

Colorado Taxes Hit Poor & Middle Class Much Harder than the Wealthy

Low- and middle-income families in Colorado pay a much higher share of their income in state and local taxes than do the richest families in Colorado, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Colorado has an unfair tax system.”

Colorado’s Tax Code: Tax the Poor & Middle Class More Than the Wealthy

When all Colorado taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Colorado families—with average incomes of \$1.2 million—is 6.1% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 4.4%.
- The average tax rate on families in the middle of the income distribution—those earning between \$30,000 and \$47,000—is 9.1% before the federal offset and 8.7% after, more than one and a half times the effective rate the richest pay.
- But the tax rate on the poorest Colorado families—those earning less than \$17,000—is the highest of all. At 9.9% it is nearly twice the effective rate on the very wealthy.

“Colorado’s flat income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Colorado.”

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Colorado Tax Changes since 1989 Have Favored the Top Fifth

The study also examined the impact of changes in the regressivity of Colorado taxes since 1989. The study's findings include:

- Taxes rose on the poorest Coloradans, stayed about the same in the middle-income ranges, and fell for the best-off fifth of Coloradans.
- The relatively large income tax reduction compared to the smaller sales tax rate cut has done little to reverse the pattern of regressivity over the decade.

"Cutting progressive income taxes more than regressive sales taxes increases the overall regressivity of Colorado's tax system," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their tax system still imposes a much greater share of the tax burden on low- and middle-income taxpayers than on the wealthy."

Two pages of tables detailing the Colorado findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

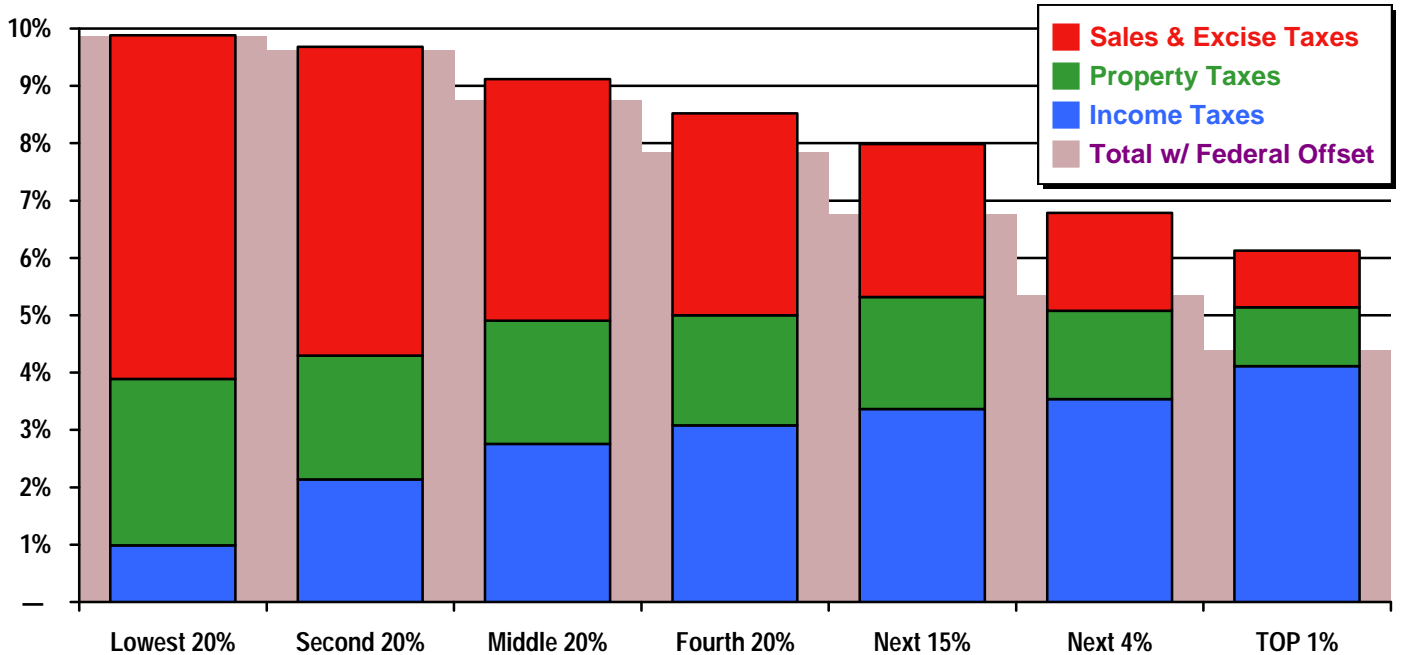
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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Colorado

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$30,000	\$30,000 – \$47,000	\$47,000 – \$78,000	\$78,000 – \$154,000	\$154,000 – \$692,000	\$692,000 or more
Average Income in Group	\$9,800	\$22,700	\$37,400	\$61,300	\$106,000	\$227,000	\$1,185,000
Sales & Excise Taxes	6.0%	5.4%	4.2%	3.5%	2.7%	1.7%	1.0%
General Sales—Individuals	3.2%	3.1%	2.5%	2.1%	1.7%	1.1%	0.6%
Other Sales & Excise—Ind.	0.6%	0.4%	0.4%	0.3%	0.2%	0.1%	0.0%
Sales & Excise on Business	2.2%	1.8%	1.4%	1.1%	0.8%	0.5%	0.3%
Property Taxes	2.9%	2.2%	2.1%	1.9%	2.0%	1.5%	1.0%
Property Taxes on Families	2.8%	2.1%	2.1%	1.8%	1.8%	1.3%	0.5%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.6%
Income Taxes	1.0%	2.1%	2.8%	3.1%	3.4%	3.5%	4.1%
Personal Income Tax	1.0%	2.1%	2.7%	3.1%	3.3%	3.5%	4.0%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL TAXES	9.9%	9.7%	9.1%	8.5%	8.0%	6.8%	6.1%
Federal Deduction Offset	-0.0%	-0.1%	-0.4%	-0.7%	-1.2%	-1.4%	-1.7%
TOTAL AFTER OFFSET	9.9%	9.6%	8.7%	7.8%	6.8%	5.3%	4.4%

Note: Table shows 2002 tax law at 2000 income levels.

Colorado Tax Trends

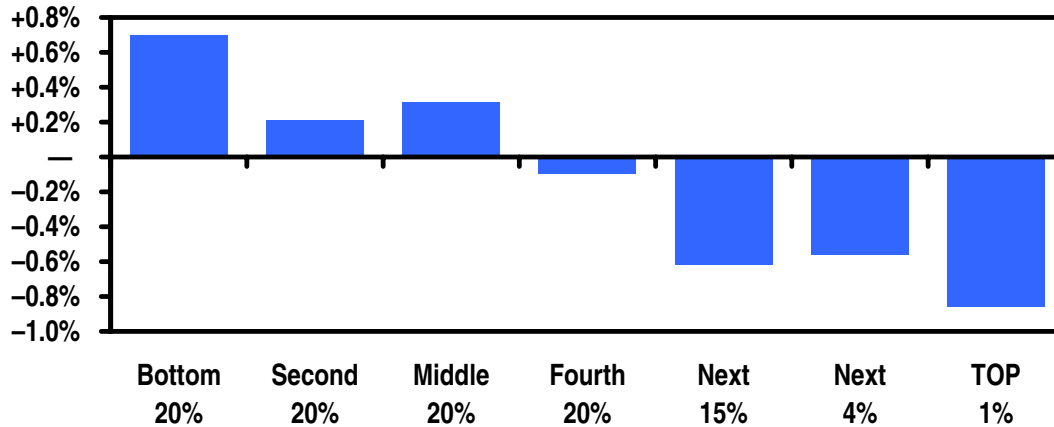
Progressive Features

- ✓ Groceries exempt from sales tax
- ✓ Indexed exemptions

Regressive Features

- ✗ Flat income tax
- ✗ EITC contingent on budget surplus

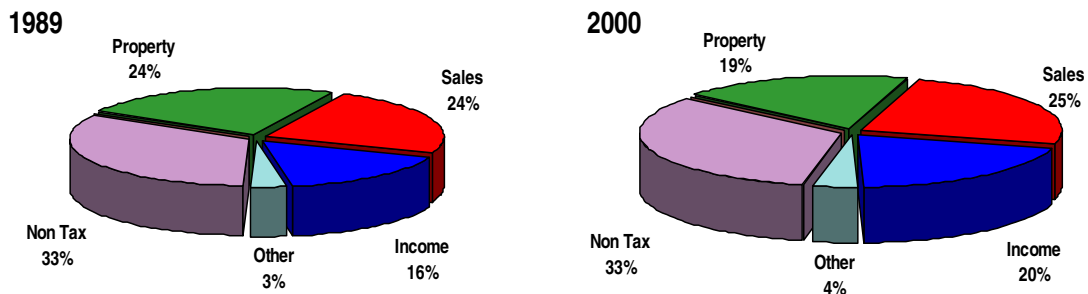
Changes in Taxes as Shares of Income, 1989 – 2002



	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+0.3%	+0.4%	+0.3%	+0.3%	+0.2%	+0.1%	+0.1%
Property	+0.2%	-0.2%	-0.0%	-0.4%	-0.9%	-0.9%	-0.7%
Income	+0.3%	+0.0%	+0.2%	+0.1%	+0.1%	+0.3%	+0.2%
Federal Offset	-0.0%	-0.0%	-0.1%	-0.1%	-0.1%	-0.0%	-0.4%
Overall Change	+0.7%	+0.2%	+0.3%	-0.1%	-0.6%	-0.6%	-0.9%

Although Colorado cut its flat income tax rate from 5% to 4.63% in recent years, the phase-out of exemptions and the disallowance of itemized deductions caused burdens to increase on upper income taxpayers. Colorado also slightly reduced the state sales tax rate from 3% to 2.9%, but increases in Colorado's local sales taxes caused an overall regressive sales tax hike.

Composition of Revenues



Source: Government Finances, US Department of Census