

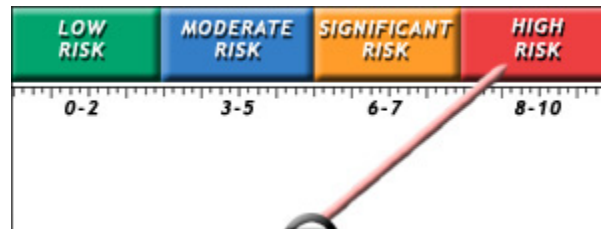


CENTER ON BUDGET AND POLICY PRIORITIES

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COLORADO

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Colorado is rated as having a high risk of a structural deficit based on its score of nine on the risk scale for structural deficits.



- Colorado's sales tax covers less household services than the average state.
- Colorado could lose an estimated \$345 to \$540 million in revenue a year due to the growth of e-commerce. This loss is greater than the national average as a share of total revenue.
- Colorado provides preferences to seniors in its property tax, regardless of their income level. Also, its income tax preferences for seniors exceed the US average.
- Colorado's income tax has a flat rate making it a less progressive tax. An individual earning \$30,000 in Colorado pays income tax at the same rate as someone earning \$300,000.
- Colorado faces spending pressures from: Medicaid, the number of high school graduates potentially entering college and the growing elderly population.
- During 2001-2004, Colorado increased its personal income tax and its corporate income tax, but not by nearly as much as it increased its sales tax. This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.
- Colorado has a statutory spending limit that caps growth at 6%, a more restrictive constitutional revenue limit that restricts growth to the sum of population and inflation, and a limit on local property tax revenues. It also has a supermajority requirement for all tax increases.
- Colorado remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated \$62 million per year.
- Three other national studies (Hovey 1998, Boyd 2002, and Besendorf & Kottlikoff 2002) found that Colorado has a structural gap.