

A STATE OF CHANGE

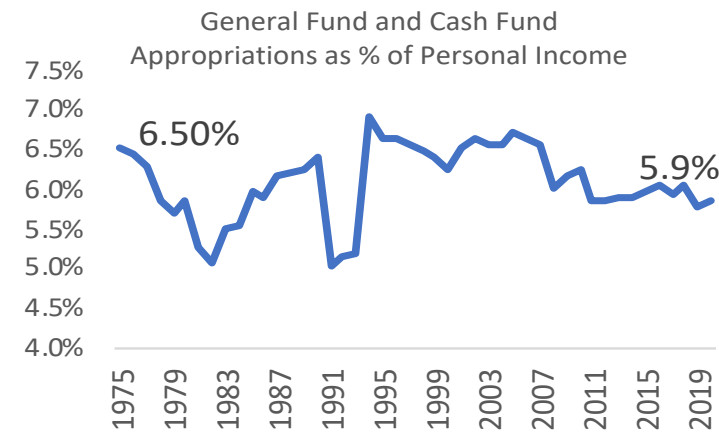
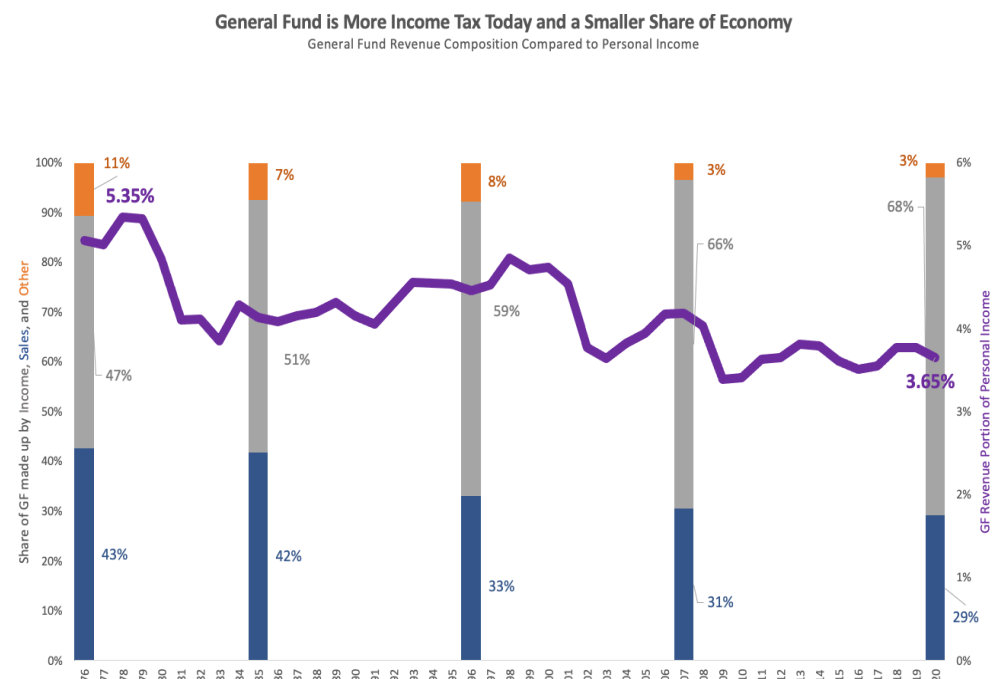
PART 5: TAXES, FEES, & PUBLIC INVESTMENTS

In the mid-1970s, much like today, Colorado was a relatively wealthy state.* But unlike today, back then Coloradans did a much better job of making investments that support a thriving economy. These included a significant contribution to the Eisenhower Tunnel, expansion of I-70 and I-25, and support for K-12 and higher education, along with Medicaid.

Total state spending, as a percent of the economy, has fallen significantly since the mid-'70s. This means Coloradans aren't investing as much of our income in our communities as we used to. In fiscal year 1976, state taxes equaled 5.35 percent of total personal income for the state. By the 2020 fiscal year, that amount equaled just 3.65 percent of total personal income. Over that 44-year period, the average was 4.35 percent. If general fund spending in the fiscal year that ended in 2020 matched the 44-year average, we would have had \$2.44 billion more to invest in the community services that support the communities we all want to live in (see purple line on below graph).

In addition to spending less relative to the size of the overall economy, Colorado is also collecting a different mix of taxes. Though income taxes made up less than half of the general fund in 1976, by the mid-1980s they had eclipsed 50 percent. By fiscal year 2005, income taxes were more than 60 percent of General Fund spending. In contrast, sales tax collections fell steadily during the same 44-year period from a high in 1984 of 46.6 percent, to a low of 29.2 percent in 2020. Other taxes also fell as a percentage of the total during the period, from 11 percent in the mid-'70s to just under 3 percent in FY 2020 (see bars on below graph).

Many factors contribute to these changing patterns of support for public investments: Tax rates have fallen since the '70s, with lawmakers adjusting state income tax rates downward four times and state sales tax rates falling once.



Source: CFI analysis of Colorado JBC data

The tax base for the sales tax has changed dramatically as well, reflecting rapid increases in internet sales—which were not taxable until 2019—and decades-long changes in consumer behavior that favored purchases of untaxed services over purchases of tangible goods.

Additionally, as state legislative and Congressional tax expenditures ballooned* (more than 70 percent of the 231 credits, exemptions and deductions on the books in 2021 were adopted after 1976) both income and sales tax bases have decreased.

One unexpected finding from this data is how much “other taxes” have fallen relative to income and sales taxes. “Other” taxes are primarily insurance premium taxes and estate taxes. Both of those sources have been eroded by policy changes. The insurance premiums tax policy, adopted early in statehood, has changed many times. The state estate tax was eliminated in 2004, resulting in a rapid decline in “Other tax” revenue in the proceeding years.†

As Colorado became more dependent on fees to fund public services, cash fund collections increased relative to funds from tax collections during this period. In the mid-70s, fees made up about 25 percent of state appropriations, a figure that rose to 43 percent by 2020. (For more on fees as a percentage of spending, see Part 3 of State of Change.)

Even with the increased reliance of fees to pay for services, total state appropriations (state taxes and fees) as a percentage of personal income have fallen (see above chart). Collections of combined tax and fee revenue has been volatile but in the 2020 fiscal year state taxes and fees were a smaller percentage of total income (5.86 percent) than in 1976 (6.5 percent). This compares to an average of 6.36 percent.

These trends over 45 years combined to yield smaller public investments and increased reliance on regressive fiscal policies. More fees, the elimination of the estate tax, and a single-rate income tax all result in more reliance on contributions by low- and moderate- income taxpayers, a disproportionate number of whom are Black and Brown. Going forward, policymakers and voters must consider ways to maximize the contribution of high-income Coloradans to support more adequate and equitable public investments.

COLORADO INVESTS A SMALLER PORTION OF OUR ECONOMY IN PUBLIC SERVICES THAN WE DID 45 YEARS AGO

*Bureau of Economic Analysis Data. Colorado's Personal Income per capita state rankings: 1970: 15th, 1980: 11th, 1990: 18th, 2000: 8th, 2019: 12th

*Colorado State Auditor, Tax Expenditure Evaluation Schedule.
†Joint Budget Committee Staff, Colorado General Assembly, Appropriations Reports.