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HOW COLORADO COMPARES IN STATE AND LOCAL TAXES

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This *Issue Brief* provides an update on how Colorado's state and local taxes compare with the rest of the country. These rankings provide a national perspective for evaluating the relative tax burden of Colorado's citizens and businesses and for comparing the differences in overall tax structures. For instance, Colorado's tradition of strong local government causes its local taxes to rank among the highest in the country, while state taxes typically rank among the lowest.

The rankings in this *Issue Brief* are based on tax collections per \$1,000 of personal income. This statistic is used to rank the states because it provides a better measure of the ability of taxpayers to pay taxes than per capita tax collections. It should be noted that Colorado typically ranks higher with the use of a per capita measure. For instance, use of a per capita measure ranked our state taxes 10th lowest in the country.

The state tax rankings are for FY 2001-02, while the local and combined tax rankings are for FY 1999-00, as this is the most recent year for which local tax data is available. During FY 2001-02, the state refunded more than \$900 million in TABOR surplus revenue collected in the previous year. The Census Bureau methodology counts the refund as an expenditure rather than a reduction of taxes.

Colorado Ranks 2nd Lowest in State Tax Collections

Colorado had the second-lowest state tax collections (\$46.70) per \$1,000 of personal income in FY 2001-02. Colorado ranked fifth-lowest (\$52.90) in the previous year. The three states that Colorado "passed" in FY 2001-02 have no income tax or a limited income tax. State income taxes were heavily affected by the recession and the decline in the stock market. Colorado's individual income tax declined by 16.7%, while the corporate income tax declined by 46%. The combined decline was \$824 million. New Hampshire was the

only state that ranked lower than Colorado. New Hampshire does not have a sales tax and only a limited income tax. Meanwhile, Hawaii had the highest state tax collections as measured as a percentage of income. Hawaii relies on tourism and exports much of its taxes to nonresidents.

The state's tax burden was 24% below the national average of \$61.47. Figure 1 indicates the state's ranking in selected state taxes.

Figure 1. Colorado's Rank in Selected State Taxes per \$1,000 Income, FY 2001-02

| Tax | Colorado | | National | |
|-------------------|----------|---------|----------|---------|
| | Rank | Tax | High | Low |
| Total Taxes | 49 | \$46.70 | \$96.02 | \$44.04 |
| Individual Income | 25 | \$23.45 | \$37.49 | \$0.00 |
| Sales/Use | 42 | \$12.83 | \$45.26 | \$0.00 |
| Corporate Income | 42 | \$1.38 | \$13.70 | \$0.00 |
| Gas | 35 | \$3.84 | \$8.79 | \$0.72 |
| Liquor/Tobacco | 48 | \$0.65 | \$3.97 | \$0.43 |

Colorado Ranks 7th Highest in Local Tax Collections

Colorado's local tax burden in FY 1999-00, the latest available information, ranked 7th highest in the nation. Our local tax burden ranked 8th highest in the previous year. Colorado's high ranking is attributable to the degree of fiscal decentralization in the state. Local taxes accounted for 46.5% of combined state and local taxes in Colorado, or the 5th highest ratio in the country. The national average was 38.1%, while the national high mark was 52.0% in New York.

Property and sales taxes are the predominant sources of tax revenue for local governments. While local governments in every state collected property taxes, local governments in 17 states did not collect sales taxes. The strong tendency to fiscal decentralization in Colorado particularly manifests itself in high local sales taxes. The Colorado local sales tax burden was the 2nd highest in the country, while the local property tax was the 29th highest. Figure 3 displays the state's rankings and comparisons for these taxes.

Figure 2. Local Tax Collections per \$1,000 Income, FY 1999-00

| Tax | Colorado | | National | |
|-------------|----------|---------|----------|---------|
| | Rank | Tax | High | Low |
| Total Taxes | 7 | \$47.83 | \$73.23 | \$19.51 |
| Sales/Use | 2 | \$15.00 | \$22.85 | \$0.00 |
| Property | 29 | \$28.66 | \$51.11 | \$8.65 |

Colorado's Combined Taxes are Below the National Average

Colorado's combined tax burden of \$102.94 per \$1,000 of income was 8.2% below the national average tax burden of \$112.13 in FY 1999-00. The state's taxes were the 43rd highest (or 8th lowest) in the nation. Figure 3 shows Colorado's ranking and combined taxes. The combined sales tax burden of \$29.40 ranked the state 19th highest. Colorado's local sales tax burden of \$15.00 was slightly higher than the state burden of \$14.40.

Figure 3. Combined State and Local Tax Collections per \$1,000 Income, FY 1999-00

| State | Rank | Tax |
|-----------------|-----------|-----------------|
| Connecticut | 1 | \$119.86 |
| U.S. Average | n/a | \$112.13 |
| Colorado | 43 | \$102.94 |
| Tennessee | 50 | \$88.14 |

How has the Colorado Tax Burden Changed?

The tax burden has been relatively stable. From FY 1991-92 to FY 2001-02, state taxes increased 96%. Meanwhile, personal income increased nearly 115% between 1991 and 2001. Thus, state taxes per \$1,000 of personal income declined from \$51.19 in FY 1991-92 to \$46.70 in FY 2001-02. The decline occurred entirely in the last year because of the recession's and stock market's impact on tax revenues. State taxes per \$1,000 of income were \$52.90 in FY 2000-01.

Total taxes increased 86.9% through FY 1999-00, while personal income increased 86.1% during the same period. Thus, total taxes per \$1,000 of income changed little during this period. They increased from \$102.51 in FY 1991-92 to \$102.94 in FY 1999-00. Figure 4 shows the trend of the Colorado tax burden.

A full 50-state comparison can be found at: www.state.co.us/gov_dir/leg_dir/econ/2003/0350statecompare

