxable income. This latter is the base for applying tax rates.

Personal Income Tax Rates. Table 5 shows a summary of tax rates for all states with personal income taxes. Minimum and maximum rates are indicated as well as the levels of income at which the maximum rates are applied. In some states the quoted rates have been modified through amendments as indicated at the bottom of the table. Moreover, six states with community property laws and Oregon through special provision, permit a split-income calculation of the tax. This arrangement keeps the effective tax rate (after a certain level of income is reached) lower than otherwise would be the case. (Note Tables 7 and 8 which indicate effective tax rates.) Also a modifying factor of great significance is whether or not a state permits deduction of the federal income tax from the state tax base. Those states which do permit such deduction have taxes whose effective rates are greatly reduced in the middle and upper brackets of income. Seventeen of the personal income tax states permit such deduction: Alabama, Arizona, Colorado, Georgia, Idaho, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Missouri, Montana, New Mexico, North Dakota, Oklahoma, Oregon, and Utah. In addition, Delaware, Massachusetts and South Carolina permit a limited deduction for Federal taxes. The consequences of this deduction are later discussed more fully.

TABLE 5

SUMMARY OF PERSONAL INCOME TAX RATES, ALL STATES, 1954

State	Rate Range (Per Cent)	Max. Rate on Income Over:
Colorado (1)	1-10	$ 11,000
Alabama	1½-5	5,000
Arizona (2)	1-4½	7,000
Arkansas	1-5	25,000
California (2)	1-6	25,000
Delaware	1-6	100,000
District of Columbia	2½-4	15,000
Georgia	1-7	20,000
Idaho (2)(3)	1½-8	5,000
Iowa	3/4-3 3/4	4,000
Kansas	1-4	7,000
Kentucky	2-6	8,000
Louisiana	2-6	50,000
Maryland	2-5 (Investment Income)	500
	2 Other Income	---
Massachusetts	7.38 (interest & dividends, capital gains)	---
Minnesota (5	1.845 (annuities) (4)	---
	3.075 (Business income)	---
Minnesota (5)	1-10	20,000
Mississippi	2-6	25,000
Missouri (6)	1-4	9,000
Montana	1-4	6,000
New Hampshire (7)	4.48	---
New Mexico (2)	1-4	100,000
New York	2-7	9,000
North Carolina	3-7	10,000
North Dakota	1-11	15,000
Oklahoma (2)	1-6	7,500
Oregon (2)	2-8	8,000
South Carolina	2-5	6,000
Tennessee (8)	6	---
Utah	1-5	4,000
Vermont	1½-5½	5,000
Virginia (9)	2-5	5,000
Wisconsin	1-8½	14,000

(1) Colorado: tax is reduced 20% for year 1954-55.
(2) Arizona, California, Idaho, Louisiana, New Mexico and Oklahoma: community property states in which one-half of community property income is taxable to each spouse. Oregon also permits a split-income calculation.
(3) Idaho: Reduced $5 for each dependent and after 1953 by 15% of computed tax.
(4) Massachusetts: Tax on business income reduced in 1954 by 25%.
(5) Minnesota: a surtax equal to 5% of the above rates and a tax of $5 per annum in addition are imposed for years, 1948-59.
(6) Missouri: Rates are not bracketed, but applied on entire income.
(7) New Hampshire: On interest and dividends only.
(8) Tennessee: On interest and dividends only.
(9) Virginia: Tax reduced 10-20% depending upon amount of income.

Source: State Tax Guide, 1954, Commerce Clearing House.

CHART I

MINIMUM AND MAXIMUM INDIVIDUAL INCOME TAX RATES, ELEVEN STATES IN THE WEST WITH INCOME TAXES, 1953

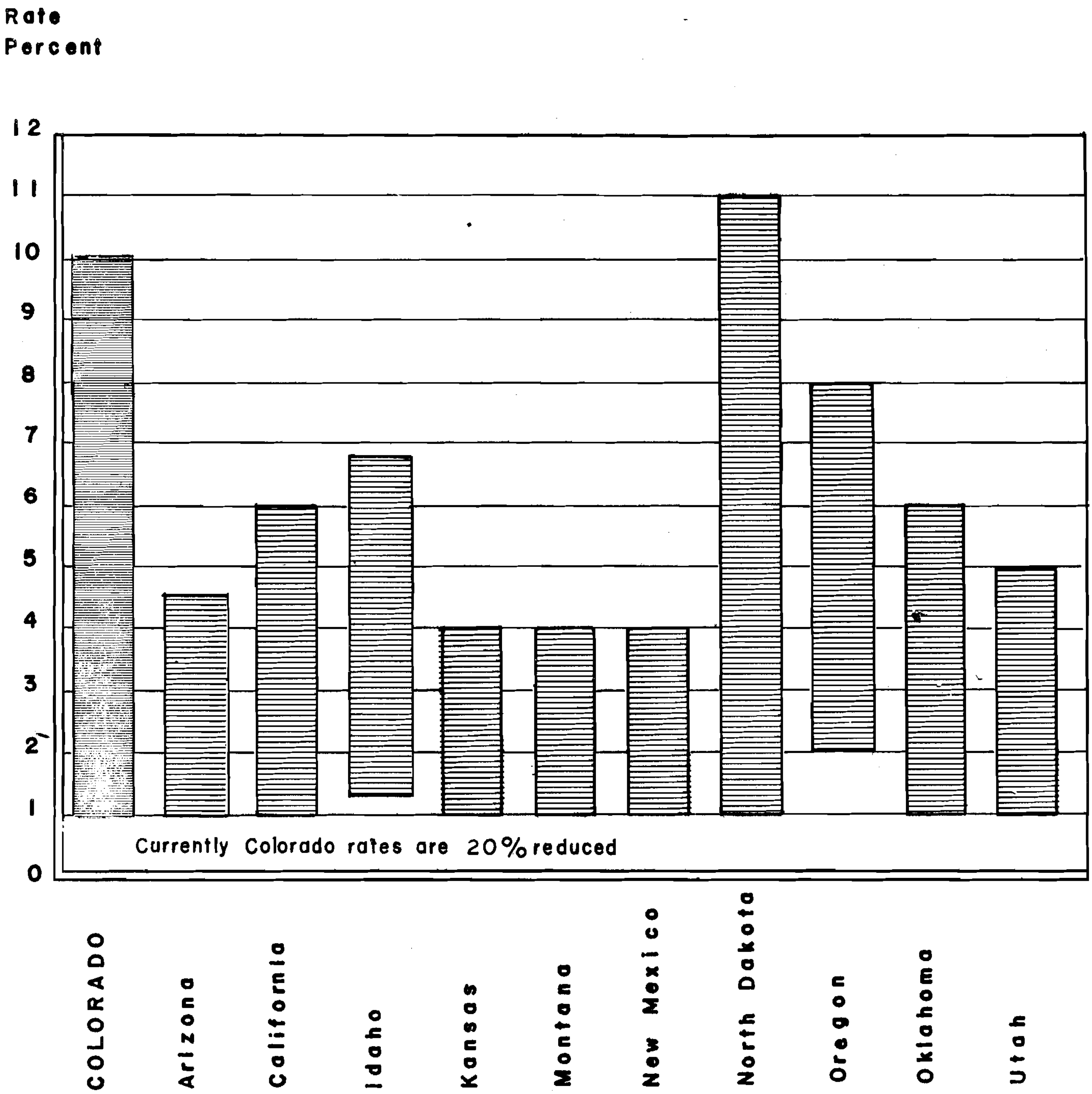


TABLE 6

PERSONAL INCOME TAX RATES - DETAILED COMPARISON FOR STATES IN THE WEST.

Colorado

1st	$ 1,000	1%
2nd	$ 1,000	1½%
3rd	$ 1,000	2%
4th	$ 1,000	2½%
5th	$ 1,000	3%
6th	$ 1,000	4%
7th	$ 1,000	5%
8th	$ 1,000	6%
9th	$ 1,000	7%
10th	$ 1,000	8%
11th	$ 1,000	9%
Over	$11,000	10%

Surtax on intangible income over $600 - 2%

For taxable year 1954-55 taxes are reduced 20%

Arizona

1st	$1,000	1%
2nd	$1,000	1½%
3rd	$1,000	2%
4th	$1,000	2½%
5th	$1,000	3%
6th	$1,000	3½%
7th	$1,000	4%
Over	$7,000	4½%

California

1st	$ 5,000	1%
2nd	$ 5,000	2%
3rd	$ 5,000	3%
4th	$ 5,000	4%
5th	$ 5,000	5%
Over	$25,000	6%

Idaho

1st	$1,000	1½%
2nd	$1,000	3%
3rd	$1,000	4%
4th	$1,000	5%
5th	$1,000	6%
Over	$5,000	8%

Kansas

1st	$2,000	1%
Next	$1,000	2%
Next	$2,000	2½%
Next	$2,000	3%
Over	$7,000	4%

Montana

1st	$2,000	1%
2nd	$2,000	2%
3rd	$2,000	3%
Over	$6,000	4%

Minimum tax $1

New Mexico

1st	$ 10,000	1%
2nd	$ 10,000	2%
Next	$ 80,000	3%
Over	$100,000	4%

North Dakota

1st	$ 3,000	1%
Next	$ 1,000	2%
Next	$ 1,000	3%
Next	$ 1,000	5%
Next	$ 1,000	7½%
Next	$ 7,000	10%
Over	$15,000	11%

Oklahoma

1st	$1,500	1%
2nd	$1,500	2%
3rd	$1,500	3%
4th	$1,500	4%
5th	$1,500	5%
Over	$7,500	6%

Oregon

1st	$ 500	2%
2nd	$ 500	3%
2nd	$1,000	4%
3rd	$1,000	5%
4th	$1,000	6%1
Next	$4,000	7%
Over	$8,000	8%

Utah

1st $1,000..............	1%
2nd $1,000..............	2%
3rd $1,000..............	3%
4th $1,000..............	4%
Over $4,000..............	5%

Source: State Tax Guide, 1954, Commerce Clearing House.

Perhaps the above rates may best be evaluated and compared by referring to the discussion in the next section.

Comparative Income Tax Liability for Different Income Levels Among the States in the West. A comparison of income tax rates among the states, as shown in previous tables, may be very misleading. For example, Colorado's rate of 10 per cent on incomes over $11,000 appears to be much higher than California's maximum rate of 6 per cent on incomes above $25,000. However, when all of the income tax provisions are considered in both states, the facts indicate that California's tax on large incomes is considerably heavier than Colorado's.

Income tax provisions which are principally responsible for making difficult a meaningful comparison of specific tax rates among the states are the following: (1) Varying amounts permitted among the states for personal exemptions and credits for dependents, (2) Variations pertaining to the Federal income tax (some states permit such deduction, others do not), and (3) Whether or not the state permits a split-income calculation for married couples. All these provisions are taken into consideration, as well as specific tax rates, in the comparative calculations shown in the following tables and figures. Total tax liability and effective tax rates for selected levels of income among the various states are the means by which significant comparisons can be drawn.

Tables 7 and 8 indicate that the tax upon a married couple tends to be

TABLE 7

AMOUNT OF NORMAL TAX LIABILITY, SELECTED LEVELS OF INCOME, THE ELEVEN INCOME TAX STATES OF THE WEST, FOR INCOME EARNED IN 1954

	Tax Liability for Married Couple with No Dependents Whose Net Income (1) Is:							
State	$2,000	$3,000	$5,000	$10,000	$20,000	$100,000	$200,000	$500,000
COLORADO	$6	$16	$44	$200	$786	$3,767	$6,049	$12,305
Arizona	None	9	30	114	405	2,073	3,326	7,068
California	None	None	15	65	230	4,290	10,290	28,290
Idaho	6	17	54	207	697	3,175	5,081	10,471
Kansas	8	16	48	181	473	1,912	3,003	6,058
Montana	1	9	34	163	456	1,910	3,000	6,056
New Mexico	None	4	21	62	136	1,161	1,971	4,998
North Dakota	5	13	34	269	1,007	5,262	8,559	17,496
Oklahoma	None	9	26	115	482	2,729	4,429	9,048
Oregon	15	39	114	331	866	3,705	6,046	12,430
Utah	8	23	46	277	640	2,441	3,811	7,872

(1) Before deductions for personal exemptions or Federal income tax credit, where permitted.

Source: Calculations were made from income tax rules and regulations of the several states.

TABLE 8

EFFECTIVE TAX RATE, SELECTED LEVELS OF INCOME, THE ELEVEN INCOME TAX STATES OF THE WEST, FOR INCOME EARNED IN 1954

	Effective Tax Rate for Married Couple With No Dependents Whose Net Income (1) Is:							
State	$2,000	$3,000	$5,000	$10,000	$20,000	$100,000	$200,000	$500,000
COLORADO	.3%	.5%	.9%	9.9%	3.9%	3.7%	3.0%	2.5%
Arizona	--	.3	.6	1.1	2.0	2.1	1.7	1.4
California	--	--	.3	.7	1.2	4.3	5.1	5.7
Idaho	.3	.6	1.1	2.0	3.5	3.2	2.5	2.1
Kansas	.4	.5	1.0	1.8	2.4	1.9	1.5	1.2
Montana	--	.3	.7	1.6	2.3	1.9	1.5	1.2
New Mexico	--	.1	.4	.6	.7	1.2	1.0	1.0
North Dakota	.3	.4	.7	2.7	5.0	5.3	4.3	3.5
Oklahoma	--	.3	.5	1.1	2.4	2.7	2.2	1.8
Oregon	.7	1.3	2.3	3.3	4.3	3.7	3.0	2.5
Utah	.4	.8	1.0	2.8	3.2	2.4	1.9	1.6

(1) Before deductions for personal exemptions or Federal income tax credit, where permitted.

Source: Previous table showing amount of tax liability.

highest, for all levels of income in Colorado, Idaho, North Dakota and Oregon. The state with uniformly lowest effective rates is New Mexico. States tending to fall somewhere near the middle range of rates regardless of income level are Arizona, Kansas, Montana, and Oklahoma. California and Utah have effective rates which differ considerably from the general pattern of rates among the other states. In California, rates are extremely low upon the lower brackets of income. This is because of general exemptions accompanied by a slow progression of rates. However, as income reaches the $100,000 level, the effective rate of 4.3 per cent in California is second highest among the states under comparison, while the effective rate of 5.7 per cent on a $500,000 income is nearly double the next highest rate. California's high effective rates on large incomes are largely because no deduction is permitted for Federal income taxes. Utah's effective rate varies in an opposite manner from that in California. The tax is relatively heavy on small incomes and then becomes moderate or even low as the level of income increases.

The relative position of Colorado among the other 10 states in the West with income taxes can perhaps best be seen by an examination of Charts 2 to 5.

CHART 2

EFFECTIVE TAX RATE FOR MARRIED COUPLE, NO DEPENDENTS, 1954 INCOME, THE ELEVEN STATES IN THE WEST WITH INCOME TAXES.

3,000 NET INCOME

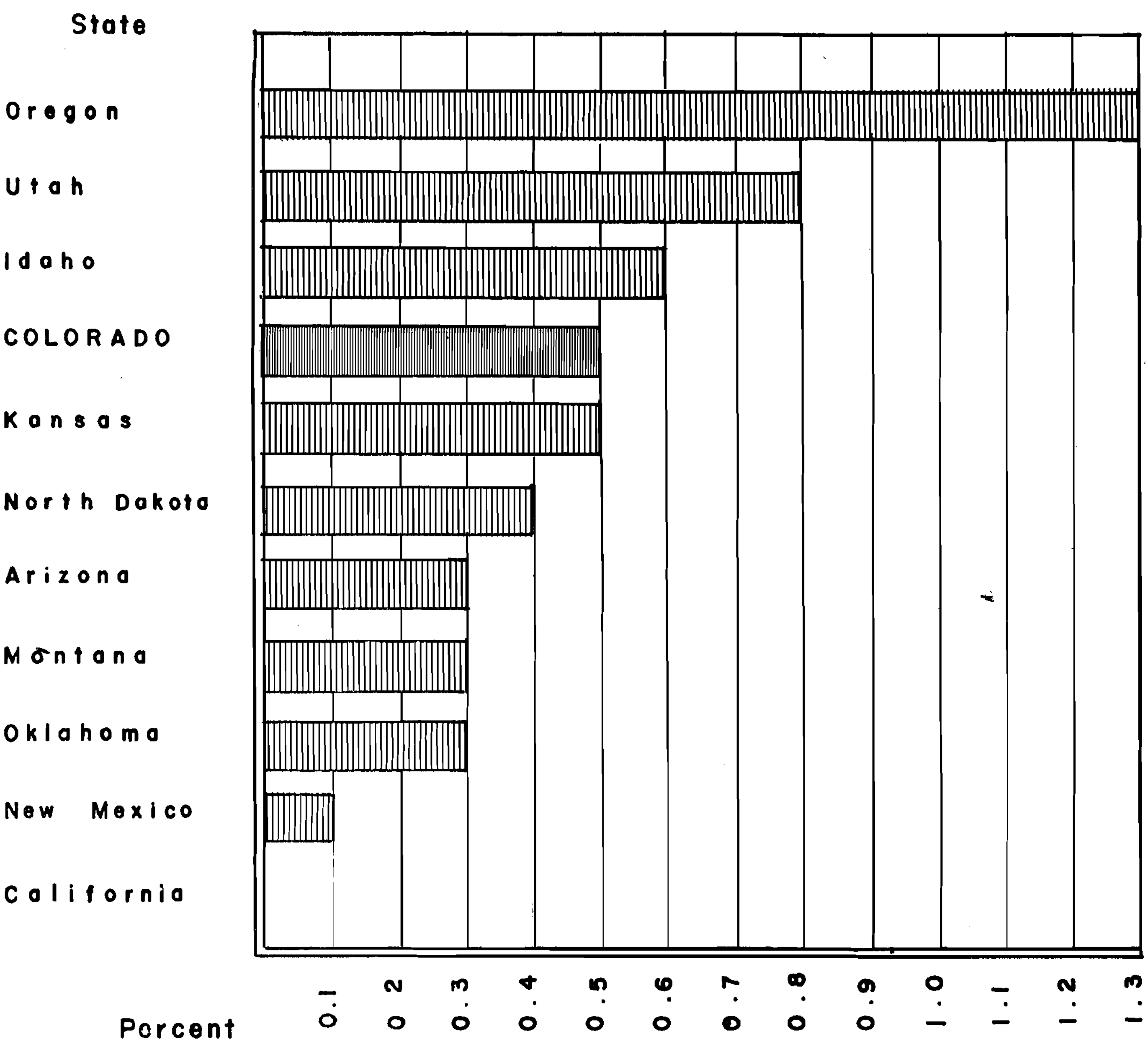


CHART 3

EFFECTIVE TAX RATE FOR MARRIED COUPLE, NO DEPENDENTS, 1954 INCOME, THE ELEVEN STATES IN THE WEST WITH INCOME TAXES

10,000 NET INCOME

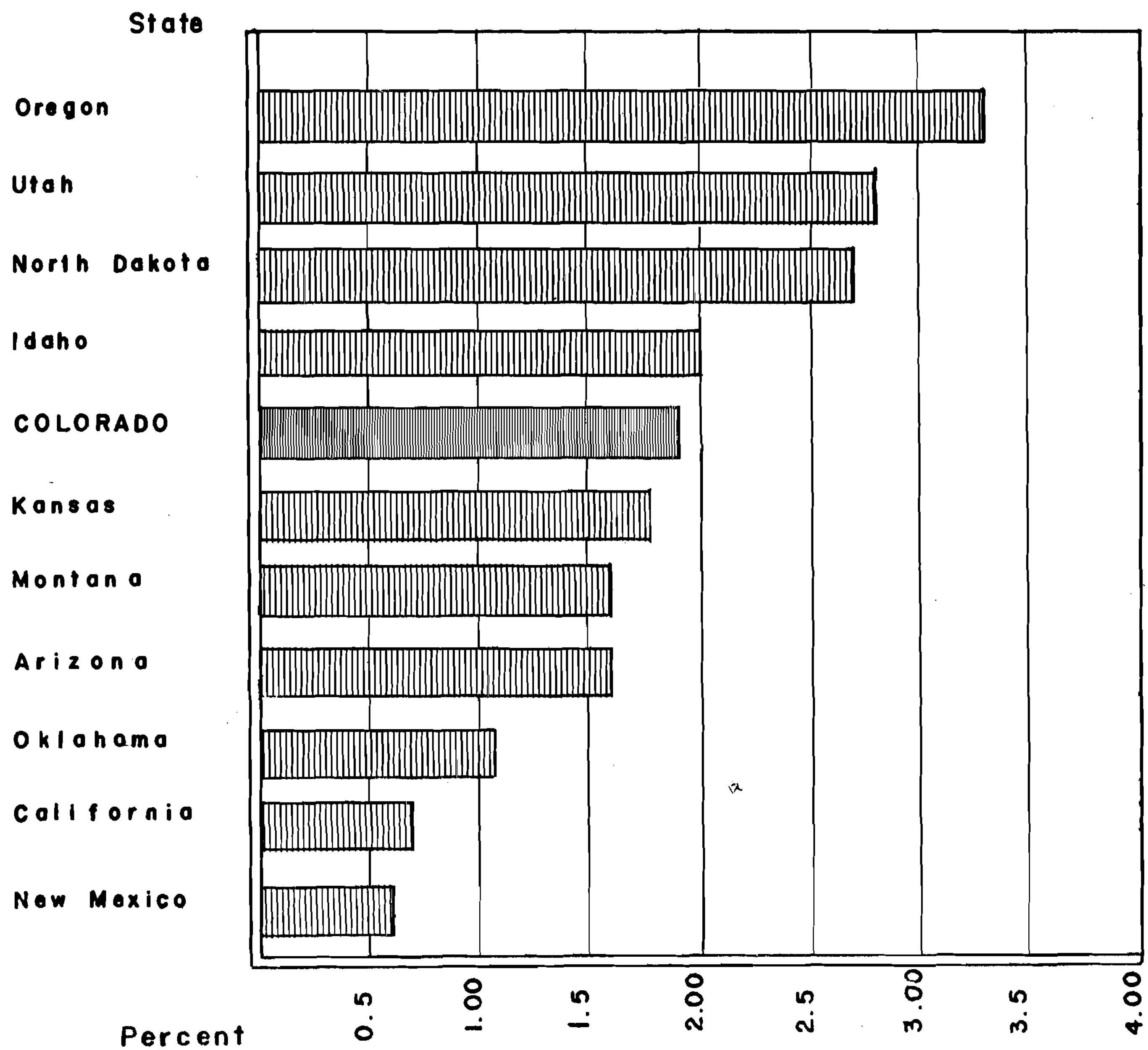


CHART 4

EFFECTIVE TAX RATE FOR MARRIED COUPLE, NO DEPENDENTS, 1954 INCOME, THE ELEVEN STATES IN THE WEST WITH INCOME TAXES

20,000 NET INCOME

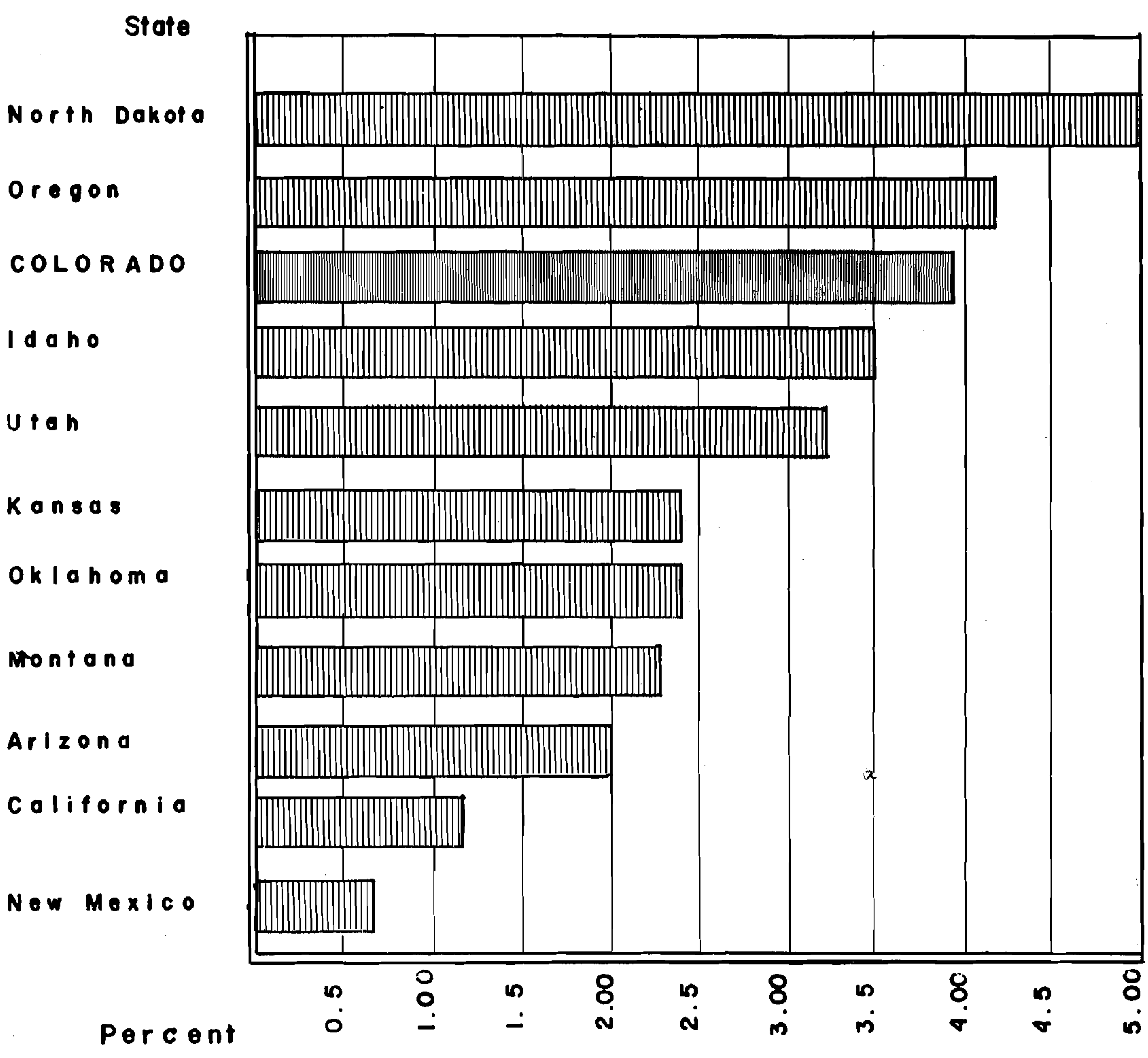
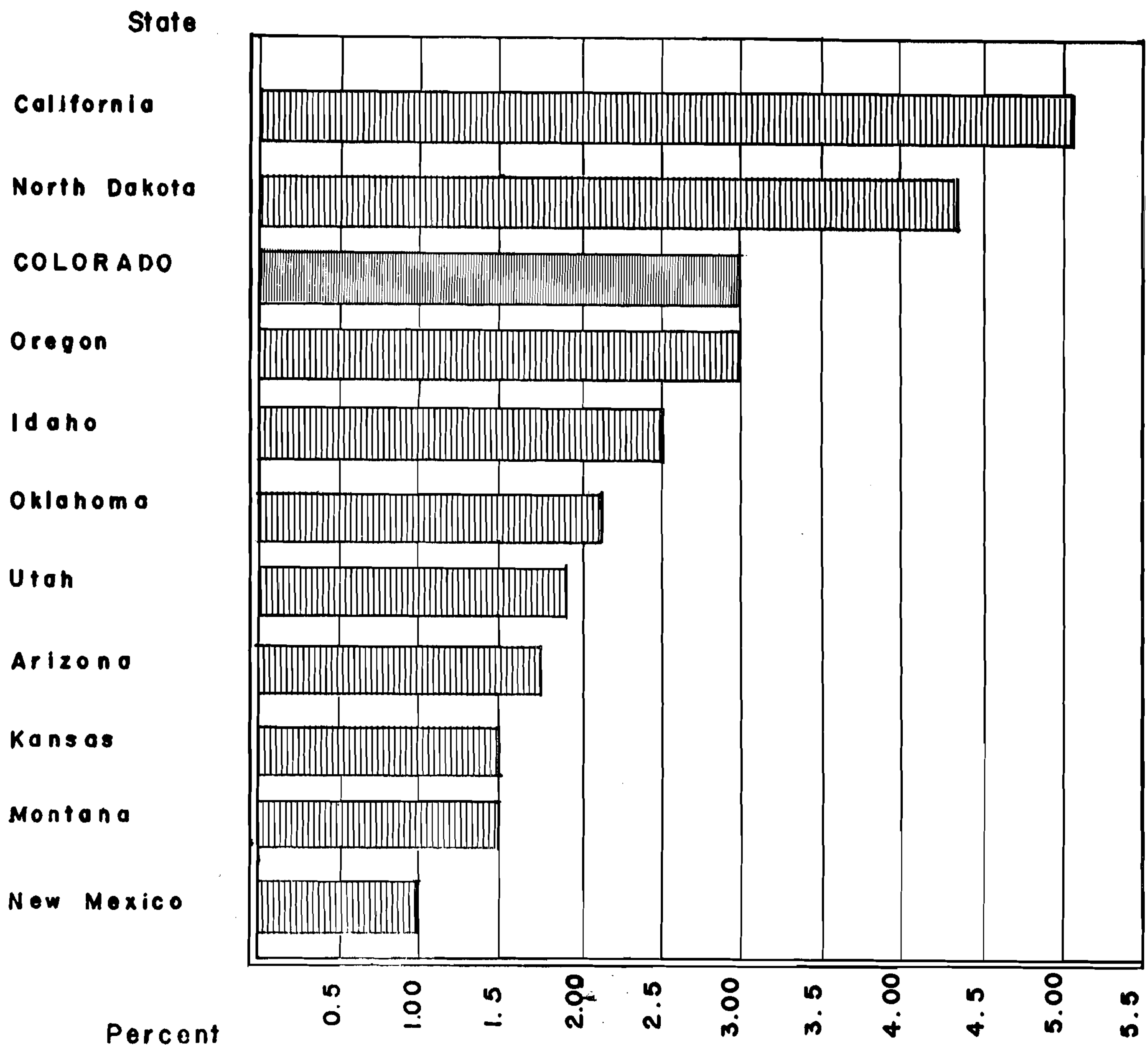


CHART 5

EFFECTIVE TAX RATE FOR MARRIED COUPLE, NO DEPENDENTS, 1954 INCOME, THE ELEVEN STATES IN THE WEST WITH INCOME TAXES

200,000 NET INCOME



C. Quantitative Aspects of the Personal Income Tax

This section compares Colorado's personal income tax with the same tax in the other states of the West from the standpoint of aggregate income tax receipts. Also yearly comparisons are made relative to aggregate receipts in Colorado since 1939 (the first full year of collections).

Table 9 shows personal income tax revenue in each of the 11 western states with income taxes, by years, 1939 to 1953. It may be seen that the trend has been upward in total receipts in every state. However, the rates of increase vary considerably among the states. These aggregate amounts indicated in the table are difficult to compare, as each state differs regarding population, wealth, total income, etc.

Table 10 is more easily analyzed. Personal income tax receipts are expressed as percentages of total tax receipts in the various states for the years since 1939. These percentages indicate the extent to which the tax has been stressed in comparison with all other taxes. Throughout most of the years, the states of Oregon, California, Idaho, Colorado, and Montana have depended upon the tax relatively more than the other western states. However, there have been changes in the position of the states from year to year. Percentage-wise, the personal income tax has never been very important in New Mexico and Oklahoma.

The current (1953) comparative importance of the personal income tax among the states is shown in Chart 6. Oregon obtained one-third of its state revenue in this form of taxation; while the next highest state, Idaho, received about one-half as much relatively. Colorado's 12.2 per cent represented the fourth highest among the states. This was relatively about one-third that of Oregon's 33.6 per cent but four times that of New Mexico's 3.1 per cent, the lowest state in the group.

TABLE 9

PERSONAL INCOME TAX REVENUE, THE ELEVEN INCOME TAX STATES

IN THE WEST, 1939-1953 (000's omitted)

Year	Colo.	Ariz.	Calif.	Idaho	Kans.	Mont.	N. Mex.	N. Dak.	Okla.	Ore.	Utah
1939	1,361	372	20,672	520	1,325	435	268	275	2,469	3,338	680
1940	2,074	462	19,572	704	1,315	543	215	309	2,403	3,775	795
1941	2,260	510	20,293	898	1,542	660	259	400(1)	2,425	4,720	888
1942	3,096	815	29,038	898	2,572	852	384	554(1)	3,573	7,175	1,277
1943	4,087	1,270	39,351	1,917	4,237	1,202	494	1,084	4,524	10,938	2,051
1944	4,157	1,617	48,323	2,664	4,971	1,347	537	1,511	5,523	8,028	2,427
1945	3,599	1,498	47,133	2,912	5,501	1,445	522	1,821	7,286	10,901	2,310
1946	3,630	1,841	44,946	3,120	5,499	1,589	552	1,614	5,571	14,487	2,579
1947	5,487	2,615	51,221	4,523	7,062	2,283	955	2,458	7,578	19,972	3,177
1948	6,976	2,594	49,482	5,525	9,715	3,075	1,199	4,122	6,924	30,863	3,398
1949	11,189	3,010	50,178	5,882	11,931	4,125	1,483	4,948	8,067	35,863	4,210
1950	11,284	2,669	60,500	5,406	8,313	3,687	1,546	3,697	8,300(1)	29,460	4,111
1951	12,397	3,500(1)	75,516	6,393	10,224	4,435	2,056	3,812	8,766	35,946	5,992
1952	14,053	4,915	91,176	6,752	10,941	5,325	2,235	4,091	9,695	42,825	7,303
1953	13,594	5,643	94,324	6,706	11,799	4,898	2,165	3,561	9,175	43,600	5,272

(1) Estimated

Source: State Finances, U. S. Bureau of Census

TABLE 10

PERSONAL INCOME TAX REVENUE AS A PERCENTAGE OF TOTAL TAX REVENUE, THE ELEVEN INCOME TAX STATES IN THE WEST, 1939-1953

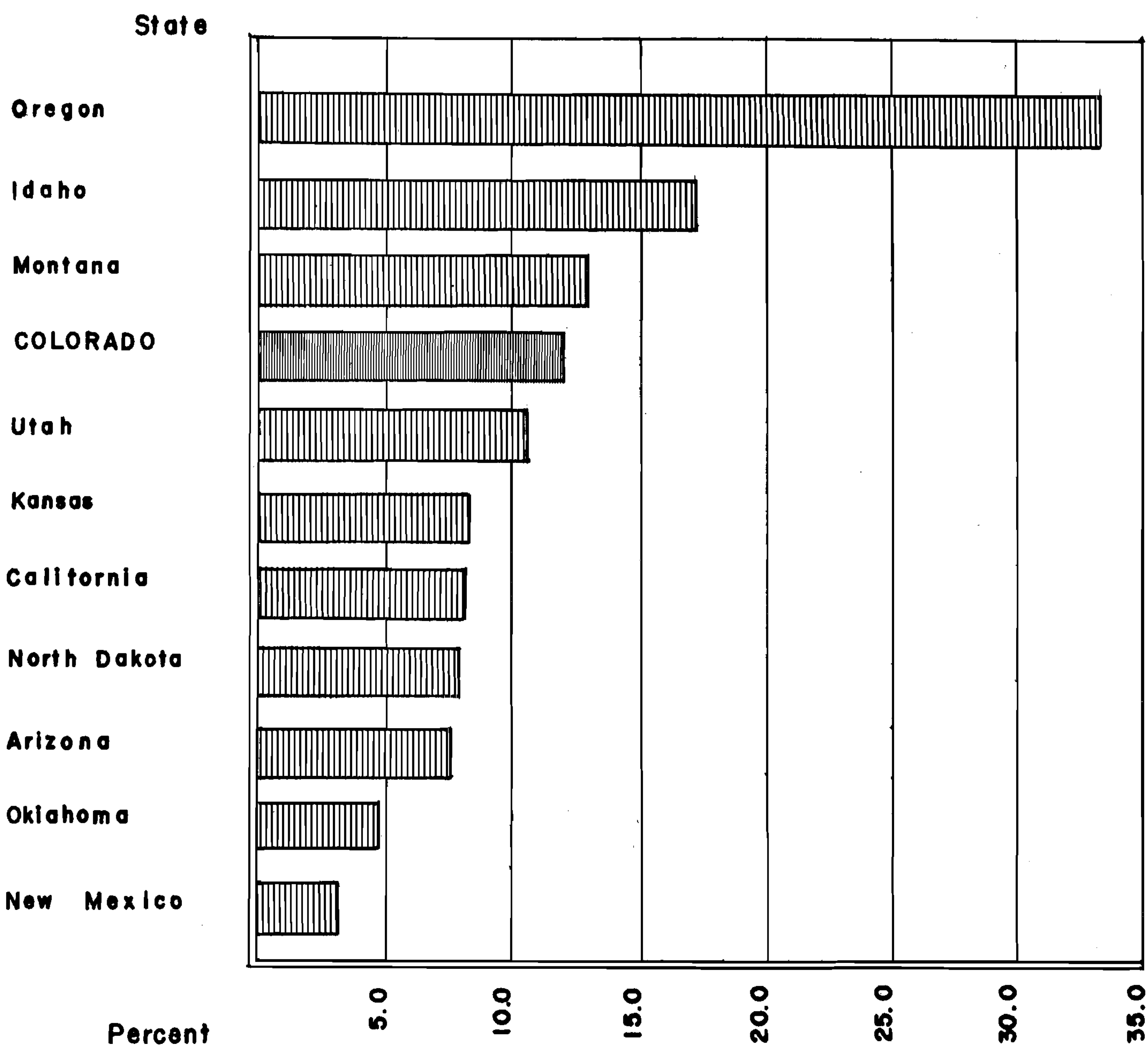
Year	Colo.	Ariz.	Calif.	Idaho	Kans.	Mont.	N. Mex.	N. Dak.	Okla.	Ore.	Utah
1939	4.5%	2.8%	9.4%	5.9%	4.2%	4.0%	2.0%	2.9%	4.6%	16.4%	4.4%
1940	6.1	2.5	7.6	6.0	3.4	4.7	1.4	2.2	4.3	14.8	4.7
1941	6.2	2.8	7.0	6.9	3.9	5.3	1.6	2.7	4.2	16.3	4.9
1942	8.0	3.4	8.7	6.9	5.8	6.0	2.1	3.0	4.8	20.0	6.2
1943	10.0	5.3	11.1	14.2	8.8	8.6	2.6	6.1	6.3	27.5	9.2
1944	10.1	6.3	12.6	18.8	10.5	8.2	2.6	7.8	7.4	21.3	10.8
1945	8.5	6.6	11.7	20.7	11.6	10.0	2.4	9.7	8.6	27.8	10.4
1946	7.1	5.8	9.4	16.3	9.3	10.2	2.0	7.7	5.3	27.9	9.9
1947	9.0	6.9	8.8	18.4	9.4	11.6	2.9	9.3	6.4	30.1	10.5
1948	9.1	5.3	7.1	19.4	10.5	13.4	3.1	13.1	5.2	36.0	8.7
1949	13.2	6.4	6.7	19.8	11.7	16.1	3.3	13.7	5.6	36.4	9.8
1950	12.6	5.6	7.5	18.0	7.0	12.3	3.0	9.5	5.3	29.5	9.3
1951	12.4	5.3	7.9	18.7	8.3	13.1	3.5	9.0	5.0	32.8	12.0
1952	13.3	7.0	8.6	17.8	8.2	14.4	3.4	9.3	5.2	33.4	13.5
1953	12.2	7.6	8.3	17.3	8.6	13.1	3.1	8.0	4.7	33.6	10.6

Source: Calculated from State Finances, U. S. Bureau of Census

CHART 6

PERSONAL INCOME TAX REVENUE AS A PERCENTAGE OF TOTAL STATE TAX REVENUE, ELEVEN INCOME TAX STATES OF THE WEST, 1953

PERSONAL INCOME TAX



Another comparison is shown in Table 11. By relating total personal income tax collections to the total state populations, an average per capita figure is obtained which can be useful in making comparisons among the states as well as for analyzing any particular state's collections over the years. Per capita personal income tax receipts have always been highest in Oregon and lowest in New Mexico among the western states. Colorado's per capita receipts were very near the average until 1949. Since then the amount in Colorado has been slightly higher than average.

Chart 7 shows the per capita personal income tax receipts in 1953 for the 11 states in the west with income taxes. Colorado's $9.50 per capita was third from the highest, the median state being Utah with a per capita of $7.15. However, Colorado's amount corresponded rather closely with the 11-state arithmetic mean of $8.82.

Chart 8 shows changes occurring in Colorado since 1939. The average per capita personal income tax revenue rose almost without interruption from a low of $1.23 in 1939 to a high of $10.21 in 1952. There was a slight decline to $9.50 in 1953.

Table 12 and Chart 9 show changes from year to year since 1939 regarding the average personal income tax paid (per taxpayer) in Colorado. There has been a remarkably high degree of stability in the average figures in spite of an upward trend in both tax rates and total collections. This situation is largely due to an expanding number of taxpayers because of both a rise in personal incomes and a lowering of personal exemptions. Another factor has been an increase in Federal income taxes, leaving relatively less income per individual to be taxed by Colorado.

Finally, in this section, Table 13 analyzes Colorado's personal income tax from the standpoint of total receipts expressed as percentages of total

TABLE 11

PER CAPITA PERSONAL INCOME TAX REVENUE, THE ELEVEN INCOME TAX STATES IN THE WEST, 1939-1953.

Year	Colo.	Ariz.	Calif.	Idaho	Kans.	Mont.	N.Mex.	N.Dak.	Okla.	Ore.	Utah	Average(1)
1939	$ 1.23	$ .80	$3.10	$ 1.01	$ .72	$ .79	$ .52	$ .43	$1.06	$ 3.13	$ 1.27	$1.28
1940	1.85	.95	2.88	1.35	.72	.98	.41	.48	1.03	3.49	1.46	1.42
1941	2.00	1.01	2.91	1.70	.86	1.18	.48	.63	1.04	4.28	1.60	1.61
1942	2.70	1.53	3.93	1.71	1.43	1.54	.71	.90	1.73	6.29	2.24	2.25
1943	3.61	2.13	5.00	3.66	2.34	2.28	.92	1.87	2.18	9.43	3.42	3.35
1944	3.56	2.34	5.77	4.98	2.74	2.76	.99	2.82	2.42	6.39	3.77	3.50
1945	3.23	2.51	5.42	5.21	3.02	3.19	1.00	3.57	3.51	8.35	3.88	3.90
1946	3.39	3.23	4.95	5.98	3.07	3.56	1.07	3.16	2.54	11.05	4.32	4.21
1947	4.84	4.39	5.41	8.63	3.76	4.78	1.82	4.58	3.30	13.93	5.00	5.49
1948	6.10	4.03	5.04	10.52	5.05	6.30	2.19	7.62	3.03	19.98	5.31	6.83
1949	9.33	4.28	4.97	10.04	6.30	8.07	2.60	8.50	3.52	21.88	6.28	7.80
1950	9.03	3.68	5.76	9.40	4.46	6.56	2.45	6.34	3.42	19.73	6.07	7.00
1951	9.26	5.80	7.13	10.78	5.33	7.42	2.98	6.10	3.93	23.57	8.62	8.27
1952	10.21	6.10	8.27	11.44	5.61	9.04	3.14	6.76	4.28	27.49	10.30	9.33
1953	9.50	6.57	8.28	11.03	5.89	8.29	2.99	5.93	4.05	27.35	7.15	8.82

(1) Eleven state average

Source: State Government Finances, Bureau of Census.

CHART 7

PER CAPITA PERSONAL INCOME TAX REVENUE, ELEVEN INCOME TAX STATES OF THE WEST, 1953

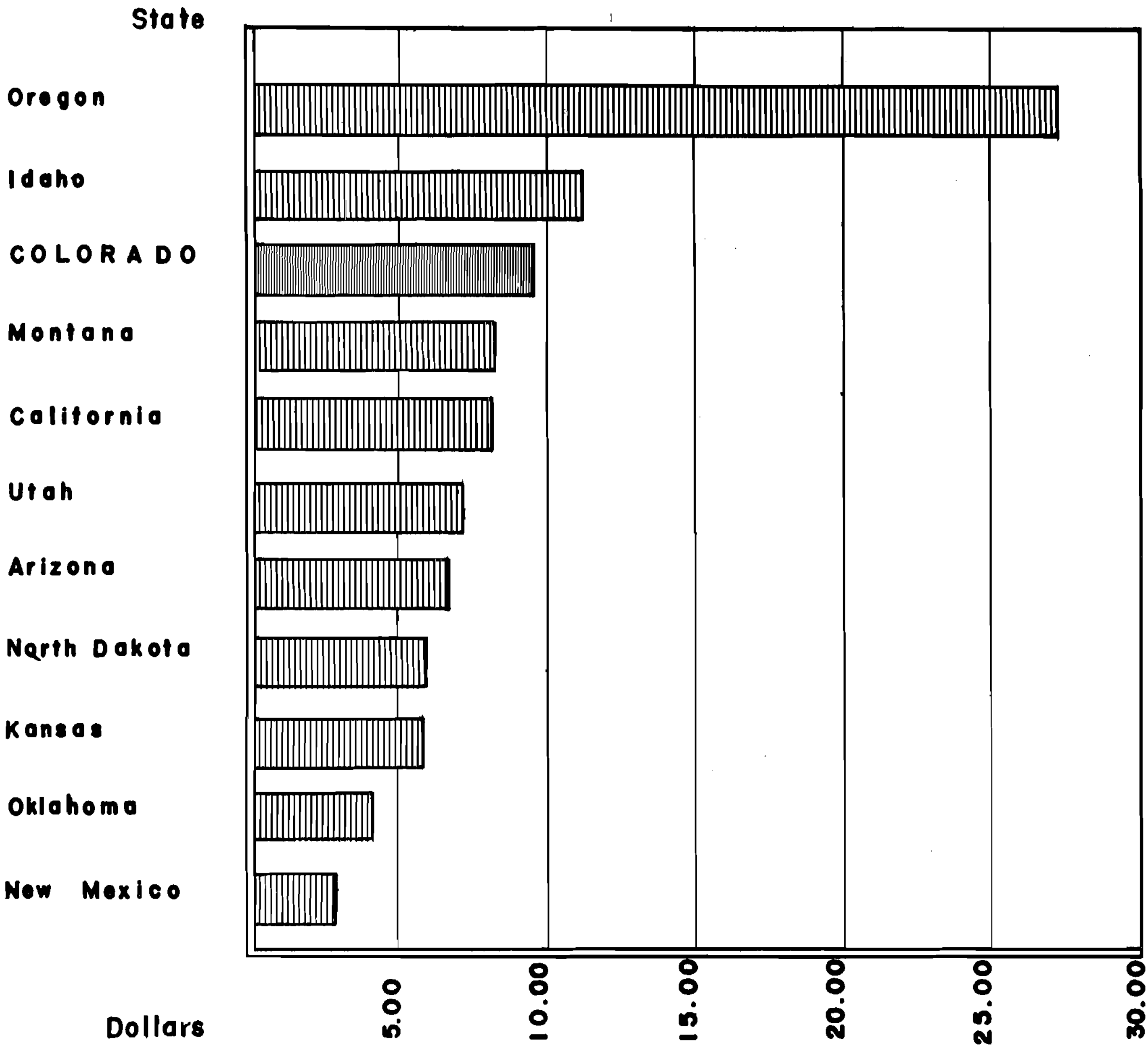


CHART 8

COLORADO PER CAPITA, PERSONAL INCOME TAX REVENUE COMPARED WITH PER CAPITA AVERAGE FOR THE ELEVEN INCOME TAX STATES IN THE WEST

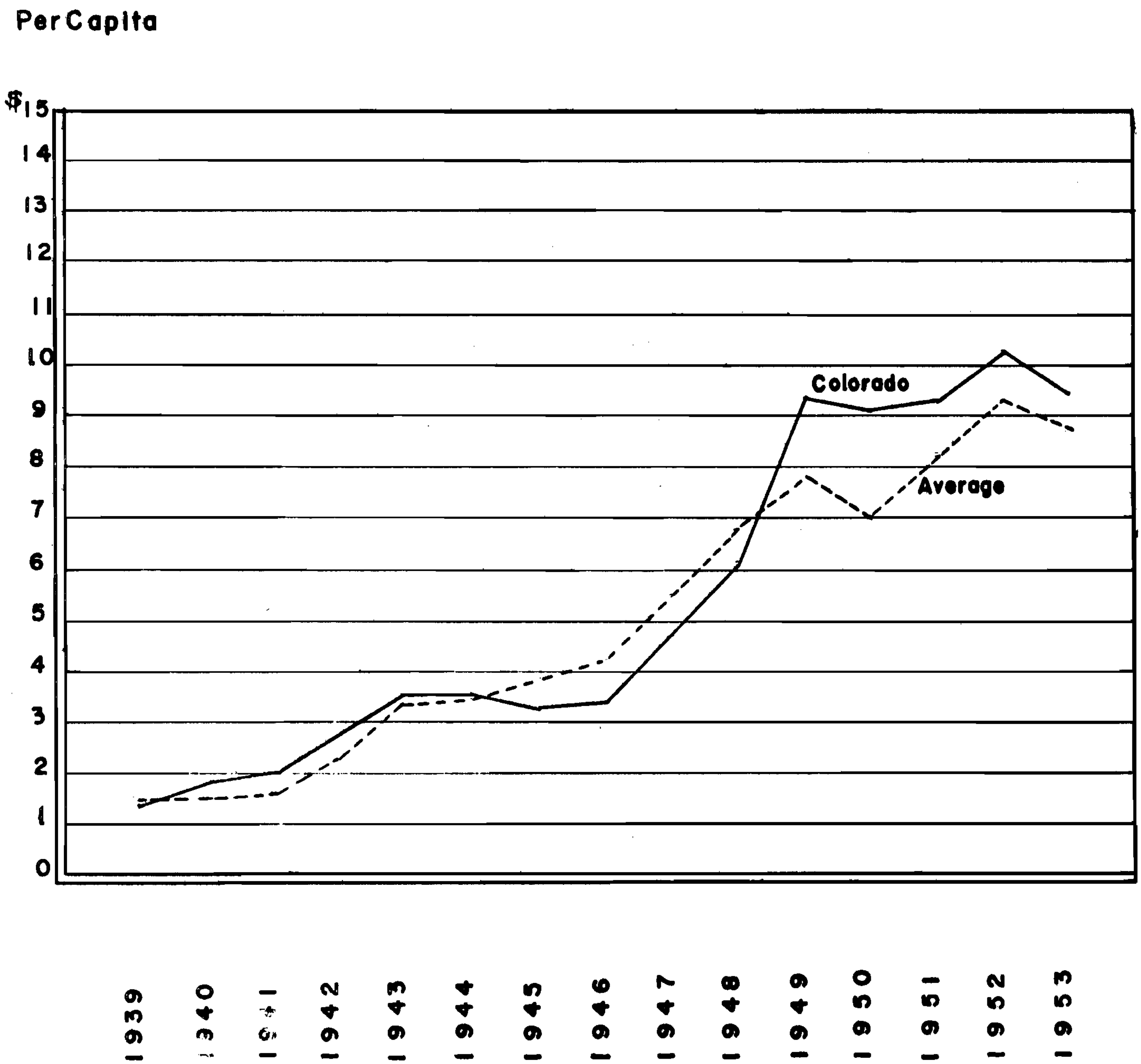


TABLE 12

COLORADO PERSONAL INCOME TAX EXPRESSED AS AVERAGE PAYMENT PER TAXABLE RETURN, 1939-1953.

Year	Average Payment Per Taxable Return(1)	Year	Average Payment Per Taxable Return
1939	39.17	1947	48.25
1940	45.12	1948	31.21
1941	45.50	1949	53.07
1942	47.84	1950	48.19
1943	45.80	1951	51.54
1944	42.50	1952	43.29
1945	35.72	1953	37.42
1946	46.00	Average (15 yrs)	43.87

(1) Calculated by dividing total personal income tax revenue by total personal taxable returns filed with the Department of Revenue.

CHART 9

AVERAGE PAYMENT PER TAXPAYER,
COLORADO PERSONAL INCOME TAX

1939 — 1953

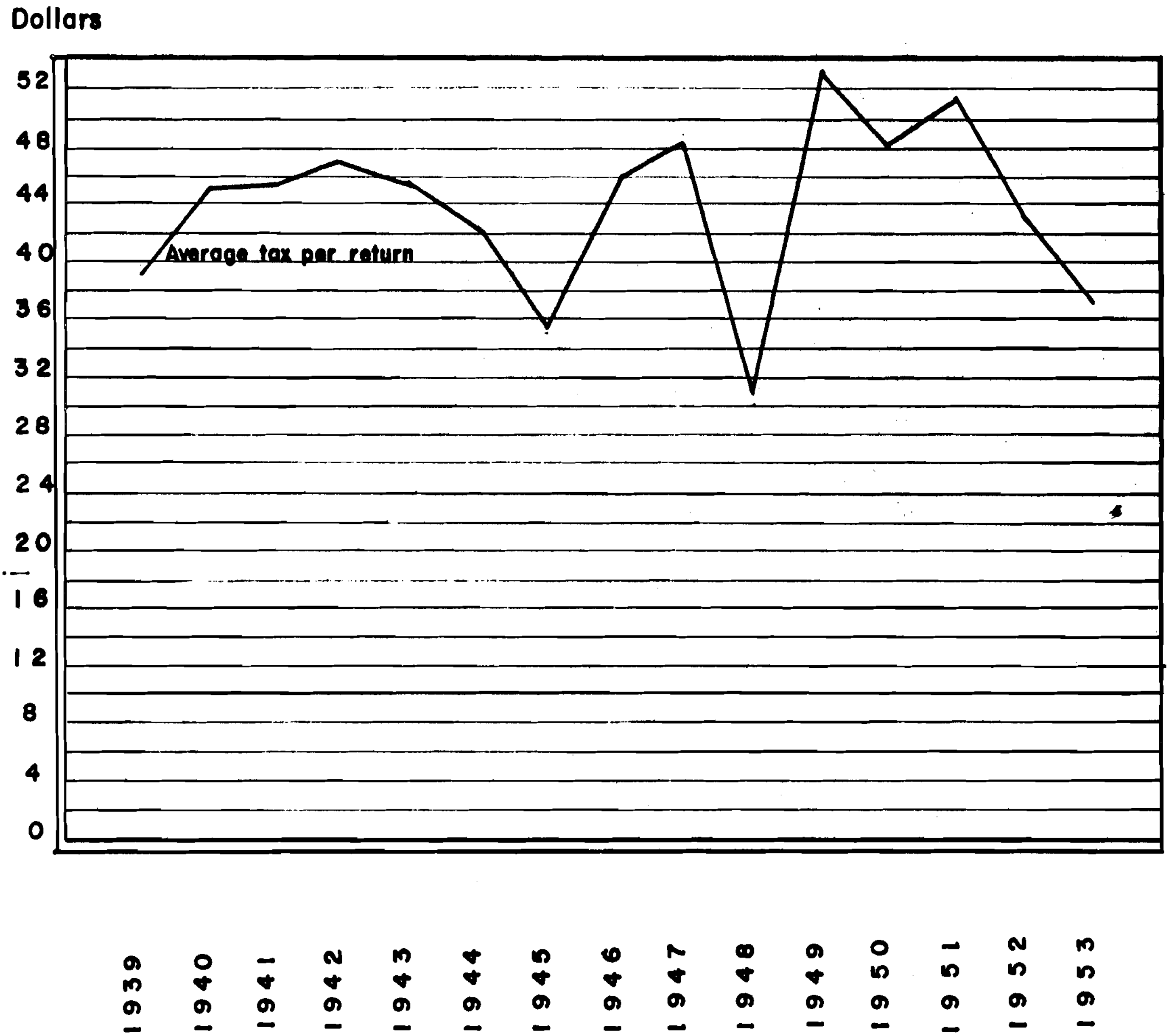


TABLE 13

COLORADO PERSONAL INCOME TAX EXPRESSED BY: TOTAL REVENUE, AND AS PERCENTAGES OF ALL TAX REVENUE, TOTAL INCOME PAYMENTS AND FEDERAL PERSONAL INCOME TAX REVENUE FROM COLORADO, 1939-1953.

Year	Colorado Personal Income Tax Revenue	Colorado Personal Income Tax Revenue Expressed as Percentage of:		
		All Colo. State Revenue	Total Income Payments	Federal Personal Income Tax Revenue from Colorado(2)
1939	$ 1,361,000	4.5	.24	22.2
1940	2,074,000	6.1	.35	22.9
1941	2,260,000	6.2	.33	9.5
1942	3,096,000	8.0	.31	4.6
1943	4,087,000	10.0	.36	4.0
1944	4,157,000	10.1	.37	3.8
1945	3,599,000	8.5	.28	2.7
1946	3,630,000	7.1	.26	2.9
1947	5,487,000	9.0	.33	3.6
1948	6,976,000	9.1	.40	5.6
1949	11,189,000	13.2	.66	8.7
1950	11,284,000	12.6	.61	7.1
1951	12,397,000	12.4	.58	
1952	14,053,000	13.3	.61	
1953	13,594,000	12.2	.57	

(1) Fiscal years
(2) Figures since 1950 are not yet available

Source: Statistics of Income for 1950, U. S. Treasury Department; State Tax Collections, Bureau of the Census.

state revenue, of total income payments in the state and of total Federal personal income tax revenue collected from Colorado. All three comparisons for the years since 1939, are good indicators of what has been happening to the personal income tax in the state.

SECTION IV -- THE CORPORATION INCOME TAX

In most of the states with income taxes, the corporation tax is closely integrated with the tax upon individuals. This is true in Colorado. Interest in both taxes developed jointly: both were established at the same time (1937) as parts of one income tax law and both are administered by the same governmental agency (Income Tax Division of the Department of Revenue).

A. Arguments for Corporation Income Tax.

Specific reasons advanced for applying a tax upon the net income of corporations include the following:

(1) It is considered difficult adequately and fairly to tax corporations upon all of their assets (tangible and intangible) under the property tax. Consequently, there is the alleged need for some supplemental revenue measure such as the income tax. (2) The income tax is said to avoid some legal difficulties as compared with most other revenue measures relative to the taxation of corporations doing business in interstate commerce or in more than one state. (3) It is considered desirable to supplement the individual income tax with a corporation income tax because of absentee ownership of various corporations doing business in Colorado.

B. Corporation Income Tax Rules and Regulations in Colorado.

Exempt Organizations. Most states imposing an income tax grant exemption to certain designated corporations. The principal requirement placed upon legislative bodies in granting such exemption is that those granted be reasonable.

The following organizations are exempt from the Colorado corporation income tax:

(1) Labor, agricultural or horticultural organizations,

(2) Fraternal benefit societies,

(3) Non-profit cemetery companies,

(4) Charitable corporations and churches,

(5) Non-profit business and civic leagues,

(6) Non-profit pleasure clubs,

(7) Local benevolent life insurance associations,

(8) Mutual ditch, irrigation or other similar companies,

(9) Mutual casualty insurance companies,

(10) Voluntary employees' beneficiary associations,

(11) Teachers' retirement fund associations,

(12) Insurance companies,

(13) Credit unions,

(14) Employees' pension and profit-sharing trusts.

The above exemptions follow very closely those permitted by the Federal government. Also there is little variation among the 11 western states relative to exempt organizations.

Gross Income. Gross income under the Colorado law includes, in general, compensation for personal and professional services, business income, profits from sale of property, interest, rent, dividends, and gains, profits, and income derived from any source whatsoever, unless exempt from the tax by law.

The above concept of gross income is very comprehensive. It follows closely the definition used by the Federal government and most other states.

Exclusions from Gross Income. Gross income includes income from whatever source derived except the following:

(1) Income which may not be taxed under the provisions of the United States Constitution, for example, interest on U. S. Government Bonds.

(2) Amounts received under a life insurance contract by reason of the death of the insured.

(3) Return of premiums under life insurance, endowment or annuity contracts, except that at least 3 per cent of the cost of annuities is taxable annually, if received.

(4) Property acquired by gift, devise, bequest or inheritance.

(5) Stock dividends.

(6) 85 per cent of dividends received from other corporations.

Here, again, the Colorado law follows rather closely the Federal law as well as the laws of most other states. However, some states exclude two additional kinds of income not excluded in Colorado, namely: (1) Capital gains and (2) Interest upon obligations of the state or its political subdivisions.

A few states have adopted the Federal net income tax base as the state tax base and thereby exclude from gross income exactly the same items as are excluded under Federal law. An advantage of this arrangement is greater simplicity for the taxpayer in calculating his tax and for the tax administrator in auditing the tax return. A possible disadvantage is that unpredictable and uncontrollable (by the state) changes may occur in the Federal law. Moreover, a state using the Federal income tax base would be unable to include for tax purposes (as Colorado is now doing) interest on state and municipal bonds.

<u>Deductions from Gross Income</u>. The following are Colorado allowable deductions from corporation gross income:

(1) Ordinary and necessary business expenses, salaries, traveling expenses and rentals.

(2) Interest paid on indebtedness, except that created to purchase tax exempt securities, and amounts paid by savings and loan associations on share capital, share accounts, and savings accounts.

(3) All taxes except state income taxes, estate, inheritance and gift taxes and special assessments; however, corporations allocating income to Colorado may deduct taxes on net income paid to another state.

(4) Uncompensated losses.

(5) Losses from the sale of capital assets, up to $2000 maximum.

(6) Bad debts.

(7) Reasonable allowance for depreciation, obsolescence and depletion.

(8) Charitable gifts not to exceed 5 per cent of net income computed without the benefit of this section.

(9) Rebates to members and customers of cooperatives.

The law permits no deductions for the following:

(1) Amounts spent for permanent improvement or betterment.

(2) Restoration of property for which depreciation allowance has been taken.

(3) Life insurance premiums on policies for the benefit of the payor.

(4) Deductions against wholly exempt income.

(5) Losses incurred in transactions between a corporation and a majority stockholder.

(6) Shrinkage of property value not through depreciation or depletion.

(7) Loss from wash sales of securities.

All the deductions and specific denial of deductions from gross income in the Colorado law are similar to those contained in the laws of other states, most of which follow the lead of the Federal income tax. One important exception until 1954 is worthy of a brief discussion. The Federal Government and some states permit a deduction for losses sustained in previous and, or subsequent years. This deduction (not permitted in Colorado until 1954) is known as the "carry-forward and carry-back net loss deduction."

Carry-Forward and Carry-Back Net Loss Deduction. Only the Federal government and seven states permit a deduction for losses occuring in years other than the current one under consideration at a particular time. These jurisdictions together with their carry-forward or carry-back provisions are shown in Table 14.

TABLE 14

FEDERAL AND STATE CORPORATION INCOME TAX LAWS PERMITTING A NET-LOSS CARRY-FORWARD OR CARRY-BACK DEDUCTION

	Carry-forward	Carry-back
Federal Government	5 yrs.	2 yrs.
COLORADO(1)	4 yrs.	none
Arizona	5 yrs.	1 yr.
Idaho	2 yrs.	none
Minnesota	2 yrs.	none
North Carolina	2 yrs.	none
North Dakota	4 yrs.	none
Wisconsin	2 yrs.	none

(1) The Colorado law (Chapter 62, Session Laws of Colorado, 1954) permits net capital loss or net operating loss to be treated as a short-term capital loss within a four-year period succeeding taxable year. Such loss, in excess of capital gains, can be deducted from gross income.

An advantage of the carry-over and carry-back loss deduction is that fluctuating income is not unduly penalized in comparison with constant and steady income. Without such provision, principal victims are recipients of casual income, those involved with capital gains and losses, new and risky business and small business.

A disadvantage of permitting the deduction is that the tax is made more complicated and difficult to administer. This is especially true relative to the carry-back provision, as refunds may be required and considerable time may elapse before accounts can be closed. Another possible disadvantage is that the yield of the corporation income tax may be reduced considerably when carry-forward or carry-back deductions are permitted.

Allocation of Income of Corporations Receiving Part of Income from Out-of-State. In Colorado, corporations are liable for payment of tax on all net income from sources within the state. In the case of corporations whose gross income is derived from sources both within and without the state, direct allocation is made when such a method clearly reflects the net income which should normally be subject to the tax. In cases where direct allocation is impossible, apportionment should be made on the basis of ownership of property and revenue from sales within and outside of the state. Should this method also be impracticable a special formula for allocation may be developed subject to approval by the Department of Revenue.

Tax Rates. Table 15 shows the tax rates applied to corporation net income in the 11 states of the West with income taxes. Eight states, including Colorado, have a proportional or flat rate, while three states apply progressive rates. However, these three states graduate the rate, in each case, so rapidly that the maximum is reached with a relatively small corporation income.

Returns. In Colorado, all corporations except those exempt from the tax must file a return on or before the 15th of the fourth month following the close of the taxable year, April 15th for calendar year corporations.

TABLE 15

CORPORATION INCOME TAX RATES

(Eleven Income Tax States in West, 1954)

State	Rate	Minimum Rate on Income Over:
Arizona	1%-5%	$6,000
California	4%	-------
Colorado	5%(1)	-------
Idaho	1½%-8%(2)	5,000
Kansas	2%	-------
Montana	3%	-------
New Mexico	2%	-------
North Dakota	3%-6%	15,000
Oklahoma	4%	-------
Oregon	8%	-------
Utah	3%	-------

(1) For taxable year 1954-55 the tax is reduced 20%. Financial institutions are taxed at rate of 6%.
(2) After 1953, tax is reduced by 15%.

Source: Commerce Clearing House, State Tax Guide, 2nd Ed. 1954.

<u>Payment</u> The tax is payable to the Department of Revenue on the 15th day of the fourth month following the close of the taxable year, redundant, or in four equal installments, the first with the return, the second on the 15th of the seventh month, the third on the 15th of the tenth month and the fourth on the 15th of the twelfth month.

<u>Information at Source</u>. All corporations making payments of salaries, wages, rent, dividends, etc. to any resident or individual deriving income from Colorado must make an informational return thereof to the Director of Revenue on or before February 15th. By administrative ruling, only payments of $100 or more, interest of $50 or more, and dividends of $10 or more must be reported.

<u>Withholding at Source</u>. Beginning July 1, 1954, all employers must withhold from wages 4 per cent of the amount withheld for Federal income taxes. Reports and payments are due from employers quarterly not later than the last days of April, July, October, and January for the preceding calendar quarters. Annual summary statements are due by March 15th.

<u>Banks and Financial Institutions.</u> Financial institutions, in all states, represent a special classification for taxation. This is largely because of the dual chartering (both Federal and state) of commercial banks which require equal competitive treatment in taxation. Congress has specified how national banks may be taxed by the states. This tends to set the pattern for taxation of all competing financial institutions.

In Colorado, the banks and financial institutions subject to the special corporation (excise) tax are the following:

(1) National banks

(2) State banks

(3) Industrial banks

(4) Morris plan banks

(5) Trust companies

The tax is in lieu of all property taxes, except taxes upon real estate.

The definition of gross and net income follows the regular corporation income tax law, except that interest on Federal and municipal securities is included.

The tax rate is 6 per cent as compared with the regular rate of 5 per cent (temporarily reduced to 4 per cent) on general corporations.

C. Quantitative Aspects of the Corporation Income Tax

Table 16 gives figures indicating total corporation income tax collections, by years since 1939, among the 11 states in the West with income taxes. Collections vary considerably from state to state and from year to year. However, there has been a trend upward in collections in all of the states since 1939, the first full year of collections in Colorado.

Corporation income tax revenue expressed as a percentage of total state tax revenue is shown in Table 17. This table indicates the extent to which the corporation income tax is stressed relative to all other taxes in each state. During the last 10 years, in Colorado, the percentage has fluctuated but little, having been about 5 or 6 per cent each year.

The relative position of Colorado among the other 10 income tax states of the West, in 1953, is shown in Chart 10. Colorado's 5 per cent was a middle figure as compared with the extremes of 14.3 per cent in Oregon, the highest state, and 1.5 per cent in New Mexico, the lowest state.

Table 18 compares the revenue from the Colorado corporation income tax with total state tax revenue, with total income payments, and with Federal corporation income tax collections from Colorado. Total income payments are considered a fairly good index of ability to pay taxes. According to the figures in Column 3, the highest ratio was reached in 1949 when .34 of

TABLE 16

TOTAL CORPORATION INCOME TAX REVENUE, ELEVEN INCOME TAX STATES IN THE WEST, 1939-1953 (000's omitted)

Year	Colo.	Ariz.	Calif.	Idaho	Kans.	Mont.	N.Mex.	N.Dak.	Okla.	Ore.	Utah
1939	706	544	20,230	877	867	395	279	149	4,585	1,484	1,024
1940	1,035	856	20,597	1,043	754	668	220	281	3,840	1,712	881
1941	1,289	1,000	22,988	1,503	889	609	316	300(1)	3,768	2,516	957
1942	1,218	1,181	34,394	1,503(1)	1,267	1,541	400	415(1)	4,503	4,755	1,165
1943	1,548	1,500(1)	52,888	1,336	1,793	1,425	562	760	5,593	7,213	1,304
1944	2,319	1,898	67,671	1,846	2,125	1,237	698	848	6,278	6,906	1,414
1945	2,546	1,821	58,018	1,543	1,839	1,115	602	705	8,650	5,216	1,414
1946	3,301	2,181	55,783	1,456	1,695	766	662	543	7,041	8,381	1,277
1947	3,076	2,588	59,151	2,146	2,190	1,315	672	813	7,028	10,922	1,508
1948	4,620	5,647	69,181	3,061	3,142	1,907	1,011	1,189	8,305	16,576	2,081
1949	5,783	5,269	75,798	3,610	3,763	2,245	1,415	1,421	9,022	20,041	3,005
1950	5,987	2,897	74,546	3,297	3,456	1,678	1,255	1,306	7,893	17,017	2,584
1951	6,535	5,378	98,428	3,500	3,644	2,615	1,303	1,351	8,289	14,538	2,485
1952	6,121	6,257	119,386	4,064	3,790	2,284	1,271	1,391	8,850	22,071	3,227
1953	5,515	3,444	119,107	3,518	3,289	1,610	1,080	967	8,538	18,606	2,997

(1) Estimated

Source: State Government Finances, U. S. Bureau of the Census

TABLE 17

CORPORATION INCOME TAX REVENUE EXPRESSED AS A PERCENTAGE OF TOTAL STATE TAX REVENUES, ELEVEN INCOME TAX STATES IN THE WEST, 1939-1953

Year	Colo.	Ariz.	Calif.	Idaho	Kans.	Mont.	N.Mex.	N.Dak.	Okla.	Ore.	Utah
1939	2.3	4.2	9.2	10.0	2.7	3.6	2.1	1.6	8.5	7.3	6.7
1940	3.1	4.6	8.0	9.0	2.0	5.8	1.4	2.0	6.8	6.7	5.2
1941	3.5	5.6	8.0	11.5	2.2	4.9	1.9	---	6.6	8.7	5.3
1942	3.2	5.0	10.3	11.5	2.9	10.9	---	---	6.1	13.3	5.7
1943	3.8	---	14.9	9.9	3.7	10.2	3.0	4.3	7.8	18.1	5.7
1944	5.6	7.4	17.6	13.0	4.5	7.5	3.4	4.4	8.4	18.3	5.9
1945	6.0	8.0	14.4	11.0	3.9	7.7	2.8	3.8	10.2	13.3	6.4
1946	6.5	6.9	11.7	7.6	2.9	4.9	2.4	2.6	6.7	16.2	4.9
1947	5.1	6.9	10.2	9.2	2.9	7.3	2.1	3.1	5.9	16.5	5.0
1948	6.0	11.5	9.9	10.8	3.4	8.3	2.6	3.8	6.3	19.3	5.4
1949	6.8	11.3	10.1	12.2	3.7	8.7	3.2	3.9	6.3	20.4	7.0
1950	6.7	6.0	9.2	11.0	2.9	5.6	2.5	3.3	5.0	17.0	5.9
1951	6.5	8.1	10.3	10.3	3.0	7.7	2.2	3.2	4.7	13.3	5.0
1952	5.8	8.9	11.2	10.7	2.9	6.2	2.0	3.1	4.7	17.2	6.0
1953	5.0	4.6	10.4	9.1	2.4	4.3	1.5	2.2	4.4	14.3	6.0

Source: Calculations made from data in State Finances, U. S. Bureau of the Census.

CHART 10

CORPORATION INCOME TAX REVENUE EXPRESSED AS A PERCENTAGE OF TOTAL STATE TAX REVENUE, ELEVEN STATES IN THE WEST WITH INCOME TAXES

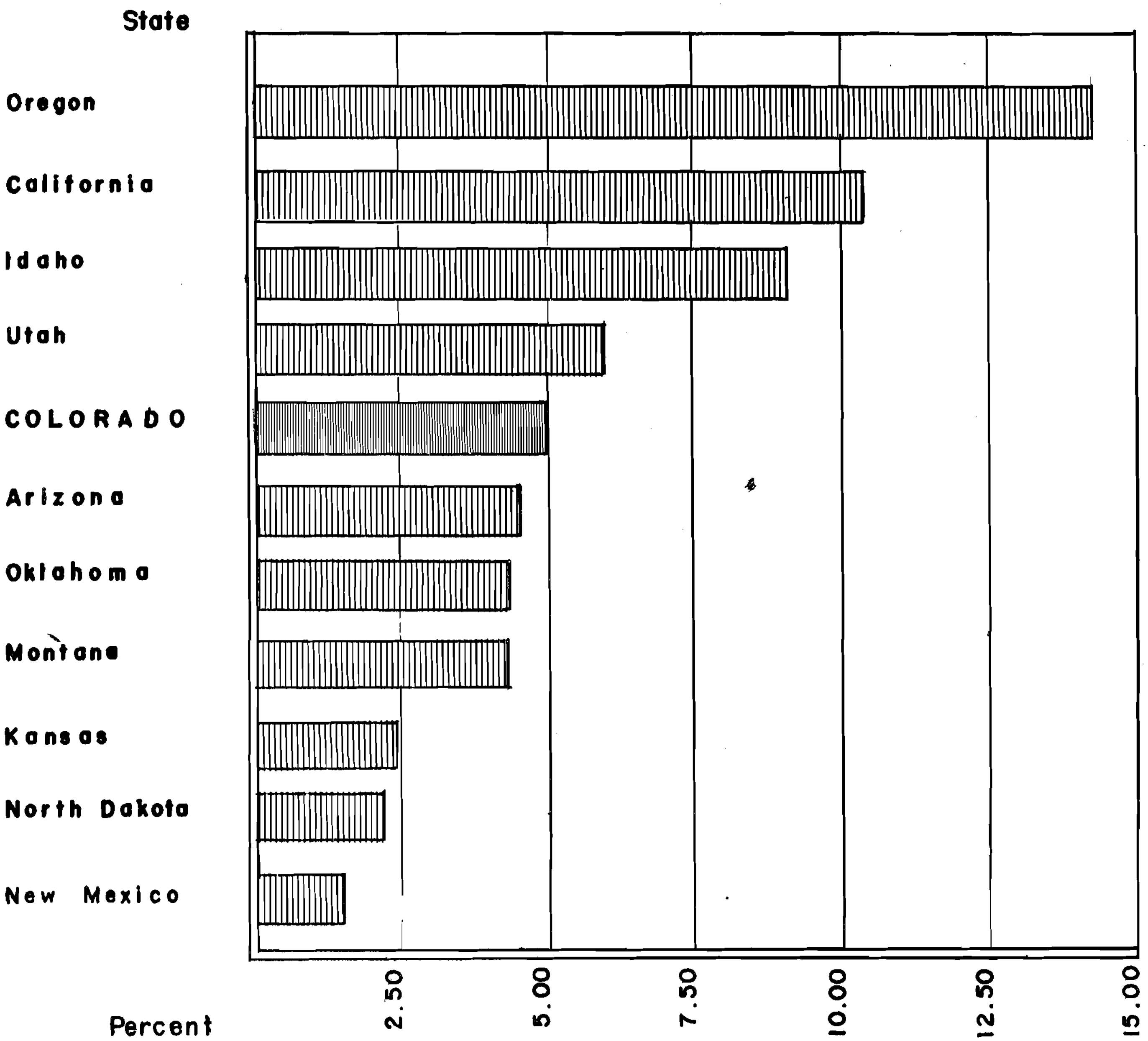


TABLE 18

COLORADO CORPORATION INCOME TAX EXPRESSED BY: TOTAL REVENUE, AND PERCENTAGES OF ALL STATE REVENUE, TOTAL INCOME PAYMENTS AND FEDERAL CORPORATION INCOME TAX REVENUE FROM COLORADO, 1939-1953.

Year (1)	Colorado Corporation Income Tax Revenue	Colorado Corporation Income Tax Revenue Expressed as Percentage of: Total Colo. State Revenue	Total Income Payments	Fed. Corp. Income Tax Revenue from Colo. (2)
1939	$ 706,000	2.3	.13	10.0
1940	1,035,000	3.1	.18	9.8
1941	1,289,000	3.5	.19	5.1
1942	1,218,000	3.2	.12	3.0
1943	1,548,000	3.8	.14	2.8
1944	2,319,000	5.6	.21	3.9
1945	2,546,000	6.0	.20	4.4
1946	3,301,000	6.5	.24	6.2
1947	3,076,000	5.1	.19	5.2
1948	4,620,000	6.0	.27	6.7
1949	5,783,000	6.8	.34	10.0
1950	5,987,000	6.7	.32	
1951	6,535,000	6.5	.31	
1952	6,121,000	5.8	.26	
1953	5,515,000	5.0	.23	

(1) Fiscal years

(2) Figures since 1949 are not yet available

Source: Statistics of Income for 1949, Part II U. S. Treasury Department; <u>State Tax Collections</u>, U. S. Bureau of the Census.

1 per cent of the total income payments were paid in state corporation income taxes. However, the general trend has been upward in this ratio since 1939. Recent figures are not available showing Federal corporation income tax collections from Colorado. However, in 1949 Colorado's corporation income tax represented 10 per cent as much as the Federal tax on Colorado corporations. There is reason to believe this ratio has declined somewhat since 1949.

A final table (No. 19) and accompanying Chart 11 in this section show the average state income tax paid by corporations in Colorado since 1939. The average rose from $537, the first year, to a high of $1,614 in 1949. Since then there has been some decline, the average tax being $1,023 in 1953 as compared with the 15 year average tax of $1,000 per corporation.

TABLE 19

AVERAGE COLORADO INCOME TAX PAID BY CORPORATIONS,

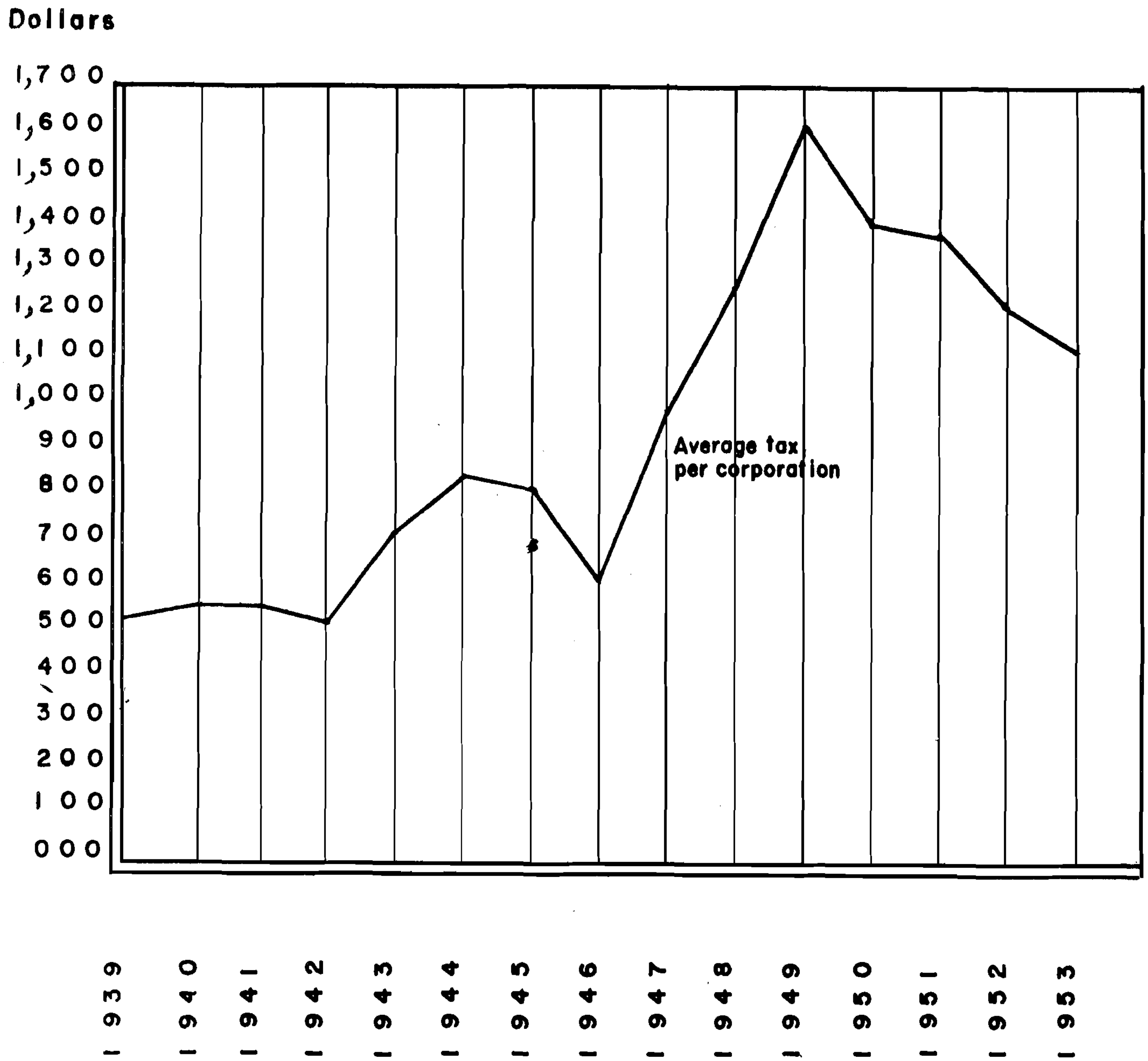
CALENDAR YEARS, 1939-1953.

Year	Average Tax Per Corporation(1)	Year	Average Tax Per Corporation(1)
1939	$537	1947	995
1940	561	1948	1,264
1941	562	1949	1,614
1942	522	1950	1,402
1943	713	1951	1,397
1944	841	1952	1,121
1945	811	1953	1,023
1946	622	Average (15 yrs)	1,000

(1) Calculated by dividing total income tax collections by total corporation taxable returns filed each year.

CHART II

AVERAGE COLORADO INCOME TAX PAID BY CORPORATIONS, CALENDAR YEARS 1939 — 1953



SECTION V -- THE COLORADO INCOME TAX -- GENERAL ANALYSIS

A. Comparison of Individual and Corporation Income Tax

Separate analyses have been made of the individual and corporation income taxes. This section considers the two taxes together, comparing them with each other and analyzing the revenue consequences of their combined yields.

Table 20 gives total collections and collections by individual, corporation and fiduciary returns for the years since 1938. Most of the tables in this study show revenue by fiscal years. However, in this table figures are reported for calendar years. It may be observed that individuals have always accounted for considerably more revenue than corporations, and that fiduciaries represent a rather insignificant role revenue-wise.

B. Comparison With Other Income Tax States of the West

The comparative revenue importance of the individual and corporation income taxes among the 11 states in the West with income taxes is shown in Chart 12. In all states except California the individual income tax is more productive than the tax on corporations. However, the extent of greater productivity varies considerably. The median state, New Mexico, collects two-thirds from individuals and one-third from corporations. The percentages in Colorado correspond rather closely to this ratio. In a highly agricultural state, such as North Dakota or Kansas, one would expect a higher proportion of taxes from individuals than in a state which is industrialized, such as California.

Table 21 and Chart 13 show a comparison among the income tax states of the West from the standpoint of importance of the income tax as compared with all other state tax revenue. This is a good index to show the relative

TABLE 20

COLORADO INCOME-TAX COLLECTIONS, BY TYPE OF RETURN

CALENDAR YEARS 1938-1953

Year	Total Collections	Individuals	Corporations	Fiduciaries
1938 (1)	$ 1,284,403	$ 722,770	$ 561,633	$----------
1939	2,829,302	1,729,629	1,054,447	45,226
1940	3,361,132	2,091,243	1,224,768	45,121
1941	3,543,432	2,398,859	1,106,286	38,287
1942	4,596,081	3,084,783	1,441,273	70,025
1943	6,160,740	3,620,668	2,455,802	84,270
1944	6,359,497	3,302,384	2,976,493	80,445
1945	6,126,933	3,035,378	3,038,556	52,987
1946	6,831,666	4,124,318	2,628,694	78,654
1947	9,631,494	5,647,859	3,861,995	121,640
1948	12,373,555	7,006,222	5,273,924	93,409
1949	18,698,920	12,053,892	6,465,992	179,036
1950	17,376,772	11,230,647	6,014,833	131,292
1951	19,668,861	12,811,605	6,683,162	169,094
1952	19,889,870	13,888,176	5,815,935	185,759
1953	18,331,749	12,956,682	5,214,754	160,311

(1) Six months only. The law became operative July 1, 1937, collections beginning the subsequent year.

Source: Reports of the Department of Revenue, State of Colorado

CHART 12

REVENUE IMPORTANCE OF THE INDIVIDUAL VS. CORPORATION INCOME TAX, THE ELEVEN INCOME TAX STATES OF THE WEST, 1953

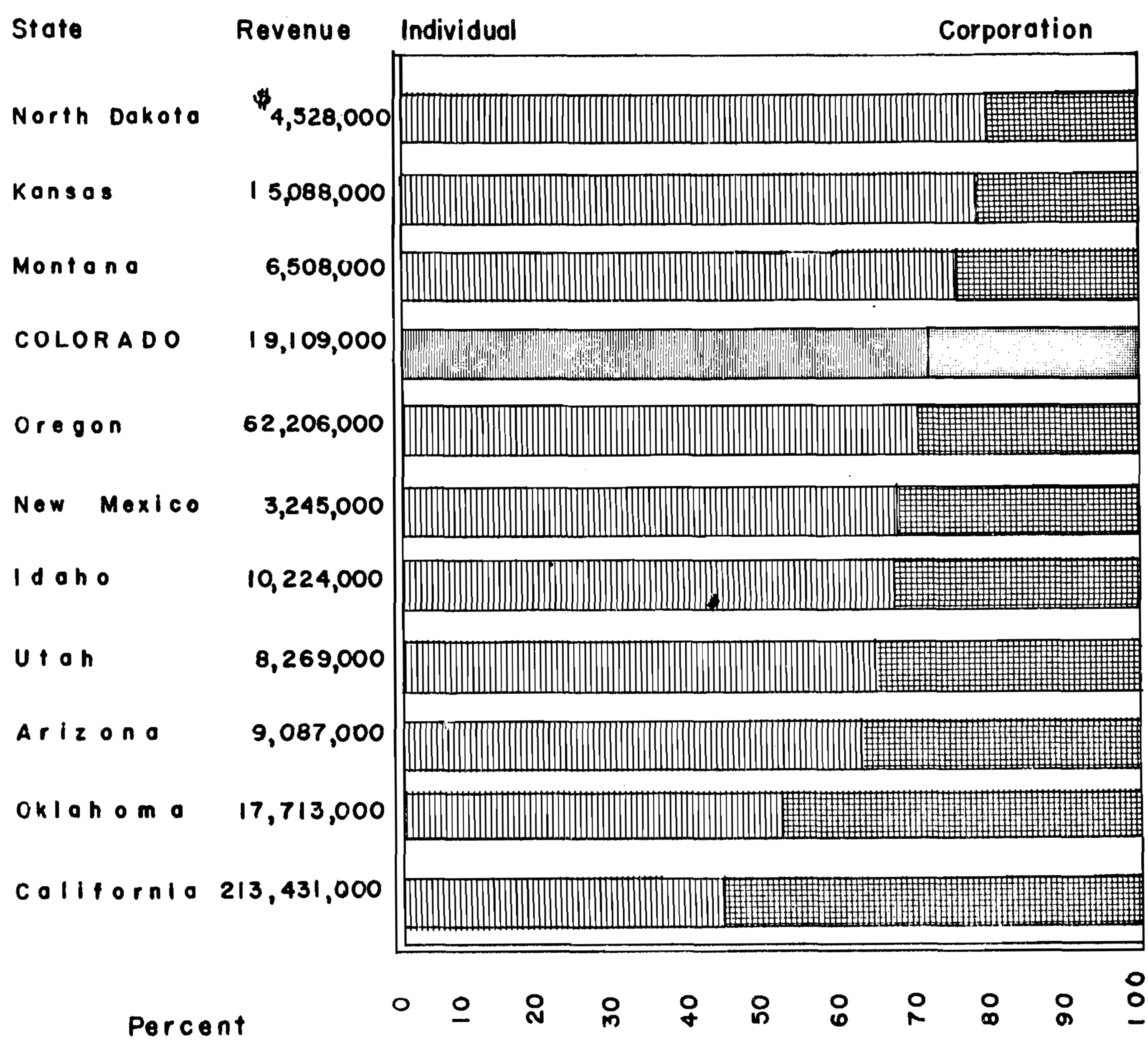


TABLE 21

INCOME TAX REVENUE AS A PERCENTAGE OF TOTAL STATE TAX REVENUE, THE ELEVEN INCOME-TAX STATES OF WEST, 1953(1)

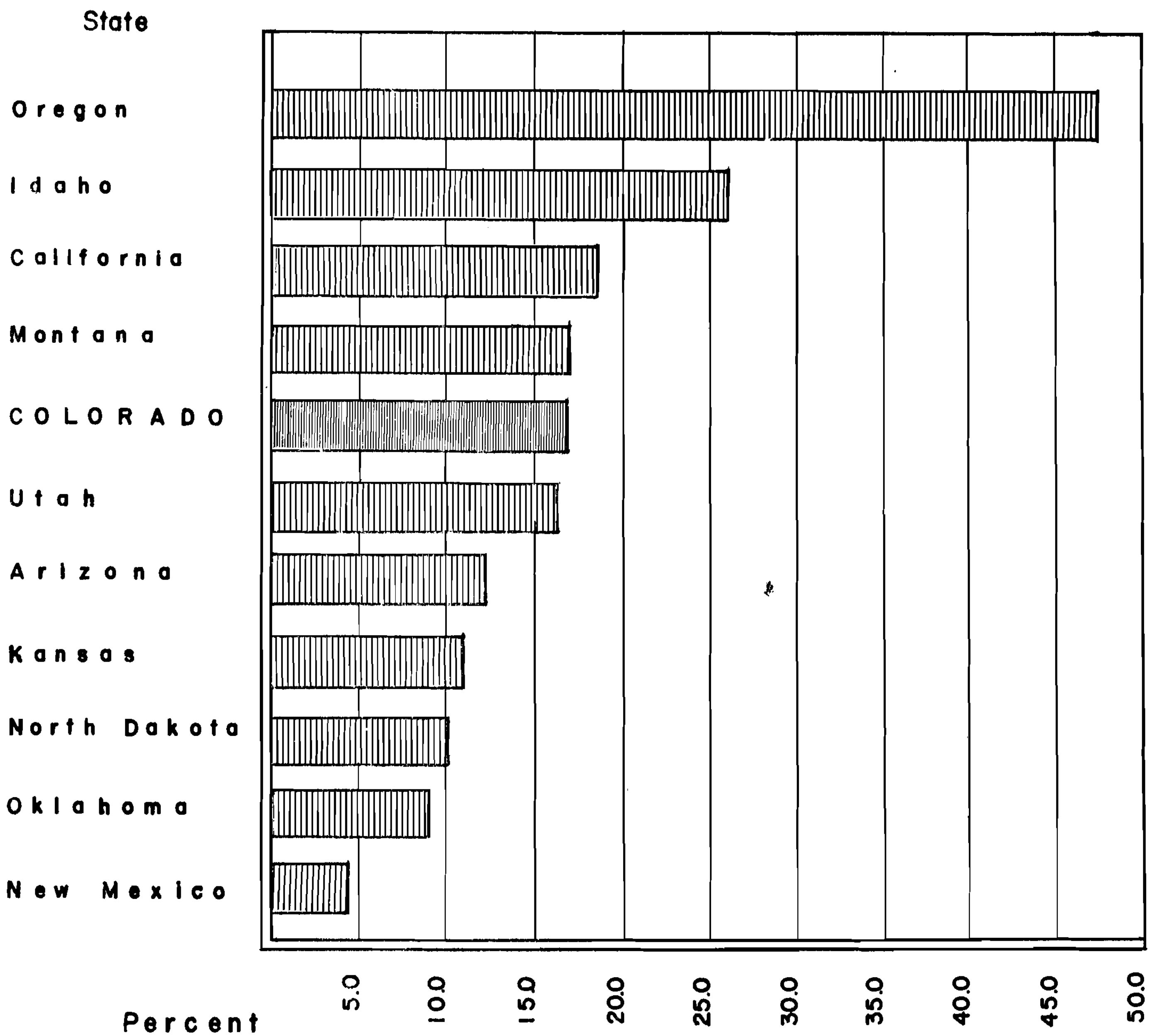
State	Total State Tax Collections	Total Income Tax Collections(2)	Income Tax as Percentage of Total Taxes
Arizona	$ 74,540,000	$ 9,087,000	12.2%
California	1,141,517,000	213,431,000	18.7
COLORADO	111,431,000	19,109,000	17.1
Idaho	38,765,000	10,224,000	26.4
Kansas	137,238,000	15,088,000	11.0
Montana	37,406,000	6,508,000	17.4
New Mexico	70,368,000	3,245,000	4.6
North Dakota	44,472,000	4,528,000	10.2
Oklahoma	196,181,000	17,713,000	9.0
Oregon	129,779,000	62,206,000	47.9
Utah	49,805,000	8,269,000	16.6
Total (11 states)	$2,031,502,000	$369,408,000	18.2

(1) Fiscal Year ending June 30, 1953
(2) Includes both corporation and individual income taxes.

Source: State Tax Collections in 1953, Department of Commerce, U. S. Bureau of the Census.

CHART 13

INCOME TAX REVENUE AS A PERCENTAGE OF TOTAL STATE TAX REVENUE, THE ELEVEN INCOME TAX STATES OF THE WEST, 1953



emphasis placed upon income taxation. The ratio of income tax revenue to total revenue ranges from a high of 47.9 per cent in Oregon to a low of 4.6 per cent in New Mexico. Colorado's 17.1 per cent is below the arithmetic mean (18.2 per cent) but slightly above the median of the 11 states.

The average per capita income tax for the total population of the state is an index frequently utilized for making comparisons among states as well as for comparing the same state over a period of years.

Table 22 shows average per capita income tax collections in 1953 for the 11 states in the West with income taxes. The same comparison is shown in Chart 14. Oregon's $39.03 per capita is more than double the next highest state, California, which is $18.74. Again in the comparison, as was true in the previous chart, Colorado with $13.35 per capita is higher than the median state ($11.01, Montana) but lower than the arithmetic mean per capita ($16.20) for the 11 states. The per capita index has a serious defect in that no allowance is made for relative poverty in some states as compared with others.

The per capita comparison defect is at least partly overcome by relating total income tax revenue to total income payments to individuals in the various states under comparison. This ratio is shown in Table 23 and Chart 15. The ratio of .8 of 1 per cent for Colorado tends to support and validate the previous tables of comparison. Relative to the other 10 states in the West with income taxes, Colorado probably stresses the income tax less than Oregon, California and Idaho, about the same as Utah, Montana and Arizona, somewhat more than North Dakota and Oklahoma, and considerably more than Kansas and New Mexico.

T A B L E 22

PER CAPITA INCOME TAX REVENUE, THE ELEVEN INCOME-TAX STATES OF THE WEST, 1953[1]

State	Population July 1, 1952[2]	Income Tax Revenue	Per Capita Income Tax Revenue
Arizona	859,000	9,087,000	$10.57
California	11,390,000	213,431,000	18.74
COLORADO	1,431,000	19,109,000	13.35
Idaho	608,000	10,224,000	16.82
Kansas	2,002,000	15,088,000	7.54
Montana	591,000	6,508,000	11.01
New Mexico	725,000	3,245,000	4.48
North Dakota	600,000	4,528,000	7.54
Oklahoma	2,265,000	17,713,000	7.82
Oregon	1,594,000	62,206,000	39.03
Utah	737,000	8,269,000	11.22
Total (11 states)	22,802,000	369,408,000	$16.20

(1) Fiscal year ending June 30, 1953.
(2) Estimated by U. S. Bureau of the Census.

CHART 14

PER CAPITA INCOME TAX REVENUE THE ELEVEN INCOME TAX STATES OF THE WEST, 1953

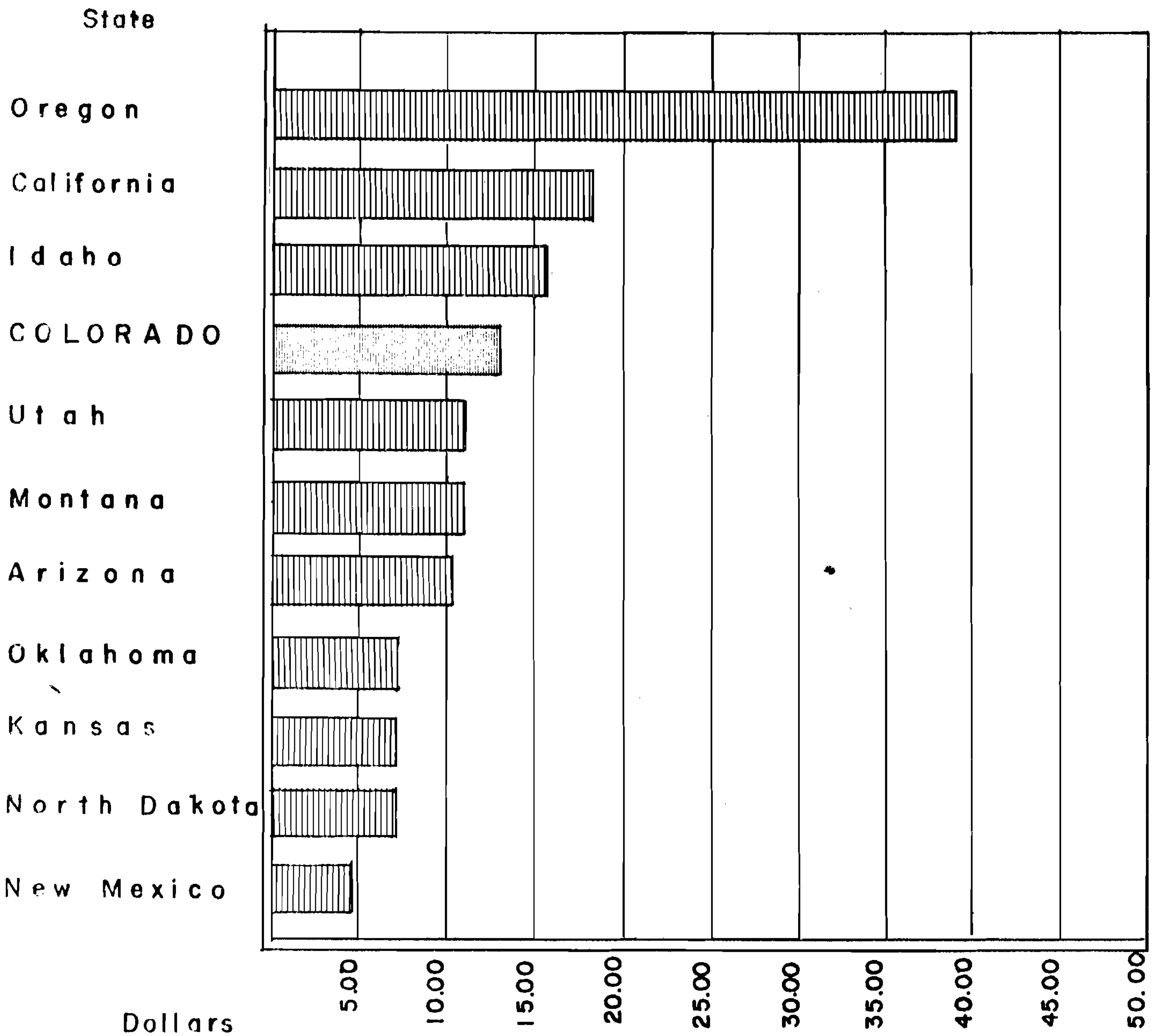


TABLE 23

INCOME TAX REVENUE AS A PERCENTAGE OF INCOME PAYMENTS TO INDIVIDUALS, THE ELEVEN INCOME-TAX STATES OF THE WEST, 1953(1)

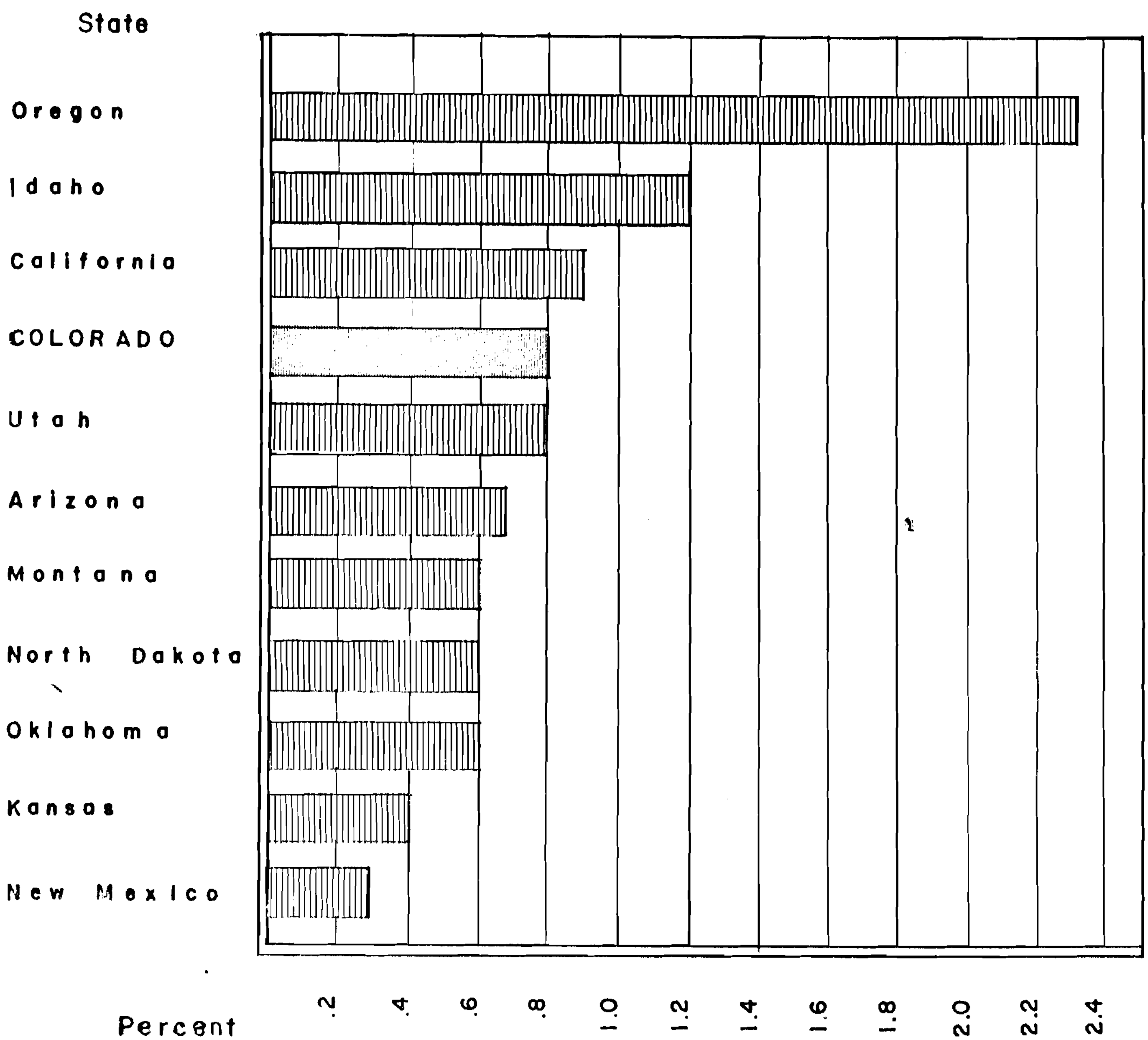
State	Income Payments 1952(2)	Income Tax Collections	Income Tax as Percentage of Payments
Arizona	$ 1,287,000	$ 9,087	.7%
California	23,146,000	213,431	.9
COLORADO	2,316,000	19,109	.8
Idaho	874,000	10,224	1.2
Kansas	3,400,000	15,088	.4
Montana	1,003,000	6,508	.6
New Mexico	965,000	3,245	.3
North Dakota	734,000	4,528	.6
Oklahoma	2,910,000	17,713	.6
Oregon	2,763,000	62,206	2.3
Utah	1,069,000	8,269	.8
Total (11 states)	$40,467,000	$369,408	.9%

(1) Fiscal year ending June 30, 1953.
(2) Calendar year.

Source: State Tax Collections in 1953, Department of Commerce, U. S. Bureau of the Census.

CHART 15

INCOME TAX COLLECTIONS AS PERCENTAGE OF TOTAL INCOME PAYMENTS TO INDIVIDUALS, THE ELEVEN INCOME TAX STATES OF THE WEST



C. Income Tax Revenue, Colorado, 1939-1954.

Table 24 shows Colorado income tax collections by fiscal years since 1939. The figures indicate a nine-fold increase for the 16-year period. Collections reached a peak of $20,255,000 in 1952, and have declined somewhat since then. The same table gives figures indicating income tax revenue as a percentage of total state tax revenue. These figures are also graphically shown in Chart 16. It may be seen that for most of the years (especially since 1942) between 14 and 20 per cent of the state's tax receipts have come from the income tax. The ratio has been remarkably stable, indicating that total state tax revenue has risen in about the same proportion as income tax revenue has risen.

Another comparison shown in Table 24 and in Chart 17 expresses total state income tax payments as percentages of income payments to individuals. These ratios are supposed to be indicative of changes which may be occurring in the tax relative to ability-to-pay such tax as measured by total income of individuals each year under consideration. The ratio was unusually stable for the years between 1940 and 1947. Since 1948, there has been a slight rise in the ratio, the peak being 1 per cent of total income payments in the year 1949.

A final comparison of changes occurring in Colorado relative to total income tax revenue is shown in Table 25 and Chart 18. The income tax is expressed as an average per capita amount by years in both current dollars and in constant-purchasing-power dollars. Thus, the last column in the table (per capita tax, corrected for general price level changes) is significant in that the tax revenue, by years, is related not only to population growth but also to the depreciating value of the dollar. According to these last figures (corrected for population change and price level change)

TABLE 24

COLORADO INCOME TAX REVENUE EXPRESSED AS PERCENTAGES OF TOTAL STATE TAXES AND OF INCOME PAYMENTS TO INDIVIDUALS, 1939-1954.

Year (1)	Income Tax Revenue (000's omitted)	Income Tax Revenue Expressed as Percentage of: Total State Revenue	Income Payments
1939	$ 2,067	6.8	.36
1940	3,118	9.2	.53
1941	3,559	9.7	.51
1942	4,327	11.2	.44
1943	5,636	13.8	.49
1944	6,547	15.9	.58
1945	6,238	14.7	.49
1946	7,089	13.9	.51
1947	8,634	14.2	.52
1948	11,682	15.3	.63
1949	17,064	20.1	1.00
1950	17,495	19.6	.94
1951	19,022	19.0	.89
1952	20,255	19.1	.87
1953	19,109	17.1	
1954	18,301	15.9	

(1) Fiscal years

Source: Reports, Colorado State Department of Revenue
Survey of Current Business, August, 1939-1953, Department of Commerce.

CHART 16

STATE INCOME TAX REVENUE EXPRESSED AS PERCENTAGE OF TOTAL STATE TAX REVENUE, COLORADO, 1939—1954

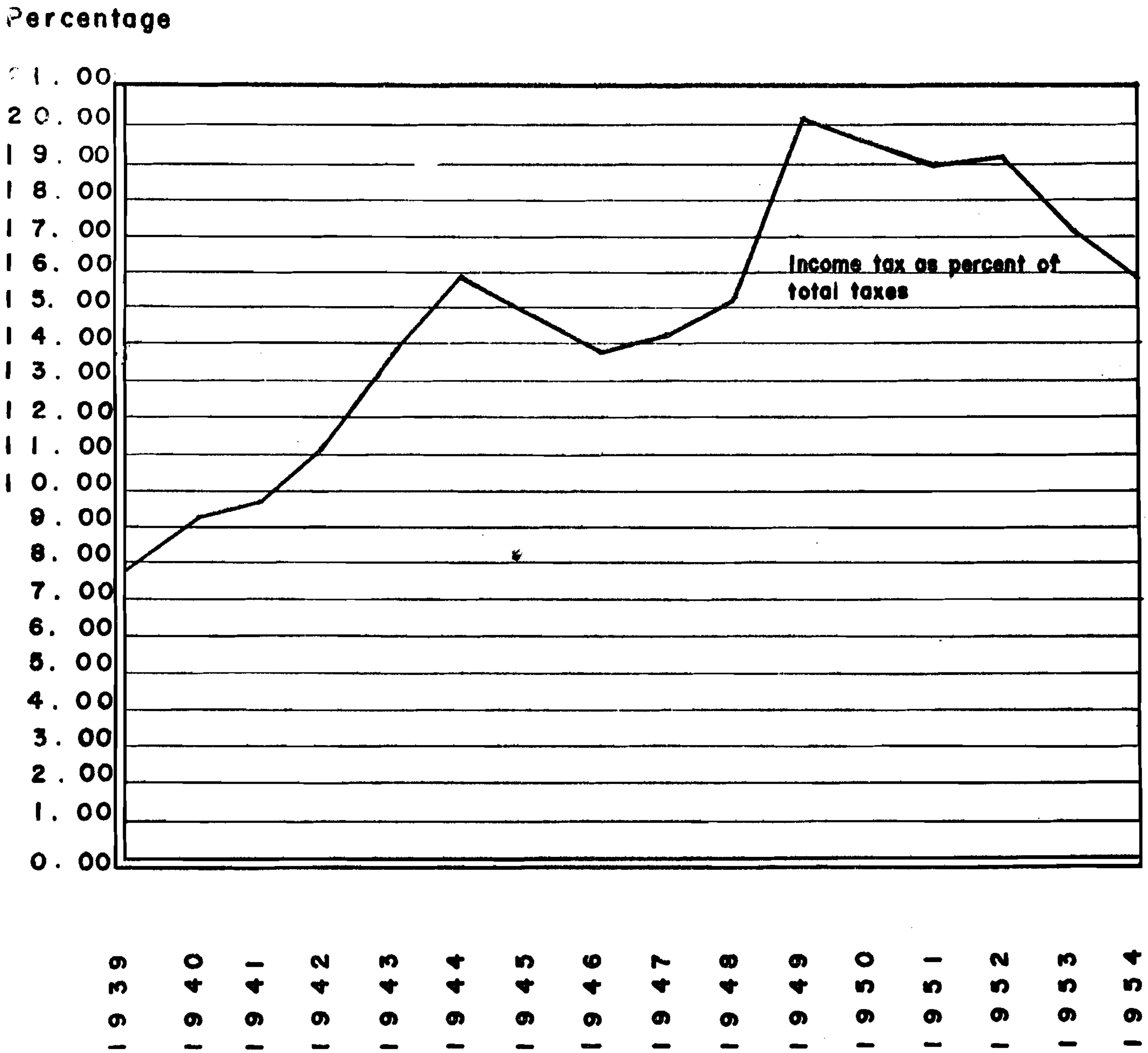


CHART 17

STATE INCOME TAX REVENUE EXPRESSED AS PERCENTAGE OF INCOME PAYMENTS TO INDIVIDUALS, COLORADO 1939—1954

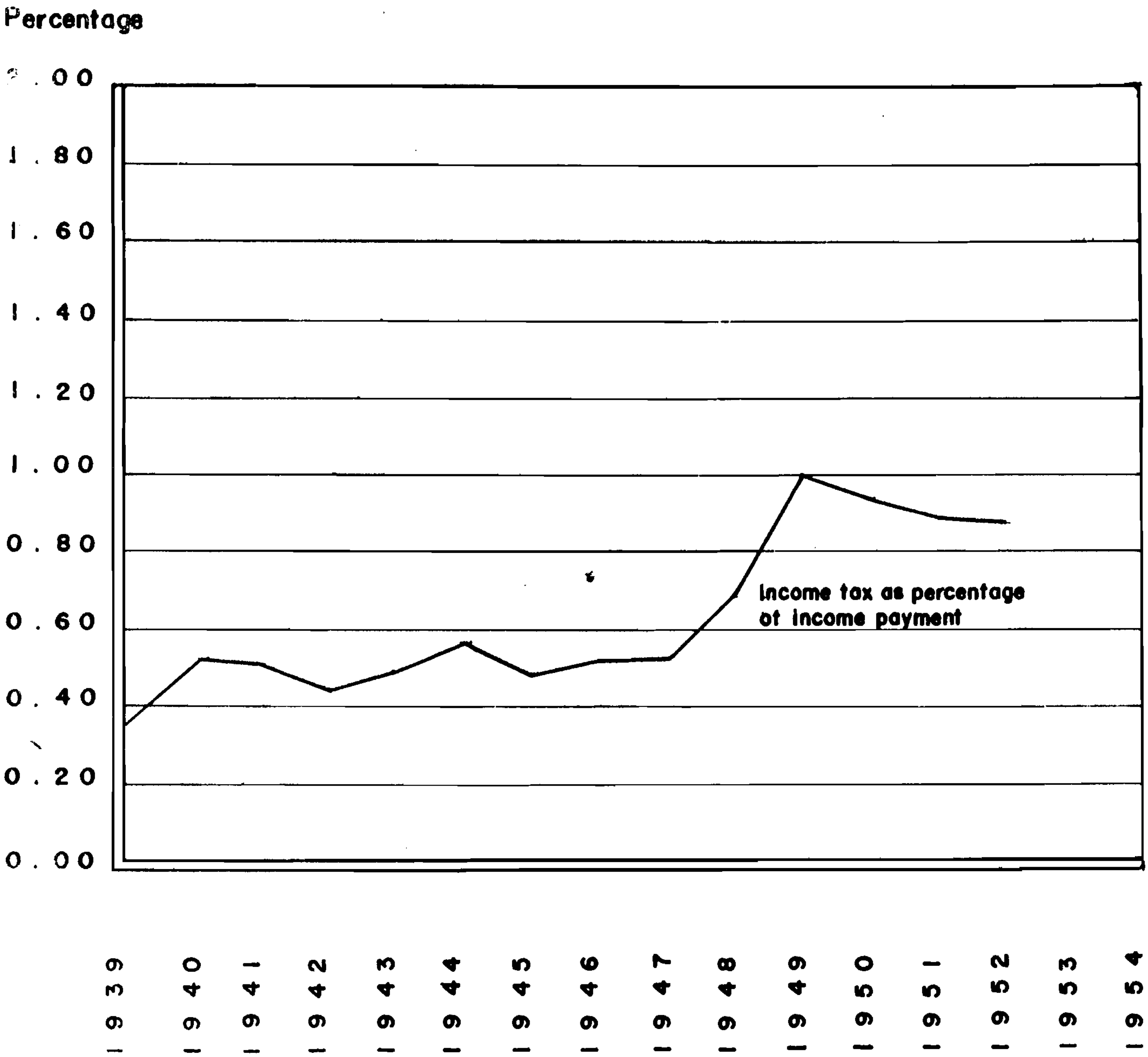


TABLE 25

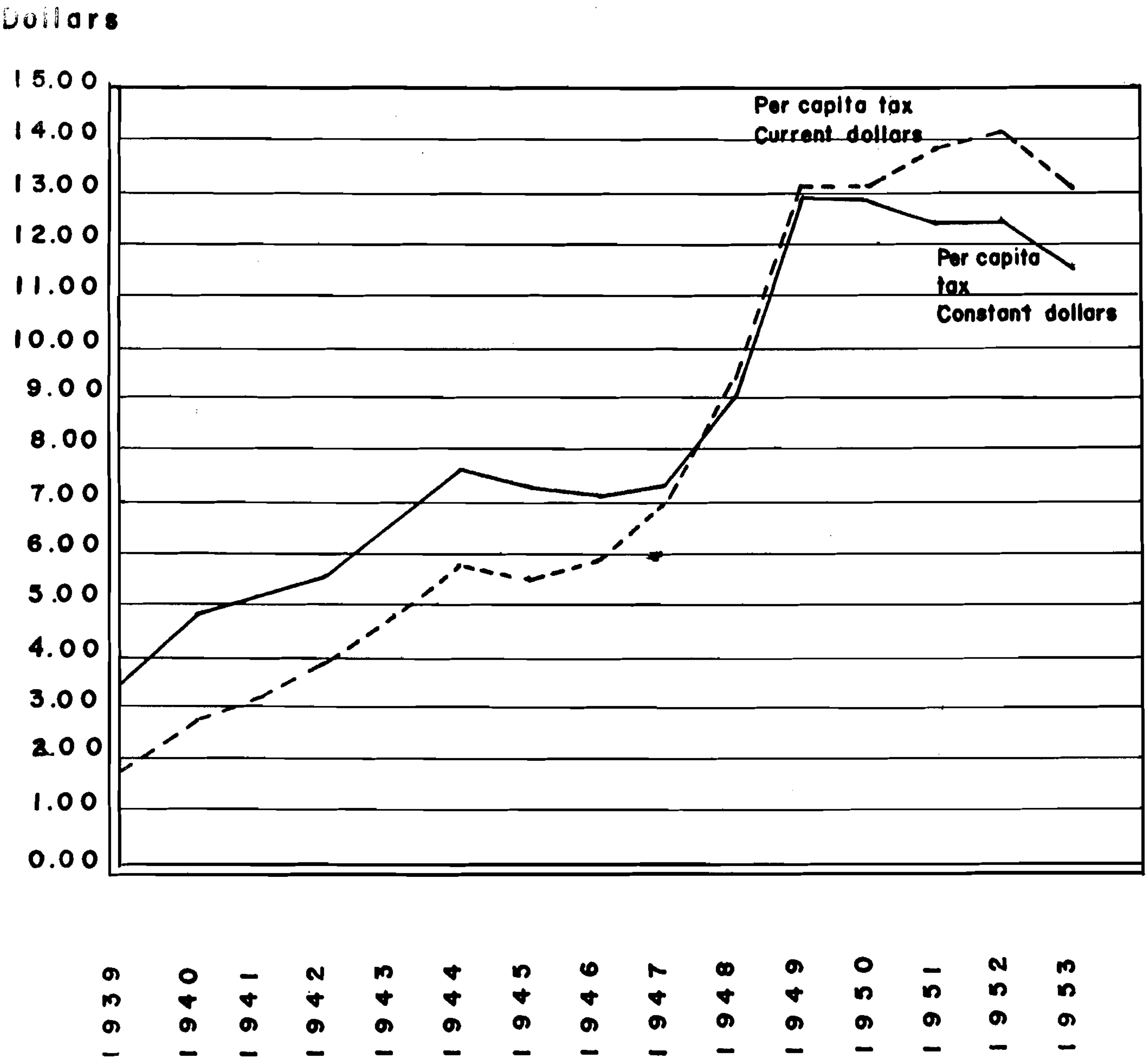
AVERAGE PER CAPITA INCOME TAX PAYMENTS IN COLORADO, EXPRESSED IN CURRENT DOLLARS AND IN CONSTANT-PURCHASING-POWER DOLLARS 1939-1953

Year[1]	Average Per Capita Tax (Current Dollars)[2]	Consumer Price Index[3]	Per Capita Tax Corrected For Price Index Changes[4]
1939	$ 1.86	55.5	$ 3.35
1940	2.76	56.6	4.89
1941	3.17	62.9	5.03
1942	3.89	69.7	5.58
1943	4.89	74.0	6.60
1944	5.76	75.2	7.65
1945	5.59	76.9	7.27
1946	5.89	83.4	7.06
1947	6.98	95.5	7.30
1948	9.25	102.8	9.00
1949	13.18	101.8	12.94
1950	13.20	102.8	12.84
1951	13.82	111.0	12.45
1952	14.19	113.5	12.50
1953	13.12	114.4	11.47

(1) Fiscal year
(2) Calculated by dividing total income tax revenue by total state population each year.
(3) Bureau of Labor Statistics, 1947-1949 = 100.
(4) Calculated by dividing Average Per Capita tax (current dollars) by price index and multiplying by 100.

CHART 18

COLORADO INCOME TAX, AVERAGE PER CAPITA PAYMENTS, 1939 — 1953



the income tax rose from $3.35 (1947-49 dollars) per capita in 1939 to a high of $12.94 per capita in 1949. Since then there has been a slight decline to $11.47 per capita in 1953.

D. Increasing Impact of Taxes Upon Income -- Federal and State Combined.

Since Colorado adopted the net income method of taxation in 1937, the Federal income tax has sharply increased. In order to finance Second World War expenditures, Federal personal exemptions were reduced and tax rates were drastically raised. As a consequence, Federal income tax collections from Colorado residents increased several fold.

Table 26 indicates the upward trend of individual income taxes (Federal and state) paid by residents of Colorado from 1939 to 1950. It may be observed that total income taxes paid by individuals increased from a low of $7,864,000 in 1939 to a high of $171,243,000 in 1950. Expressed on an average per capita basis, the rise was from $7.08 in 1939 to $129.24 in 1950. Any consideration given to the impact of the Colorado income tax should probably also take into consideration the impact of the Federal income tax. Federal figures are not yet available, in final form, for years since 1950.

E. General Fund Revenue Importance of the Income Tax.

Due to the fact that much of the state tax revenue in Colorado is earmarked for special purposes (about 80 per cent of the total in 1953), there are comparatively few sources of revenue left for the general fund. Yet the general fund is the basis for financial support of the state institutions as well as the general functions of state government. Therefore, it is from the general fund that the legislature authorizes appropriations and enacts the state's annual budget.

The principal source of revenue for the general fund is the income tax. Since 1947, none of the receipts to the income tax have been earmarked --

TABLE 26

TOTAL FEDERAL AND STATE INCOME TAXES PAID BY INDIVIDUALS IN COLORADO, ALSO EXPRESSED AS AVERAGE PER CAPITA, 1939-1953.

Year	Individual Income Taxes (1) Colorado	Federal (2)	Total	State Population (1)	Average Per Capita Total Taxes
1939	$ 1,730	$ 6,134	$ 7,864	1,111	$ 7.08
1940	2,091	9,066	11,157	1,130	9.87
1941	2,399	23,909	26,308	1,124	23.41
1942	3,085	66,622	69,707	1,113	62.63
1943	3,621	102,802	106,423	1,137	99.30
1944	3,302	110,086	113,388	1,137	99.72
1945	3,035	131,725	134,760	1,116	120.75
1946	4,124	124,269	128,393	1,203	106.73
1947	5,648	150,660	156,308	1,237	126.36
1948	6,892	124,269	131,161	1,263	103.85
1949	12,054	128,524	140,578	1,295	108.55
1950	11,231	160,012	171,243	1,325	129.24
1951	12,812			1,376	
1952	13,888			1,431	
1953	12,957			1,413	

(1) 000's omitted
(2) Federal figures are not yet available for years since 1950.

Source: Statistics of Income for 1950, U. S. Department of the Treasury; State Tax Collections, 1939-1953, U. S. Bureau of the Census; Annual Reports, Colorado State Department of Revenue.

all such revenue going to the general fund. Current revenue sources of the general fund for the last four years are shown in Table 27.

In 1950, the general fund depended upon the income tax for nearly 70 per cent of its current revenue. Since then the trend has been down slightly, the ratio being 60.5 per cent in 1953. Thus a very high proportion of revenue appropriated by the General Assembly and subject to their control comes from a single kind of tax. This situation does not necessarily imply that the income tax is too heavy. Rather, the interpretation should probably be that too many other sources of revenue are diverted from the general fund because of earmarking.

F. Advantages and Disadvantages of the Income Tax

Advantages

(1) The argument of equity or fairness. The tax is said to conform to the ability-to-pay principle of taxation, as net income is the best measure of economic wellbeing of an individual or firm. In contrast with property and sales taxes, the tax is assessed only when income is earned. Allowance for cost of acquiring income is permitted. Moreover, the tax takes into consideration family size by permitting exemptions and may apply progressive rates as income increases. All these considerations argue for fairness of the tax.

(2) The direct tax argument. The burden of the income tax is generally not shifted to others, but rather is borne by the initial taxpayer. In other words, the tax is not hidden; it is out in the open. To the extent that this condition prevails, it becomes possible to distribute tax burdens more fairly because the tax "stays put." Also there is the probability that individuals are more responsible citizens when taxes are directly and knowingly paid.

T A B L E 27

TAX REVENUE SOURCES OF GENERAL FUND, COLORADO, 1950-1953[1]

Tax Source	1950	Tax Receipts (Dollars) 1951	1952	1953
INCOME	$16,423,994	$17,987,314	$19,161,346	$18,156,274
Sales, Use & Liquor (15%)	1,758,013	2,390,386	2,446,910	2,836,776
Inheritance	1,661,469	2,019,532	2,360,411	2,828,781
Insurance	1,704,407	1,964,456	2,277,046	2,534,930
Racing	645,519	1,312,713	1,580,945	1,798,438
Other taxes	1,480,060	1,542,859	1,649,328	1,834,460
Total	$23,673,462	$27,217,260	$29,475,986	$29,989,659

	1950	Tax Receipts (Percentages) 1951	1952	1953
Income	69.4	66.1	65.0	60.5
Sales, Use & Liquor (15%)	7.4	8.8	8.3	9.5
Inheritance	7.0	7.4	8.0	9.4
Insurance	7.2	7.2	7.7	8.5
Racing	2.7	4.8	5.4	6.0
Other Taxes	6.3	5.7	5.6	6.1
	100.0	100.0	100.0	100.0

(1) Fiscal years

Source: Budget Reports, State of Colorado.

(3) Taxation of intangibles argument. States have encountered extreme difficulty in taxing intangible wealth (stocks, bonds, mortgages, notes, deposits, etc.) under the property tax. Regular mill levies are usually high enough to be confiscatory. Consequently, intangibles go into hiding and are not found by assessors. Recognizing this difficulty many states now exempt by law all intangibles from the property tax and tax instead the income from intangibles under an income tax. This arrangement appears to be both practical and fair.

(4) The neutrality argument. The effect of the tax upon production is said to be more neutral than is the case with most other revenue measures. In other words, the tax is said to have a minimum adverse effect upon investment, production and employment. The individual income tax, being personal in nature and levied upon a surplus rather than a cost, is probably less likely to discourage initiative or deter incentive than if an equal amount of revenue were obtained from a property, gross-receipts, or business license tax. Although this favorable situation is said to pertain especially in the personal income tax, it also is present, to a lesser degree, when the corporate income tax is utilized. The officials of a corporation are probably less likely to be discouraged by an income tax which they can disregard if profits are not earned than when substantial taxes, based upon property or gross revenue, must be paid each year regardless of earnings or losses.

(5) The non-resident argument. Frequently, individuals earn income in one state and live in another. Also corporations doing business in one state may be chartered elsewhere, or the stockholders of a domestic corporation may reside outside the state. Moreover, many corporations conduct both intra and inter-state business. In all of these situations, the income tax, both individual and corporate, is advantageous in that income can be

taxed where earned even though such income goes directly or indirectly to non-resident individuals or corporations. This non-resident consideration has been a principal reason why an increasing number of cities have adopted an income or payroll tax.

(6) Finally, there is the compensatory fiscal policy argument. The income tax injects into the economic system a desirable, automatic counter-cycle effect. Economists and fiscal authorities are just beginning to appreciate this advantageous counter-cycle influence. If the intensity of the "boom and bust" phases of the business cycle can be reduced, a more stable, continuous, and satisfactory level of production and general well-being can be maintained. As income tax collections automatically increase during times of rising prices and inflation, there is some deterring influence upon the development of an unhealthy boom. On the other hand, during a period of falling prices, recession, low production, and pessimism, the automatic shrinkage of the income tax tends to keep the depression from becoming as severe as it perhaps would under a system of more inflexible levies where tax loads continue at very much the same level.

Disadvantages

(1) The complexity of the tax argument. The income tax is not a simple and easy one to calculate. Governments usually require taxpayers largely to calculate their own tax liability. Thus, frequently, considerable time and expense is involved. However, as long as the Federal Government has an income tax the complexity of a state measure may be minimized by coordinating many phases of the state tax with the Federal.

(2) The administrative - difficulty argument. Just as the tax is not easily calculated by the taxpayer, it is not easily administered by the government. Considerable evasion and avoidance undoubtedly occur. Actually,

governments as a rule spend a relatively small amount on administrative expense but this is because usually merely a sample check and a limited audit of returns are undertaken. Fortunately, there appears to be a considerable amount of basic honesty possessed by American taxpayers.

(3) The inequity argument. This is a rebuttal of an argument on the other side. Although it may be rather universally admitted that net income is a fair measure of taxpaying ability and that ability is a good basis for taxation, disagreement arises regarding the proper level of exemptions, tax rates, definition of income, etc. Therefore, any particular income tax law is likely to be considered unfair by at least some groups of taxpayers. A legislative body when fixing the amount of tax exemptions or a particular progression of tax rates is somewhat like a rudderless ship at sea. There is no easily proven best method of deciding what particular features of the law will be most desirable for all. Too often, personal biases, with a conscious or unconscious desire for favoritism toward one group, or prejudice against another, are allowed to motivate the legislative committee which undertakes the drafting of an income tax bill or amendment. Unfortunately this inequity which may creep into an income tax may also, to a lesser or greater extent, be present in other kinds of revenue measured.

(4) The instability of tax-yield argument. The amount of revenue collected from the income tax fluctuates with the level of economic prosperity or depression. Consequently, the tax yield is not easily predicted by budget authorities. This disadvantage is partly overcome by having a diversified tax system so that the income tax will not be the sole source of revenue. Also there is the fiscal policy consideration which argues that fluctuating tax revenue is really desirable if a "boom or bust" appears to be developing, in order that extreme economic fluctuation may be prevented.

(5) <u>The double-taxation argument</u>. It is sometimes thought undesirable and unfair for a state to levy an income tax when the Federal government is also taxing incomes. If both taxes taken together are <u>excessive</u> then inequity will be present and the resulting double taxation will be regrettable. However, if a particular kind of tax is good in principle, and if administration is feasible, there is probably nothing necessarily wrong with more than one level of government utilizing this same tax. Actually, because of the Federal deductibility allowance for state income taxes paid, there is not as much double taxation, especially among the larger income taxpayers as may appear on the surface. This deductibility provision is a kind of Federal subsidy going to those states with income taxes.

(6) <u>The underdeveloped areas argument</u>. The income tax cannot hope to succeed very well in backward and undeveloped areas. Unless there is rather widespread literacy, some general ability in the art of accounting, willingness on the part of taxpayers to accept direct taxation as a self-imposed discipline, industrialized society, or at least agriculture engaged in the production of "cash" crops, or finally, unless there is some accumulation of capital and saving, yield of the income tax will usually prove to be disappointing.

SECTION VI -- INCOME TAX ADMINISTRATION

A. General Procedure

Director of Revenue. Responsibility for administration of the income tax law is vested in the Director of Revenue. The Director has authority to formulate and adopt tax rules and regulations, not inconsistent with provisions of the Act. Such rules and regulations are valid and binding as they relate to a taxpayer.

Examination of Books, etc. The Department of Revenue has power to examine books, papers, records, or memoranda which may have a bearing upon the validity or correctness of an income tax return. If necessary in order to gain desired information, the Department may subpoena a taxpayer or witnesses through application to any Judge of the District Court of the State of Colorado.

Secrecy. All information contained on income tax returns filed with the Department of Revenue must be kept confidential and secret in the Department. This secrecy regarding the nature and identity of individual returns (including corporations) does not preclude the publication of income tax statistics, so classified as to preserve the secrecy of individual returns.

Determination of Tax Liability. Income tax returns are to be examined by the Department of Revenue and the correct amount of the tax determined. As set forth in the law, a complete procedure is prescribed for review of the tax returns and for a final determination of the correct tax liability. This procedure, step by step, is as follows:

1. Examination of the return by the Department of Revenue;
2. "Notice of Deficiency" by registered mail if the department believes there is a deficiency;
3. Within 30 days of date of mailing "Notice of Deficiency" taxpayer

may, in writing, request a hearing;

4. If a hearing is requested, a date for same is fixed by the Director, at which time the taxpayer may present additional evidence and argue his case;
5. Upon the basis of the hearing, the Director makes a final determination of the assessment and notifies the taxpayer within a reasonable time by registered mail;
6. Within 30 days after the mailing of the "Notice of Final Determination" the taxpayer must either pay or appeal to the District Court;
7. The income tax law prescribes the procedure for appeal to the District Court.

Interest and Penalties. Interest - After due date of any tax or deficiency in tax, the unpaid amount of tax liability accumulates interest at the rate of $\frac{1}{2}$ per cent per month which is added to the tax bill.

Penalties - Penalties prescribed in the law in addition to the $\frac{1}{2}$ per cent per month of interest are summarized in Table 28.

Period of Limitation. Unless such time be extended by waiver in writing, signed by the taxpayer and accepted in writing by the Director, assessment of the taxes and penalties, if any, must be made within four years after the filing of the return for the taxable year in question.

Assessments made according to law are valid, and collection may be enforced at any time within six years from date of said assessment.

With some exceptions, no claim for refund or credit is allowed unless application is made within four years from the date of filing the return on account of the tax in question.

In the case of failure to file a return or the filing of a false or fraudulent return with intent to evade tax, the tax may be assessed and collected at any time.

TABLE 28

INCOME TAX PENALTIES

Cause (Civil)	Amount (Whichever Is the Greater)
Return, failed to file	$1.00 or 5% of the tax
When due, voluntarily	$1.00 or 5% of the tax
Demand, Director	$2.00 or 25% of the tax
Fraudulently	$25.00 or 50% of the tax
Willfully	$25.00 or 50% of the tax
False, willfully	$50.00 or 100% of the tax
Assessment paid, beyond time	5% of the tax
Fail to pay, fraudulent	50% of the tax
Negligence assessment	25% of the deficiency
Cumulative	Total of all due

Cause (Criminal)	
Willfully fails:	Not more than:
Make return	one year, $5,000 or both
Keep records	
Supply information	
Willfully fails:	
Account	five years, $10,000 or both
Collect	
Pay Over	
Pay Tax	
Evade Tax	

Source: Regulations, Colorado Department of Revenue.

If the taxpayer, in his return, is deficient in excess of 25 per cent of the correct amount of net income, a deficiency assessment may be made or a proceeding in court commenced for collection of the additional tax at any time within six years after the return was filed.

Warrants for Collection. If an income tax, or portion thereof, is not paid within 60 days after due date the Director of Revenue is directed to issue a warrant directing the sheriff of any county to levy upon and sell at public auction sufficient real and personal property owned within the county by such delinquent taxpayer to pay the tax plus interest and penalties.

B. Returns Filed

Who must file - The following are liable for filing returns:

(1) Individuals. (a) Every resident of Colorado with a gross income of $600 or more, (b) Every individual who was resident in Colorado for part of the year whose gross income exceeds his pro-rated exemption ($50 per month), (c) Every non-resident who received income from Colorado sources, (d) For every decedent whose gross income accrued to date of death was $600 or more, a return must be filed.

(2) Fiduciaries. Every fiduciary with gross income (distributable, or accumulated) of $600 or more.

(3) Corporations. Every corporation which conducts transactions within the state, whether or not such transactions result in net income.

C. Number of Returns

Table 29 and Chart 19 show the number of returns, both taxable and non-taxable, filed in the state for each year since 1939. There has been a constant trend upward in the number of taxable returns. Unusually large increases occurred in 1949 and again in 1952. These increases were largely

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TABLE 29

TOTAL STATE INCOME TAX RETURNS FILED BY CALENDAR YEARS 1939-1953

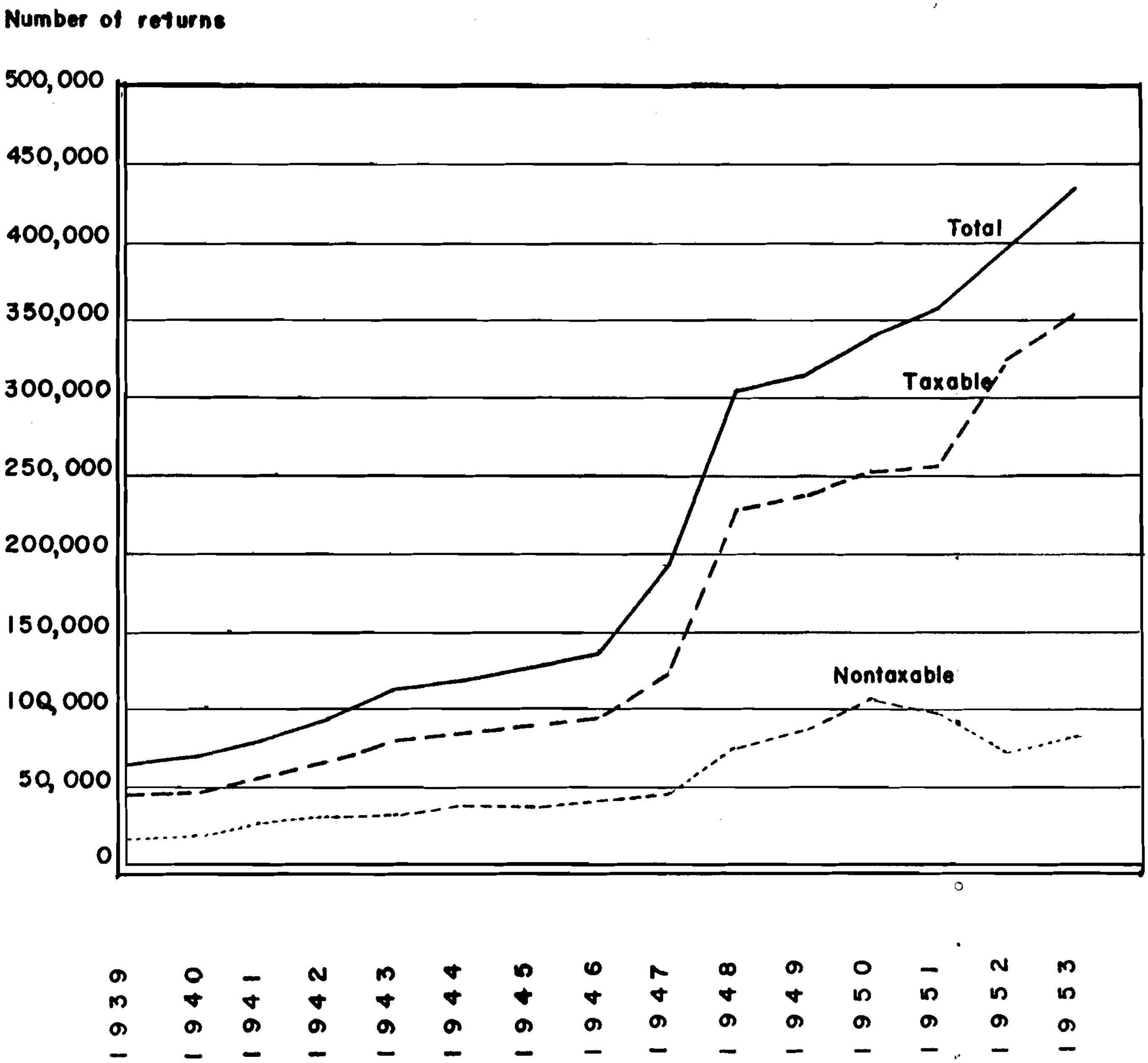
NUMBER OF RETURNS[1]

Year	Taxable	Non-taxable	Total
1939	46,567	18,524	65,091
1940	49,157	19,028	68,185
1941	55,195	24,403	79,598
1942	67,906	27,654	95,560
1943	83,079	28,594	111,673
1944	81,755	37,164	118,919
1945	89,308	37,635	126,943
1946	94,320	40,254	134,524
1947	121,657	42,214	193,871
1948	229,353	73,877	303,230
1949	231,946	83,450	315,396
1950	238,247	102,650	340,897
1951	254,229	98,918	353,147
1952	326,963	71,797	398,660
1953	352,417	81,114	433,531

(1) Excluding partnership returns filed for information only.

CHART 19

TAXABLE, NON-TAXABLE AND TOTAL RETURNS FILED IN COLORADO BY YEARS 1939 — 1953



due to personal exemption reductions which became effective those years. Non-taxable returns increased in number each year until 1950. Since then the number has been somewhat less. Perhaps the recent reduction in number of non-taxable returns is because of the rise in average incomes accompanied by the above mentioned lowering of personal exemptions.

Table 30 gives the number of returns filed by years, classified by individuals, corporations and fiduciaries. Since 1939 there has been almost a seven-fold (684 per cent) increase in individual taxable returns, corporation taxable returns have risen by 160 per cent; while fiduciary taxable returns have increased about 140 per cent. Thus, since the tax measure was first introduced the impact of the tax, especially as it applies to persons (individuals) has changed significantly.

This changing nature of the individual income tax is illustrated in Table 31 and Chart 20 which relate the number of taxpayers to the population of the state. In 1939, the first full year of collections, only 4 per cent of the people (6 per cent of adults) paid an income tax. In contrast, by 1953 almost one-fourth of the people (38 per cent of adults) paid a tax. The change has been due primarily to broadening of the tax base through lowering of exemptions and also to the fact that an upward trend has occurred in the level of incomes, particularly among lower income groups. Therefore, the tax has changed from a levy on the wealthy to a levy on a majority of householders. This broadening of the tax base has increased both the yield and the stability of the tax as a revenue measure.

However, with the ever-increasing number of returns filed with the Department of Revenue, problems of inspection and auditing have multiplied. In 1953, with nearly a half million returns coming into the office the amount of administrative labor required was much more than 15 years earlier when only 65,000 returns needed to be processed.

TABLE 30

TAXABLE AND NON-TAXABLE STATE INCOME TAX RETURNS FILED BY TYPE OF RETURN, CALENDAR YEARS 1939-1953[1]

Year	Individuals		Corporations		Fiduciary	
	Taxable	Non-Taxable	Taxable	Non-Taxable	Taxable	Non-Taxable
1939	44,152	13,874	1,963	3,867	452	783
1940	46,348	14,700	2,183	3,442	626	886
1941	52,716	20,506	1,969	2,894	510	1,003
1942	64,475	23,878	2,763	2,686	668	1,090
1943	79,038	25,287	3,443	2,133	598	1,174
1944	77,701	33,823	3,540	1,940	514	1,401
1945	84,969	34,306	3,749	1,952	590	1,377
1946	89,675	36,975	4,226	1,889	619	1,390
1947	117,066	39,032	3,881	1,766	710	1,416
1948	224,496	70,273	4,171	2,047	686	1,557
1949	227,139	79,574	4,005	2,247	802	1,629
1950	233,061	98,458	4,291	2,544	753	1,648
1951	248,587	94,694	4,786	2,542	856	1,682
1952	320,805	67,403	5,190	2,569	968	1,819
1953	346,243	75,779	5,099	3,151	1,075	2,184

(1) Partnership returns are also filed (for information only) but are not listed in this table.