TABLE 31

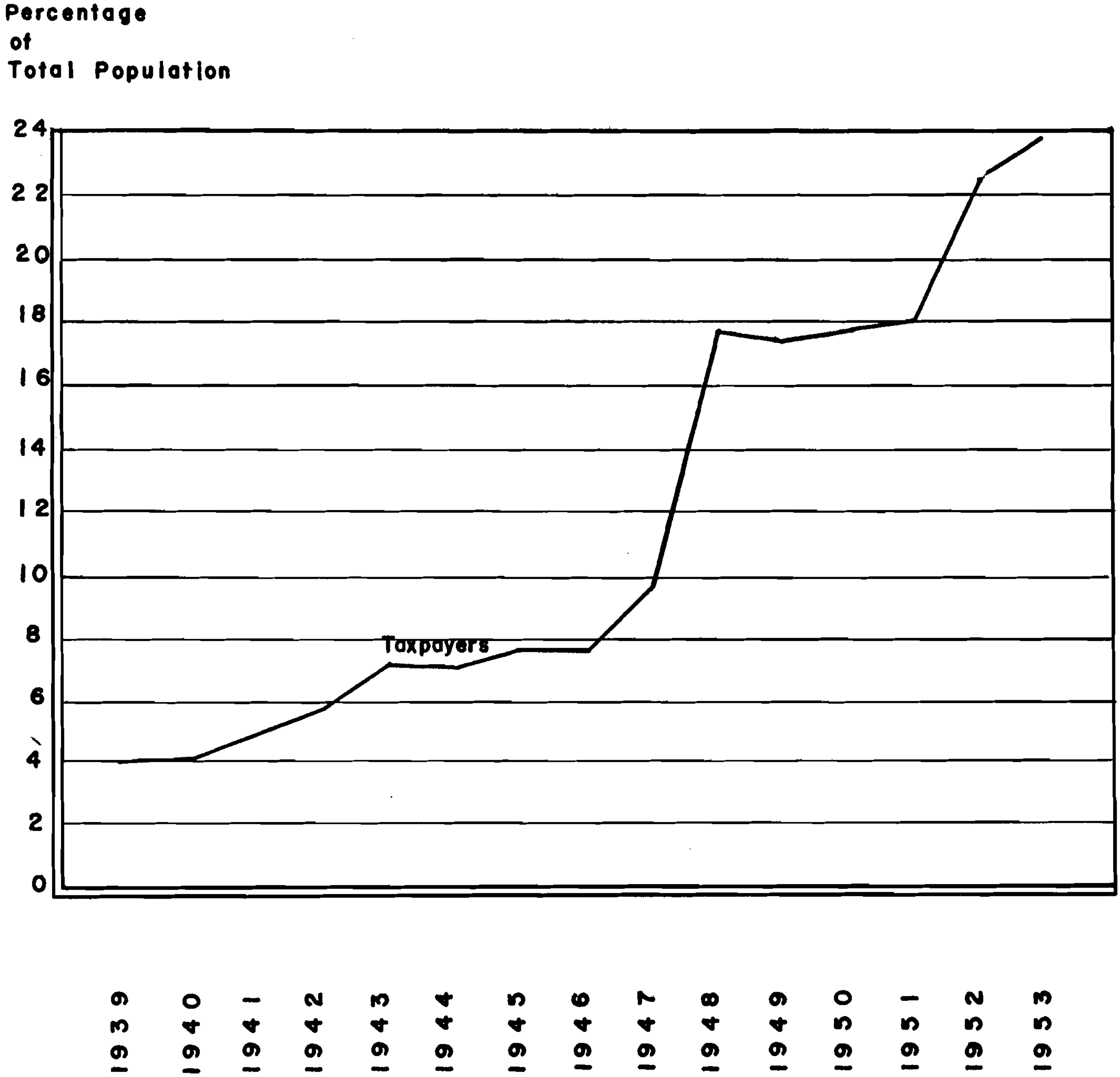
NUMBER OF TAXABLE INDIVIDUAL RETURNS RELATED TO TOTAL STATE POPULATION, BY YEARS, 1939-1953.

Year	Colorado Population	Individual Taxable Returns	Individual Taxpayers Expressed as Percentage of Population
1939	1,111,000	44,152	4.0
1940	1,130,000	46,348	4.1
1941	1,124,000	52,716	4.7
1942	1,113,000	64,475	5.8
1943	1,153,000	79,038	6.9
1944	1,137,000	77,701	6.8
1945	1,116,000	84,969	7.6
1946	1,203,000	89,675	7.5
1947	1,237,000	117,066	9.5
1948	1,263,000	224,496	17.7
1949	1,295,000	227,139	17.5
1950	1,325,000	233,061	17.6
1951	1,376,000	248,587	18.0
1952	1,427,000	320,805	22.4
1953	1,456,000	346,243	23.8

Source: U. S. Bureau of the Census and Reports of Colorado State Department of Revenue.

CHART 20

NUMBER OF TAXPAYERS EXPRESSED AS PERCENTAGE OF TOTAL POPULATION IN COLORADO
PERSONAL INCOME TAX 1939—1953



D. Administrative Cost

The administrative cost of the Colorado income tax has been reported by the Department of Revenue since the Department was established in 1942. Comparable figures are not available for prior years. Table 32 shows total dollar costs of administrative costs expressed as a percentage of total tax collections. The increase in administrative cost has paralleled very closely the increase in total tax collections as indicated by the percentage column. Since 1942 the cost of collecting each dollar of income tax revenue has ranged from a low of 2.2 cents in 1943 to a high of 3.6 cents in 1945. The average cost for the 12 years was about 2.8 cents.

Another basis for considering the administrative cost of the income tax is to relate total cost to the number of taxable returns. This is a fair basis for measuring administrative efficiency. However, it has shortcomings. The cost of processing returns varies according to kind of return, kind of income, etc. Nevertheless, the administrative cost per taxable return is considered a fair basis for comparing one year with another. Table 33 shows the cost per taxable return by years since 1942. It should be noted that cost figures are for fiscal years while returns filed are by calendar years. The average cost per return rose from $1.41 in 1942 to $2.00 in 1947; since then the cost has deviated but slightly from $1.80 per return. During these years, general prices, wages, etc. have risen in the state and nation. Consequently, the cost of $1.80 in 1953 is very favorable as compared with $1.41 in 1942 and with an over-all average for all years of $1.83.

T A B L E 32

ADMINISTRATIVE COST RELATED TO TAX COLLECTIONS, COLORADO

INCOME TAX, BY FISCAL YEARS, 1942-1953

Year	Income Tax Collections	Income Tax Administrative Cost	Percentage Adm. Cost To Total Collections
1942	$ 4,327,795	$ 96,243	2.22
1943	5,636,333	124,040	2.20
1944	6,547,834	176,882	2.70
1945	6,238,848	227,180	3.64
1946	7,089,274	232,892	3.29
1947	8,634,796	243,637	2.82
1948	11,682,199	373,033	3.19
1949	17,064,672	427,820	2.51
1950	17,495,008	436,478	2.49
1951	19,002,355	461,942	2.43
1952	20,255,644	538,945	2.67
1953	19,173,261	632,869	3.30
Total	$143,148,019	$3,971,961	2.77

Source: Reports, Colorado State Department of Revenue.

TABLE 33

ADMINISTRATIVE COST PER TAXABLE RETURN, COLORADO INCOME TAX, 1942-1953.

Year	Income Tax Administrative Cost (1)	Total Taxable Returns (2)	Administrative Cost Per Taxable Return
1942	$ 96,243	67,906	$1.41
1943	124,040	83,079	1.49
1944	176,882	81,755	2.16
1945	227,180	89,308	2.54
1946	232,892	94,320	2.47
1947	243,637	121,657	2.00
1948	373,033	229,353	1.63
1949	427,820	231,946	1.84
1950	436,478	238,247	1.83
1951	461,942	254,229	1.82
1952	538,945	326,963	1.65
1953	632,869	352,417	1.80
Total	$3,971,961	2,171,180	$1.83

(1) Fiscal Year
(2) Individual, Corporate and Fiduciary Taxable Returns. Calendar years.

Source: Calculated from reports of Colorado State Department of Revenue.

SECTION VII -- SPECIAL CONSIDERATIONS RELATING TO THE COLORADO INCOME TAX

A. The Surtax

Colorado's surtax on income is applied upon an entirely different principle from the surtax utilized by the Federal Government. The latter has a surtax on net taxable income after personal exemptions and is principally for the purpose of making the income tax rates more steeply progressive. On the other hand, Colorado's surtax is a special 2 per cent flat rate on income in the form of interest and dividend payments after a fixed exemption ($600, currently), the latter having no relationship to the level of personal exemptions. Interest and dividend payments are often referred to as being income from intangibles and the surtax is frequently called an intangible income tax.

Purpose of the Surtax. At the time the income tax law was enacted in 1937, all intangible personal property in Colorado was made exempt from taxation under the property tax. This legally freed approximately one billion dollars of intangible wealth from any property (mill levy) tax liability. However, prior to 1937, most of this wealth had escaped taxation anyway through the failure of assessors to place the property upon tax rolls. Regular property tax rates were considered confiscatory because of being as high or often higher than the total income from the intangibles.

It was decided to levy a 2 per cent surtax (in addition to a normal tax after exemptions) on all income from intangibles, as part of the new income tax law of 1937. Thus, there was substituted, a moderate tax (based upon income) for the very heavy tax (based upon property) which was being repealed.

Surtax Amendments Since 1937. A $200 intangible income exemption was permitted beginning in 1942. This exemption was increased to $600 in 1951.

The reason for this exemption was the belief that without it, many small income receivers primarily dependent upon interest and dividend payments, notably retired old people, would unduly suffer.

The effects of amendments since 1937 as they pertain to intangible income may be seen in Table 34. If we assume that intangibles (stocks, bonds, mortgages, etc.) yield an average return of 4 per cent, the table indicates that average property tax liability prior to 1937 amounted to 87½ per cent of average income. This was indeed confiscatory. However, the surtax (1937-42) without an exemption, reduced this liability to 2 per cent, making the tax $4, for example, on intangibles worth $5,000. Effect of the subsequent exemptions ($600 by 1951) was to exempt $15,000 worth of stocks and bonds (assuming a 4 per cent yield) from any surtax.

TABLE 34

CHANGING SURTAX LIABILITY SINCE 1937

Value of Intangibles	Amount of Income (1)	Under Property Tax Prior To 1937 (2)	Surtax 1937-42 (3)	Surtax 1942-51 (4)	Surtax Since 1951 (5)
$ 5,000	$ 200	$ 175	$ 4	$ 0	$ 0
10,000	400	350	8	4	0
20,000	800	700	16	12	4
50,000	2,000	1,750	40	36	28
100,000	4,000	3,500	80	76	68

(1) Assuming a 4% average yield
(2) Assuming an average rate of 35 mills. This was the average rate in 1936, it has since increased.
(3) No exemption was permitted.
(4) $200 exemption.
(5) $600 exemption.

Present Status of Surtax -- Number of Returns. Table 35 shows the proportion of individual taxable returns filed in 1951 and 1952 which contained some surtax liability. In 1951, when the exemption was $200, one out of nine taxpayers, paid a surtax. However, in 1952 (exemption $600) only one out of every 18 paid a surtax. These 17,897 surtaxpayers represented a small proportion indeed of the adult population of Colorado. The tax applies to natural persons only. There is no surtax imposed on income from intangibles received by trusts, estates, corporations or partnerships.

Surtax Revenue. The surtax is currently yielding about $1,000,000 of revenue annually. This is only about 5 per cent of total state income tax receipts. The effect of changes made in 1952 as compared with 1951 (latest figures available) is shown in Table 36. The average payer of surtaxes had surtaxable income (interest and dividends) of $3,064 as shown by returns filed in 1952. Thus, he was a taxpayer of considerable intangible wealth. The Revenue Department has estimated this wealth on an income capitalized basis of 4 per cent. The results are shown in Table 37. The 1952 returns show an estimated total capital wealth (intangibles) of about $1.4 billion which represents an average of $76,599 of intangible wealth per taxpayer.

Surtax Unique to Colorado. Among the 11 states in the West with income taxes, Colorado is the only one levying a special (additional) tax on intangible income. However, among these 11 states only four legally exempt intangibles from the property tax. The situation is shown in Table 38.

TABLE 35

INDIVIDUAL TAXABLE RETURNS FILED IN 1951 AND 1952 SHOWING NUMBER PAYING SURTAXES (COLORADO).

	1951 (1)	1952 (2)
Individual Taxable Returns	248,587	320,805
Surtaxable Returns	29,521	17,879
% surtaxable to Total	11.8	5.6

(1) For income earned in 1950.
(2) For income earned in 1951.

Source: Colorado State Department of Revenue.

TABLE 36

SURTAX COLLECTIONS REPORTED ON TAXABLE INDIVIDUAL INCOME TAX RETURNS, FILED IN CALENDAR YEARS 1951 AND 1952.

	SURTAX COLLECTIONS		NET SURTAXABLE INCOME	
Year	Amount	Average Per Return	Amount	Average Per Return
1951 (1)	$1,253,596	$42.46	$62,679,798	$2,123
1952 (2)	1,095,617	61.28	54,780,860	3,064

(1) A $200 exemption. Also allowed was a 20% reduction of surtax liability.
(2) A $600 exemption. No allowance for 20% reduction.

Source: Research and Statistics Section, Income Tax Division, Colorado Department of Revenue.

TABLE 37

CAPITALIZATION OF NET SURTAXABLE INCOME AT FOUR PER CENT ON SURTAXABLE RETURNS FILED IN 1951 AND 1952

		Estimated Capital	
Year	Number of Surtaxable Returns	Total	Average Per Return
1951	29,521	$1,566,663,300	$53,069
1952	17,879	1,369,521,500	79,599

Source: Research and Statistics Section, Income Tax Division, Colorado Department of Revenue.

TABLE 38

INCOME TAX STATES OF THE WEST WITH AND WITHOUT INTANGIBLE PROPERTY TAX EXEMPTION, 1954.

State	Intangible Property Tax Exemption[1]	Surtax
Arizona	No	No
California	Yes	No
Colorado	Yes	Yes
Idaho	No	No
Kansas	No	No
Montana	No	No
New Mexico	No	No
North Dakota	No	No
Oklahoma	No	No
Oregon	Yes	No
Utah	Yes	No

(1) Relative to property tax.

Source: State Tax Guide 1954, Commerce Clearing House.

Advantages and Disadvantages of Surtax. Advantages of the surtax probably include the following: (1) Additional revenue is obtained for the general fund, although currently, such collections are only about $1,000,000 annually. (2) The tax is a replacement for property tax exemptions of intangible wealth, although the $600 exemption of intangible income largely nullifies this replacement advantage. (3) It is sometimes contended that income from investments as contrasted with income in the form of wages and salaries, represents additional taxpaying ability. At one time the Federal law recognized this principle. This may be some justification for the surtax on interest and dividends, although it does not explain why the tax is not also imposed on rental income.

The disadvantages probably include the following: (1) Exemptions are now so high that the tax probably represents class legislation singling out a few in the state who must pay the surtax. (2) The tax adds to the complexity of the income tax, both for the taxpayer and for the Revenue Department administering the tax.

B. The Personal Exemption Issue

The amount of personal exemption permitted in Colorado for the taxpayer, spouse and dependent has changed several times in the past. Also there is considerable difference of opinion among the states (judged by existing legislation) regarding the proper level of exemptions.

There were two principal reasons in the minds of lawmakers for permitting income tax personal exemptions when such legislation was first enacted. First, there was the belief that a certain minimum income should be retained by an individual, without taxation, so as better to assure the obtaining of the bare essentials of life. Secondly, personal exemptions were considered necessary from the administrative standpoint. Without such arrangement it was contended that the cost would be prohibitive of collecting small amounts from numerous people with very small incomes, many of whom would pay only a few cents in taxes.

Over the years, as tax rates have risen and as the need for public revenue has increased, it has appeared practicable and advisable to lower personal exemptions. The Federal government has led in this development. As a consequence, personal exemptions are currently at their lowest average level in history. The Federal exemption is $600 per taxpayer, spouse and dependent. This exemption is also the amount now permitted in seven states including Colorado.

However, the Federal income tax is in the process of being lightened and one proposal receiving considerable support is that the exemption be raised at least $100 per person. Should the Federal government raise by $100 the exemption for a taxpayer, spouse, and dependent, there are certain to be requests for raising the exemption similarly in Colorado. Calculation of the state tax liability is very much simplified when a state law corresponds to the Federal especially as it pertains to the definition of taxable income and personal exemptions.

If Colorado should consider raising personal exemptions by $100, a natural concern of the General Assembly would pertain to the revenue effect of such a change. What would be the effect upon total tax receipts if exemptions were raised $100? This estimated effect is shown in Table 39. According to the calculations, on the basis of collections in 1953, there would be a reduction in total revenue from the normal individual income tax of about $900,000.

Individually, the advantage of this tax reduction would vary according to the number of exemptions and with the amount of one's net taxable income. Generally, the amount of reduction would increase from a few cents on the lowest incomes (those already paying only a few cents in taxes) to a top of $8 per exemption for those with incomes reaching into the highest tax bracket (over $11,000). All taxpayers whose incomes would be over $11,000 regardless of how much, would receive the same tax reduction -- $8 per exemption. Thus, the principal advantage, relatively, from raising personal exemptions would go to individuals in the lower brackets of income.

C. The Split - Income Proposal

In several legislative sessions of the past, some consideration has been given to a proposal to permit a husband and wife to divide the total family income into two halves when determining the personal income tax. Such arrangement has always been possible in the community property states. Thus, until the Federal government allowed the split-income method of calculating the Federal income tax, the community property states had an advantage relative to Federal tax liability. By dividing the total income into two halves the surtax rates of the higher brackets of income could be avoided or at least reduced. The Federal change was made in 1948 and since then there has been equal treatment throughout the country concerning the Federal income tax. Thus, community property is no longer a live issue as it pertains to Federal taxation.

However, there has been some continuing interest in changing the state tax laws so as to permit a husband and wife to use the split-income method for calculating the state income tax. Apparently as yet only one income tax state, Oregon, has followed the lead of the Federal government by adopting such change. Thus, for state tax purposes dividing property states: Arizona, California, Idaho, Louisiana, New Mexico, and Oklahoma. If Colorado

TABLE 39

COLORADO PERSONAL INCOME TAX ESTIMATED REDUCTION IN REVENUE IF PERSONAL

BASIS OF

1953

Adjusted Gross Income Class	Number of Returns	Average Adjusted Gross Income	Average Net Taxable Income(1)	Total Collections Normal Tax
700 - 749	1,347	735		$ 929
750 - 999	6,816	870		10,156
1,000 - 1,249	7,518	1,113		19,923
1,250 - 1,499	8,425	1,397		34,206
1,500 - 1,999	20,946	1,761		112,270
2,000 - 2,499	31,349	2,251		236,371
2,500 - 2,999	35,277	2,762		355,239
3,000 - 3,499	38,740	3,299		451,708
3,500 - 3,999	35,688	3,754		507,126
4,000 - 4,499	28,765	4,239		458,802
4,500 - 4,999	25,401	4,740		504,718
5,000 - 5,999	27,312	5,439		703,557
6,000 - 6,989	15,686	6,462		543,363
7,000 - 7,999	9,274	7,446		443,019
8,000 - 8,999	6,071	8,665	4,482	430,009
9,000 - 9,999	3,815	9,456	5,230	333,278
10,000 - 10,999	2,696	10,473	5,819	289,658
11,000 - 11,999	1,776	11,502	6,405	242,175
12,000 - 12,999	1,447	12,535	7,004	231,477
13,000 - 13,999	1,052	13,458	7,981	216,228
14,000 - 14,999	945	14,605	8,613	230,300
15,000 - 19,999	2,796	17,285	10,182	949,913
Over 20,000	3,277(2)			3,518,665

(1) Figures for income levels below $8,000 were not available; consequently
to the standard tax table and by assuming standard deductions.

(2) For these taxpayers, the average reduction in tax (assuming three exemptions)

Source: Information relating to number of returns, total collections, average
of Revenue.

EXEMPTIONS WERE RAISED $100 PER TAXPAYER, SPOUSE AND DEPENDENT, ON THE

COLLECTIONS IN 1953.

Ave. Number of Exemptions Per Return	Additional Deduction Assuming $100 Additional Per Exemption	Average Net Taxable Income Less Additional Exemption Amount[1]	Average Tax Per Return Assuming $100 Additional Per Exemption	Total Collections Assuming $100 Additional Per Exemption	Estimated Loss of Revenue Due To Additional $100 Per Exemption
1.17	$117		$000.00	$000,000	$ 929
1.08	108		000.00	000,000	10,156
1.15	115		1.50	11,277	8,646
1.30	130		2.40	20,220	13,986
1.33	133		4.14	86,716	25,554
1.59	159		5.40	169,285	67,086
1.84	184		7.78	274,455	80,784
2.18	218		9.78	378,877	72,831
2.37	237		12.33	440,033	67,093
2.76	276		14.53	417,955	40,847
2.76	276		18.33	465,600	39,118
3.00	300		23.25	635,004	68,553
3.00	300		34.35	538,814	4,549
3.00	300		47.40	439,587	3,432
3.00	300	4,182	60.37	366,506	63,503
3.00	300	4,930	78.30	298,714	34,564
3.00	300	5,519	96.51	260,461	29,197
3.00	300	6,105	116.20	206,371	35,804
3.00	300	6,704	140.16	202,812	28,665
3.00	300	7,681	184.70	194,304	21,924
3.00	300	8,313	217.50	205,538	24,762
3.00	300	9,882	312.45	873,610	76,303
3.00	300			3,420,355	98,310
				Total	$916,596

estimates of revenue loss were made for these income brackets by referring would be $24 -- the current maximum rate of 8 per cent times $300.

exemptions and average net taxable income obtained from Colorado Department were to adopt the aplit-income proposal, the resulting change in tax liability for married couples is shown in Table 40. In order to gain from splitting income, the net taxable income (income after all deductions and exemptions) would need to be in excess of $1,000. The table indicates that a progressively increasing tax reduction would occur for taxpayers as income increases until a maximum of $488 reduction (based on 1954 tax law) would occur at the $25,000 level of net taxable income. Beyond the $25,000 level the reduction would continue at $488. Percentage-wise the tax savings would increase from a 14 per cent reduction on a $1,500 net taxable income to 51 per cent on a $15,000 income, after which the percentage tax savings would decline.

An important question pertaining to the split-income proposal is what effect would the tax reduction have upon the total state tax yield. This revenue effect is estimated in Table 41.

There would be no effect upon taxes paid by single individuals. A liberal estimate of the proportion of single as contrasted with married taxpayers is one-fourth of the total. This estimate was obtained by using national data. Also, through sample checking, it was learned that adjusted gross incomes below $3,000 would be affected to a negligible degree only. Consequently, they may be disregarded. The table indicates that an estimated loss of normal income tax revenue would be about $2,700,000 on the basis of tax returns as they were in 1952.

In summary, the following conclusions may be made: (1) By adopting the split-income method, Colorado's law would follow more closely the pattern of the Federal law; however, this change would not simplify the calculation of the state tax. (2) There would be a reduction in tax liability for married couples with adjusted gross income above $3,000. This reduction

TABLE 40

EFFECT OF THE SPLIT-INCOME PROPOSAL ON TAX LIABILITY OF MARRIED COUPLIES, SELECTED INCOME BRACKETS, BASED UPON THE COLORADO LAW OF 1954.

Net Taxable Income(1)	Colorado Normal Tax Liability 1954	Tax Liability Assuming Split-Income Calculation	Amount of Tax Reduction in Dollars	Per Cent Reduction
1,000	$ 8	$ 8	$ --	----
1,500	14	12	2	14%
2,000	20	16	4	20
2,500	28	22	6	21
3,000	36	28	8	22
4,000	56	40	16	28
5,000	80	56	24	30
7,500	176	102	74	42
10,000	320	160	160	50
15,000	712	352	360	51
20,000	1,112	640	472	42
25,000	1,512	1,024	488	32
30,000	1,912	1,424	488(2)	26

(1) After all deductions and exemptions.
(2) Any level of net taxable income above $22,000 would have a reduction of the same amount -- $488.

TABLE 41

ESTIMATED EFFECT OF THE SPLIT-INCOME PROPOSAL ON TOTAL NORMAL TAX REVENUE IN COLORADO, BASED UPON 1952 RETURNS.

Adjusted Gross Income	Estimated No. Married Couple Returns (1)	Ave. Net Taxable Income (2)	1952 Ave. Normal Tax (2)	Split Income Estimated Average Normal Tax	Average Revenue Loss Due To Split Income	Estimated Total Revenue Loss Due To Split Income
3,000- 4,000	52,745	$ 1,370	$ 12	$ 11	$ 1	$ 52,745
4,000- 5,000	33,831	1,900	19	15	4	135,324
5,000- 6,000	17,507	2,500	28	22	6	105,042
6,000- 7,000	9,957	3,360	44	33	11	109,527
7,000- 8,000	4,346	4,000	56	40	16	69,536
8,000- 9,000	3,471	4,629	75	50	25	86,775
9,000-10,000	2,318	5,218	96	60	36	83,448
10,000-11,000	1,822	6,005	121	72	49	89,278
11,000-12,000	1,324	6,686	152	86	66	87,384
12,000-13,000	994	7,301	174	98	76	75,544
13,000-14,000	828	8,351	233	120	113	93,564
14,000-15,000	662	8,713	255	129	126	83,412
15,000-20,000	2,152	10,643	379	181	198	407,096
20,000-25,000	994	13,807	624	296	328	326,032
25,000-30,000	621	16,594	845	433	412	255,852
30,000-40,000	637	20,217	1,141	656	485	308,945
40,000-50,000	295	26,134	1,547	1,059	488	143,960
Above 50,000	440				488 (3)	
					TOTAL	$2,728,184

(1) 3/4 of the total returns in each bracket are estimated as being submitted by married couples.
(2) According to State Department of Revenue figures.
(3) Each level of income in upper brackets has some revenue loss -- $488.

would be greatest percentage-wise for the middle income brackets -- those around $10,000 to $15,000 adjusted gross income. (3) The estimated revenue reduction to the state would be about $2,700,000 on the basis of collections in 1952.

D. The Gross Income Tax Proposal

It has been suggested in several legislative sessions of the past that Colorado might well consider a gross income tax. Whether or not such a tax would become a substitute for either the net income tax or the retail sales tax or merely supplement both is of course uncertain. Actually a gross income tax, at least to the extent that it applies to business income, is really a form of general sales taxation.

Nature of Gross Income Tax. The gross income tax, in its comprehensive form, places a tax (usually proportional rate) upon the gross income (without deductions) of all individuals, corporations and unincorporated businesses. It is sometimes called a multiple stage tax. By making no deductions or exemptions and by applying the tax upon every state of business and production the revenue yield can be made extremely productive -- perhaps five times as productive as a retail sales tax with a corresponding tax rate.

However, jurisdictions utilizing the gross income tax usually confine the levy in several ways. It may apply to certain types of businesses only (Arizona); or, it may be restricted to individuals and corporations (Indiana). Another variation is to confine the tax to gross payrolls and unincorporated businesses (Philadelphia and many other cities in Pennsylvania and Ohio).

Extent of Gross Income Taxes. The dividing line is not always clear between gross income taxes and several other forms of general sales and gross receipts taxes. However Table 42 lists the states which are usually classified as applying gross income taxes.

Three of the six states (Arizona, Indiana, and New Mexico) have a comprehensive gross income tax with no separate retail sales tax. The other three states (Michigan, Washington, and West Virginia) utilize both revenue measures. It may be noted in all cases that the tax yield is very significant, amounting to 50 per cent or more of total state revenue in Indiana, Washington and West Virginia.

City Gross Income Taxes

A fairly recent development of the tax has occurred in a number of American cities. Most of the city gross income taxes are confined to levies on gross income in the form of wages, salaries and receipts of unincorporated business. These city taxes are found principally in the states of Pennsylvania and Ohio but are spreading elsewhere.

Legal Status of a Gross Income Tax in Colorado. The occupational gross income tax on business (the type most frequently applied by other states) has been classified by the courts, along with the general sales tax, as an excise. Therefore, should Colorado decide to adopt this form of taxation, there is a possibility that 85 per cent of receipts would be earmarked by the old-age pension constitutional amendment. However, a law might be drafted, as was done in the case of the service tax (since repealed), which could avoid the earmarking provision.

TABLE 42

STATES WITH GROSS INCOME TAXES SHOWING REVENUE YIELD AS A PERCENTAGE OF TOTAL TAXES COLLECTED, 1953.

State	Basis of Tax	Yield	Yield as a Percentage of Total State Tax Revenue
Arizona	Manufacturing, Mining, etc. and Retail Business	$ 24,379,000	32.7%
Indiana	Individuals and Corporations	142,401,000	50.0
Michigan	Business Receipts	271,766,000(1)	46.6
New Mexico	Occupational	26,176,000	37.2
Washington	Occupational	139,036,000(1)	52.3
West Virginia	Occupational	64,728,000(1)	52.2

(1) Includes sales tax revenue, as the Census Bureau considers both taxes belong to same family of taxes.

Source: State Tax Collection, 1953, U. S. Bureau of the Census.

TABLE 43

STATES APPLYING THE WITHHOLDING LEVY TO NONRESIDENT INCOME, 1953

Arizona	Iowa	New York
California	Kansas(1)	Oregon
Colorado	Kentucky	Vermont
Delaware	Maryland	

(1) Partial withholding only.

Source: State Tax Guide, 1953, Commerce Clearing House.

E. State Income Tax Withholding

Tax Withholding Elsewhere. Various European countries have had a long and apparently successful experience with income tax withholding. Tax withholding refers to "collection at the source." In other words, a tax is collected from the payers of income rather than from the payees. For example, taxes on wages are collected from the employer rather than the employee, on rent, from the tenant rather than the landlord, on interest, from the debtor rather than the creditor and on dividends, from the corporation rather than the stockholder. Some European countries have extended the application of collection at the source more fully than other countries. One of these is England where a very comprehensive system of tax withholding has long been utilized.

During the Second World War, our Federal government initiated a plan of tax withholding relative to wages and salaries. Since then, substantial support has developed for an extension of withholding to interest and dividends. However, as yet the Federal law still confines collection at the source to the tax on wages and salaries. However, the tax on other income is collected on a partially current basis, directly from the taxpayer, through advance estimate declarations and quarterly payment of taxes as they accrue.

Also, a number of states have inaugurated tax withholding. The first such development among the states was in the form of withholding the tax from income going to nonresidents. The principal reason for this kind of collection at the source was to reduce tax evasion -- it is difficult to collect a tax from nonresidents even though the income is earned within a state. Table 43 shows the states (11 in number) which currently are applying the withholding principle to nonresident income.

The most recent state development has been to withhold the income tax or a portion thereof, from all wages and salaries earned in the state. This payroll deduction application of the tax has been patterned after the Federal plan of tax withholding. There are now six states with income tax laws requiring collection of the tax, on wages and salaries, from employers. These states, showing the dates when laws were first enacted, are listed in Table 44.

The table also shows various methods applied in calculating the amounts of tax withholding among the six states. Three states (Vermont, Delaware and Kentucky) attempt to withhold the entire amount of the tax liability of individuals. This system, even when tax tables are employed, causes a considerable number of complications and does not really prevent the overpayment of taxes nor the need for frequently making refunds. Oregon requires 1 per cent and Arizona .5 per cent of wages and salaries as the amount to be withheld as taxes. Colorado has developed still another method. Here 4 per cent of the amount withheld for Federal taxes must be deducted for the state income tax. The Colorado plan is simple and should minimize over-payments and refunds. It promises to be the best all-around method of withholding taxes and may set a pattern for other states to follow.

In addition to the payroll deduction applied by the Federal government and by six states, there are numerous cities collecting their income tax (really a gross income tax) through the device of tax withholding. Most of these cities (several hundred) are in Pennsylvania and Ohio. A city's tax withholding plan is simplified, in most cases, because the tax is levied on gross income with few if any deductions permitted and with no exemptions allowed.

TABLE 41

STATES WITH PAYROLL DEDUCTION PROVISIONS, PERSONAL INCOME TAX, 1954

State	Date When Adopted	Amount of Withholding
Oregon	1948	1% of wages and salaries.
Vermont	1951	Estimated total tax on wages and salaries.
Delaware	1952	Estimated total tax on wages and salaries.
Colorado	1954	4% of amount withheld for Federal Income Tax.
Arizona	1954	$\frac{1}{2}$ of 1% of wages and salaries.
Kentucky	1954	Estimated total tax on wages and salaries.

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

Should the Colorado Withholding Tax on Payrolls be Extended? It has been proposed that the state should withhold taxes at the source from all income including dividends, interest, rent and royalties. Otherwise, it is argued, there is discrimination against wages and salaries. Perhaps a theoretically ideal arrangement would require the development of a completely comprehensive system. However, several foreign countries have had but limited success in achieving this goal after years of experience. Moreover, the Federal government, even with its relatively high tax rates, has not as yet found it advisable or expedient to extend tax withholding beyond wages and salaries. Perhaps there is no great injustice in confining withholding of the tax to wages and salaries, at least while experience is being obtained, as most income receivers are dependent upon wages and salaries for either all or else part of total earnings. According to Department of Commerce data, approximately two-thirds of total national income is normally in the form of wages and salaries.

However, one possible compromise solution to the problem might be to adopt the Federal plan of self-declaration of revenue with quarterly payments of taxes, other than those on wages and salaries, as the taxes accrue.

Arguments For and Against Tax Withholding. Various considerations have induced states to inaugurate the payroll deduction method of income tax collection. These considerations include several claimed advantages of tax withholding as follows: (1) It is argued that tax avoidance and evasion are reduced; thus, collection of revenue is said to increase and the tax to become more equitable generally because of being administered more uniformly. This claimed reduction in evasion is said to apply especially to migratory workers, to nonresidents and to small income receivers. Also, it is argued that because there is less time elapsing between the receiving of income and the paying of the tax, widespread evasion by many individuals also may be reduced. (2) Tax withholding puts collections on a current basis. This arrangement yields additional revenue the first year of its introduction, but also perhaps some additional revenue thereafter, as previously mentioned, due to less evasion and avoidance of the tax. Also the current basis of tax collection tends to keep taxpaying ability from getting "cold" due to passage of time. (3) It is argued that tax withholding is really a convenience for taxpayers. They pay by installments instead of a lump sum at the end of the year.

Those who are opposed to income tax withholding usually present several arguments as follows: (1) Collection at the source is said to be too expensive for a state successfully to administer. It is argued that the paper work required relative to collection of the tax in small amounts is not worthwhile. Moreover, it is pointed out that many refunds at the end of the year are required. (2) Employers are said to be put to an unnecessary expense and inconvenience because of being required to withhold the tax.

(3) It is argued that payrolls should not be singled out for tax withholding as this is discrimination; while a comprehensive system of withholding would be impracticable. A partial remedy for this difficulty might be the adoption of self-declaration of total income with quarterly tax payments. (4) Finally, an objection to the withholding of taxes is the fear that taxpayers may lose a sense of tax consciousness. In other words, because the tax tends to become a "hidden" tax, individuals may not realize that they are paying it. Objection from this standpoint is mainly the fear that if taxpayer-opposition were to become diminished, tax rates could be too easily raised.

It appears to the writer that states now utilizing the tax withholding plan have had insufficient experience with it to demonstrate either failure or success. However, the two states with longest experience, Oregon and Vermont, appear to be reasonably well satisfied with the program's operation.

F. Income Tax on Oil and Natural Gas

In 1953 the Colorado General Assembly enacted, as part of the existing state income tax, an amendment to the law placing a levy upon the gross income obtained from the production or extraction of crude oil and natural gas from petroleum deposits located in Colorado.

Tax Rates. Tax rates are as follows:

Gross Income	Rate
Under $25,000	2%
$25,000-100,000	3%
$100,000-300,000	4%
Over $300,000	5%

Ad valorem taxes paid during the taxable year on gas and oil, leaseholds and royalties, except taxes on equipment and facilities used in producing gas and oil, are allowed as a credit against the tax due.

Collection of the Tax. Producers or first purchasers must withhold 3 per cent from royalties. The tax is due with annual returns, while amounts withheld are due quarterly. Credits are given for amounts withheld.

During the fiscal year ending June 30, 1954, total tax collections from the production of oil and natural gas amounted to $2,871,000. This was somewhat greater than the official estimate of annual revenue to be expected from the tax made at the time the measure was enacted. However, a large portion of the tax revenue was paid under protest by oil companies contending that the tax was being collected unconstitutionally. Apparently the issue, before it is settled, will require a decision in the courts.

Oil and Gas Tax a Severance Tax. The tax on gross income from the production of oil and natural gas in Colorado is actually a severance tax as classified by most American states. Consequently, because of its special aspects and due to the fact that the revenue measure is not an income tax in the ordinary sense, the Legislative Council expects later to publish a special report on the oil and gas production tax.

G. The Federal Income Tax Deductibility Issue

Taxpayers in Colorado are permitted reciprocal deductions relative to their Federal and state income taxes. In other words, the Federal tax may be deducted from adjusted gross income for state tax purposes while the state tax may be deducted from adjusted gross income for Federal tax purposes. The national government extends its deductibility feature uniformly to taxpayers in all states having income taxes regardless of whether or not the states reciprocate. About half the income tax states, including Colorado, do reciprocate, while the other half do not. (See Table 45). It may be observed that Delaware, Massachusetts, South Carolina, and Wisconsin limit the amount of deduction permitted, while Oregon permits a full deduction

TABLE 45

PROVISIONS RELATING TO DEDUCTION FOR FEDERAL INCOME TAXES

State	Allow Deduction for Federal Income Taxes		State	Allow Deduction for Federal Income Taxes	
	Corp.	Indiv.		Corp.	Indiv.
Alabama	Yes	Yes	Missouri	Yes	Yes
Arizona	Yes	Yes	Montana	Yes	Yes
Arkansas	No	No	New Hampshire	---	No
California	No	No	New Mexico	Yes	Yes
COLORADO	YES	YES	New York	No	No
Connecticut	No	---	North Carolina	No	No
Delaware	---	Yes (1)	North Dakota	Yes	Yes
District of Columbia	No	No	Oklahoma	Yes	Yes
Georgia	Yes	Yes	Oregon	No	Yes
Idaho	Yes	Yes	Pennsylvania	No	---
Iowa	Yes	Yes	Rhode Island	No	---
Kansas	Yes	Yes	South Carolina	No	Yes (3)
Kentucky	Yes	Yes	Tennessee	No	No
Louisiana	Yes	Yes	Utah	Yes	Yes
Maryland	No	No	Vermont	No	No
Massachusetts	No	Yes (2)	Virginia	No	No
Minnesota	Yes	Yes	Wisconsin	Yes (4)	Yes (5)
Mississippi	No	No			

(1) Limited to $300.
(2) Limited to Federal taxes actually paid on business income.
(3) Limited to $500.
(4) Limited to 10% of net income.
(5) Limited to 3% of net income.

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

for individuals but denies any deduction for corporations.

Advantages and Disadvantages of Permitting No Deduction for Federal Income Tax. It has been argued that those states which do not permit reciprocal deduction of the income tax have certain advantages over those states which do. The possible advantages and disadvantages of the unilateral as opposed to the reciprocal arrangement are listed below:

(1) State income tax revenue increases without a corresponding increase of total tax liability for income taxpayers in the state. This is because the amount of Federal income tax liability is reduced as the state tax increases. The effect upon both revenue and tax liability for selected income levels is shown in Tables 46 and 47. It may be seen that in the higher brackets extra revenue may be obtained, in effect, with "twelve to fifteen cent" dollars.

(2) Another claimed advantage of unilateral deductibility is that a regressive tax rate is thus avoided. When Federal taxes are deducted from income before calculating the state tax (reciprocal deductibility), the relatively large deductions from the larger incomes make the state effective rate actually regressive. In other words the effective rate declines as the income increases. This situation for Colorado is shown in Table 48. Although Colorado law provides for income tax rates advancing to a maximum of 10 per cent (less 1/5 in 1954) on incomes over $11,000, the table indicates that effective tax rates advance to a maximum of about 4 per cent on $20,000 incomes and then decline to 2 per cent on $1,000,000 incomes.

(3) Finally, it is argued that with the unilateral arrangement not only is a greater amount of state revenue obtained but yields are said to be more stable. This is because the level of state revenue is less dependent upon what particular Federal rates happen to be from year to year.

The principal argument against denying the right to deduct Federal

TABLE 46

COMBINED FEDERAL AND STATE INCOME TAX LIABILITY IN COLORADO,

SHOWING EFFECTS OF UNILATERAL AND RECIPROCAL DEDUCTIBILITY(1)

Net Income(2)	Federal Tax Assuming No State Income Tax	Effective Rate (Per Cent)	With Reciprocal Deductions(3) Federal	Colorado	Combined	Effective Rate (Per Cent)
$ 3,000	$ 360	12.0	$ 358	15	$ 373	12.4
5,000	759	12.2	752	44	796	15.9
20,000	4,910	24.6	4,603	786	5,389	26.9
100,000	51,239	51.2	47,442	3,767	51,209	51.2
1,000,000	764,928	76.5	749,469	20,208	769,677	77.0

Assuming Unilateral Deduction(4)

	Federal	Colorado	Combined	Effective Rate (Per Cent)
$ 3,000	$ 356	$ 18	$ 374	12.4
5,000	749	52	801	16.0
20,000	4,563	1,016	5,579	27.9
100,000	46,233	7,416	53,649	53.6
1,000,000	699,172	79,416	778,588	77.9

(1) Married couple in Colorado with no dependents. The Federal and Colorado rates and exemptions are for 1954.
(2) Net income before exemptions and before deduction for income taxes.
(3) The Federal income tax deductible from net income for state income tax calculation and vice versa an algebraic equation with 2 unknowns is utilized in making calculations.
(4) This would be the situation if Colorado discontinued permitting deduction of Federal income tax.

income taxes is that although incomes are taxed regressively by the state (under reciprocal provisions), if state and Federal taxes combined are considered, the effective rate on incomes is progressive (Table 46). Thus, there is frequently the objection expressed that by removing the reciprocal provision, the total effective rate becomes too high on the middle and upper levels of income.

Estimated Additional Revenue If Federal Income Tax Deduction Were To Be Dropped. Should additional state revenue be required in the future, dropping the Federal income tax deduction for the state tax might well be considered along with other alternative revenue proposals.

On the basis of actual tax collections in the calendar year 1953, additional revenue estimates for the personal income tax are shown in Table 49. Calculations in the table were made for the various income levels. The procedure followed was to calculate the average net taxable income before and after deduction of the Federal income tax (columns 4 and 8). The Colorado normal income tax was then calculated upon the basis of each tax base (before and after the Federal deduction) (see columns 5 and 9). After multiplying each set of figures by the number of returns filed (columns 6 and 10), the estimated additional normal tax revenue was calculated (column 11). This total additional of $8,131,187 for all income levels is a surprisingly large a mount. As Federal taxes were reduced 10 per cent, beginning January 1954, the estimate of $8,131, 187 should be revised downward by 10 per cent for the current period (1954). Of course other factors affecting both Federal and state tax liabilities in the current period in contrast with 1953 could change the reliability of the estimate.

Also to be included in the calculation of additional revenue if the Federal income tax deduction were discontinued is the estimate of additional

TABLE 47

ESTIMATED ADDITIONAL STATE REVENUE AND ADDITIONAL TAX LIABILITY IF FEDERAL INCOME TAX DEDUCTION WERE DROPPED, SELECTED INCOME LEVELS FOR MARRIED COUPLE WITH NO DEPENDENTS (COLORADO, 1954)

Net Income (1)	Additional (2) State Revenue	Additional (2) Tax Liability	Net Cost to Taxpayer Per $ Additional Revenue
$ 3,000	$ 3	$ 1	33¢
5,000	8	5	62¢
20,000	230	190	82¢
100,000	3,649	440	12¢
1,000,000	59,208	8,911	15¢

(1) Before exemptions and before deduction for income taxes.
(2) Calculated from Table 46.

TABLE 48

EFFECTIVE RATE OF COLORADO STATE INCOME TAX BY SELECTED INCOME LEVELS, 1954

Net Income (1)	Colorado Tax	Effective Rate
$ 3,000	$ 15.52	.52%
5,000	44.48	.89%
20,000	786.00	3.9 %
100,000	3,767.00	3.8 %
1,000,000	20,208.00	2.0 %

(1) Net income of married couple with no dependents. Net income before deduction for Federal taxes or personal exemptions.

Source: Previous table.

TABLE 49

COLORADO PERSONAL INCOME TAX: ESTIMATED ADDITIONAL REVENUE IF FEDERAL INCOME TAX DEDUCTION WERE DROPPED, BASED UPON COLLECTIONS IN CALENDAR YEAR 1953.

Adjusted Gross Income Class (1)	1953 Number of Returns (2)	1953 Average Adjusted Gross Income (2)	1953 Average Net Taxable Income (2)(5)	1953 Average Normal Tax Per Return (2)	1953 Total Collections Normal Tax
I	II	III	IV	V	VI
1,500- 1,999	20,946	$ 1,761		$ 5.36	$ 112,270
2,000- 2,499	31,349	2,251		7.54	236,371
2,500- 2,999	35,277	2,762		10.00	355,239
3,000- 3,499	38,740	3,299		11.66	451,708
3,500- 3,999	35,688	3,754		14.21	507,126
4,000- 4,499	28,765	4,239		15.95	458,802
4,500- 4,999	25,401	4,740		19.87	504,718
5,000- 5,999	27,312	5,439		25.77	703,587
6,000- 6,999	15,686	6,462		34.64	543,363
7,000- 7,999	9,274	7,446		48.00	443,019
8,000- 8,999	6,071	8,665	4,482	71.00	430,009
9,000- 9,999	3,815	9,456	5,230	87.00	333,278
10,000- 10,999	2,696	10,473	5,819	107.00	289,658
11,000- 11,999	1,776	11,502	6,405	136.00	242,175
12,000- 12,999	1,447	12,535	7,004	160.00	231,477
13,000- 13,999	1,052	13,458	7,981	206.00	216,228
14,000- 14,999	945	14,605	8,613	244.00	230,300
15,000- 19,999	2,796	17,285	10,182	340.00	949,913
20,000- 24,999	1,010	22,707	13,432	591.00	597,011
25,000- 29,999	685	27,430	15,652	786.00	538,410
30,000- 39,999	792	34,000	19,084	1,044.00	826,848
40,000- 49,999	316	41,467	23,343	1,368.00	432,288
50,000- 59,999	164	54,542	26,955	1,632.00	267,648
60,000- 69,999	99	65,112	30,366	1,938.00	191,862
70,000- 79,999	54	74,937	34,897	2,305.00	124,470
80,000- 89,999	47	84,751	36,733	2,541.00	119,427
90,000- 99,999	31	92,356	46,471	3,226.00	100,006
100,000-149,999	56	120,882	47,896	3,307.00	185,192
150,000-199,999	10	175,439	81,127	6,038.00	60,380
200,000-249,999	3	216,126	40,784	2,774.00	8,322
250,000-299,999	2	272,145	77,565	5,717.00	11,434
300,000-399,999	3	333,812	80,648	5,996.00	17,988
400,000-499,999	1	441,653	96,513	7,233.00	7,233
500,000-749,999	3	574,840	74,563	5,477.00	16,431
750,000-999,999	1	891,922	177,537	13,715.00	13,715
Total					$10,757,876

(1) Incomes below $1500 are not included as additional revenue would be insignificant.
(2) Data obtained from Colorado Department of Revenue.
(3) Obtained by adding average net taxable income (column 4) and average Federal
(4) Obtained by subtracting column 6 from column 10.
(5) For incomes below $8,000 figures were not available, therefore calculations

Average Federal Income Tax(2)(5)	Ave. Net Taxable Income Before Federal Tax Deduction(3)	Estimated Average Colo. Normal Tax if No Federal Tax Deducted	Estimated Total Normal Tax Collections if No Federal Deductions	Estimated Additional Normal Tax Collections if No Federal Deductions
VII	VIII	IX	X	XI
	$ 787	$ 6.30	$ 131,960	$ 19,690
	1,072	8.87	278,065	41,694
	1,382	12.57	443,432	88,193
	1,661	15.93	617,128	165,420
	1,957	19.48	695,202	188,076
	2,159	22.55	648,650	189,848
	2,610	29.75	755,680	250,962
	3,135	38.71	1,057,247	353,690
	3,872	54.00	847,044	303,681
	4,739	74.00	686,276	243,257
1,274	5,756	104.00	631,384	201,375
1,442	6,672	139.00	530,285	197,007
1,723	7,542	178.00	479,888	190,230
2,219	8,624	235.00	417,360	175,185
2,311	9,315	276.00	399,372	167,895
2,386	10,367	344.00	361,888	145,660
2,984	11,597	440.00	414,480	184,180
3,713	13,895	624.00	1,744,704	794,791
5,534	18,966	1,829.00	1,847,290	1,250,279
8,936	24,588	1,479.00	1,013,115	474,705
10,677	29,761	1,893.00	1,499,256	672,408
15,494	38,837	2,699.00	852,884	420,596
20,056	47,011	3,273.00	536,772	269,124
25,704	56,070	3,998.00	395,802	203,940
27,734	62,651	4,523.00	244,242	119,772
36,566	73,299	5,376.00	252,267	132,840
35,316	81,787	6,055.00	187,705	87,699
59,062	106,958	8,069.00	451,864	266,672
79,783	160,910	12,385.00	123,850	63,470
128,200	168,984	13,031.00	39,093	30,771
139,380	216,945	16,867.00	33,734	22,300
224,401	305,047	23,916.00	71,748	53,760
312,115	408,628	33,082.00	33,082	25,849
365,602	440,165	35,605.00	106,815	90,384
561,299	738,836	59,499.00	59,499	45,784
			18,889,063	8,131,187

income tax (column 7).

were made without them.

yield of the income tax on corporations. This estimate is obtained more easily. As the Colorado tax rate is not progressive but uniform (4 per cent in 1954), all that is necessary is to multiply the amount of Federal income taxes paid by Colorado corporations by this rate of 4 per cent. Unfortunately, the latest Federal figures for corporations is 1949. However, calculations based upon taxes in 1949 are shown in Table 50.

TABLE 50

COLORADO CORPORATION INCOME TAX: EFFECT OF FEDERAL INCOME TAX DEDUCTION

Federal Corporation Income taxes paid in 1949	$57,340,000[2]
4% (Colorado rate)[1]	.04
Estimated additional Revenue	$ 2,293,000.00

(1) Disregarding the rate of 6% on financial institutions.

(2) Statistics of Income for 1949, Part II. U. S. Treasury Department.

Thus the estimate of additional revenue for the current year (1954) is as follows:

From individual income tax	$8,000,000
Less 10%	800,000
	$7,200,000
From corporation income tax	2,300,000
TOTAL	$9,500,000