



Tax Expenditures in Colorado's State Budget

Tax Expenditure Evaluation Interim Study Committee

July 23, 2019

Tax Expenditures Usually Reduce **GF Revenue**

Expenditures reducing **General Fund** revenue:

- **Sales and use tax** exemptions
- **Income tax** deductions (a.k.a. “subtractions”)
 - these may also reduce the **SEF diversion**
- **Income tax** credits
- **Cigarette, tobacco, and liquor excise tax** expenditures

Expenditures reducing **cash fund** revenue:

- **Severance tax** expenditures
- **Fuel excise tax** expenditures

...but budget impacts depend on the **TABOR situation**

Expenditures reducing **General Fund** revenue:

- reduce the amount available for the **General Fund budget** if state revenue is below the TABOR limit
- reduce the amount of the **TABOR surplus** if state revenue is above the TABOR limit

no budget impact if the TABOR surplus exceeds the amount of property tax exemption reimbursements

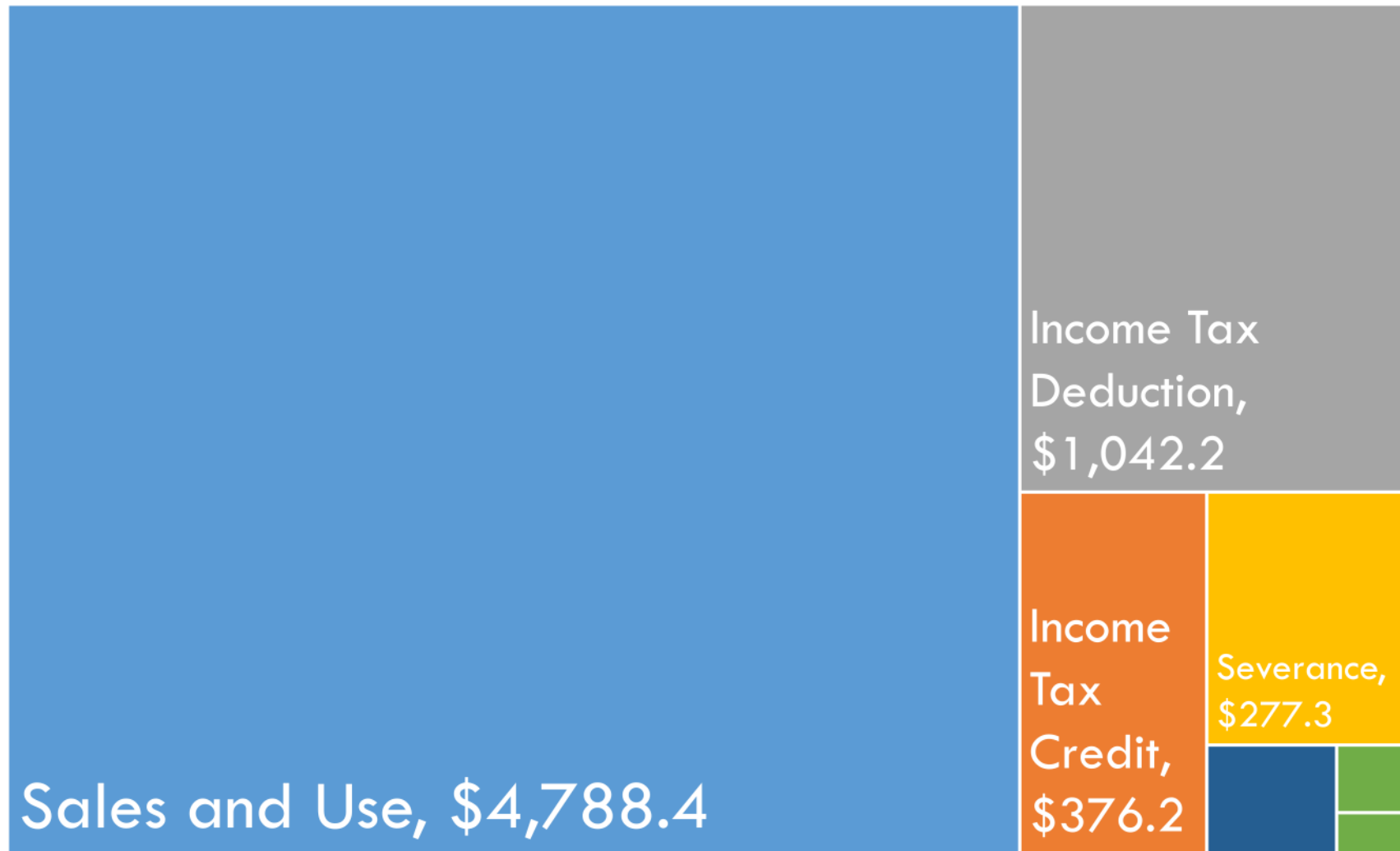
A new expenditure may not immediately cause a budget impact if enacted in a surplus year, but it will eventually do so if permanent

State revenue loss attributable to tax expenditures

- Unknown, because there are large expenditures on which no data are collected
- **DOR Tax Profile and Expenditure Report** is the best available resource
- 2018 TP&E estimates:
 - \$6.6 billion in foregone revenue (2016/2017)
 - this figure should be understood within the context of the statutory definition of a tax expenditure

Tax Expenditures by Tax Type (2016/2017)

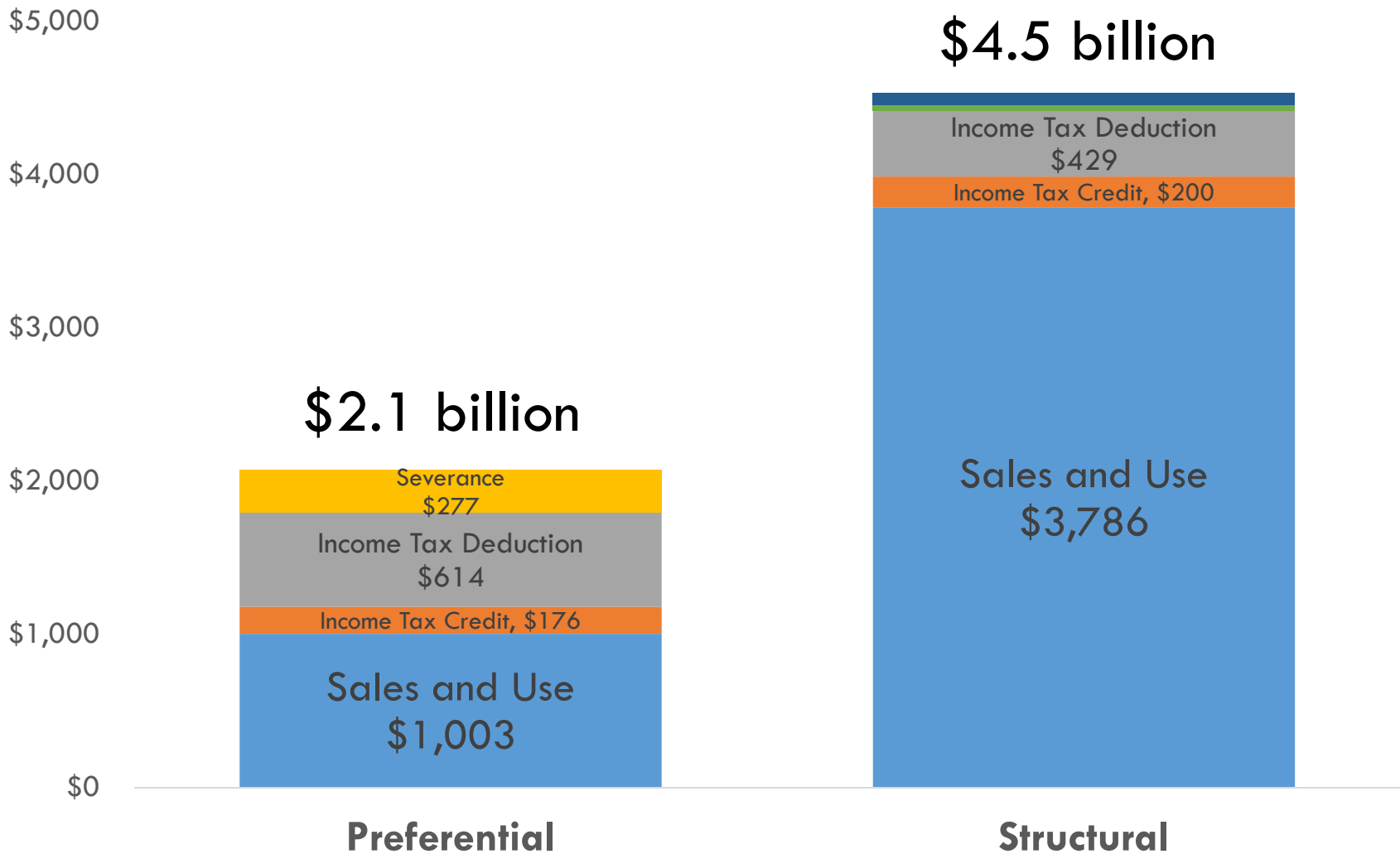
Nominal dollars in millions



Preferential* and Structural* Tax Expenditures (2016/2017)

Nominal dollars in millions

*As categorized by LCS for illustrative purposes only



Source: Department of Revenue 2018 Tax Profile and Expenditure Report and LCS calculations.

Largest **Structural** Tax Expenditures

- Wholesale Sales (\$3.1 billion)
- Net Operating Loss Deduction (\$348 million)
- Sales to Governments/Charities (\$300 million)
- Sales of Gasoline and Special Fuel (\$241 million)
- Credit for Tax Paid to Another State (\$198 million)
- Vendor Fee (\$101 million)
- Dyed diesel (\$75 million)

All other **structural** expenditures together worth
\$169 million

Largest **Preferential** Tax Expenditures

- Pension or Annuity Deduction (\$451 million)
- Food for Home Consumption (\$348 million)
- “Other” sales tax deductions* (\$290 million)
- Oil and gas ad valorem credit (\$272 million)
- Prescriptions and medical devices (\$216 million)
- Fuel for residential power (\$106 million)
- Earned income tax credit (\$75 million)
- Colorado 529 tuition deduction (\$60 million)

All other **preferential** expenditures together worth
\$251 million

Source: Department of Revenue 2018 Tax Profile and Expenditure Report and LCS calculations.

*Indicates an aggregation of structural and preferential expenditures not split out in the TP&E.

Questions?

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