



# Tax Expenditures in Colorado's State Budget

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Legislative Oversight Committee Concerning Tax Policy

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# 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 based on June 2021 LCS forecast

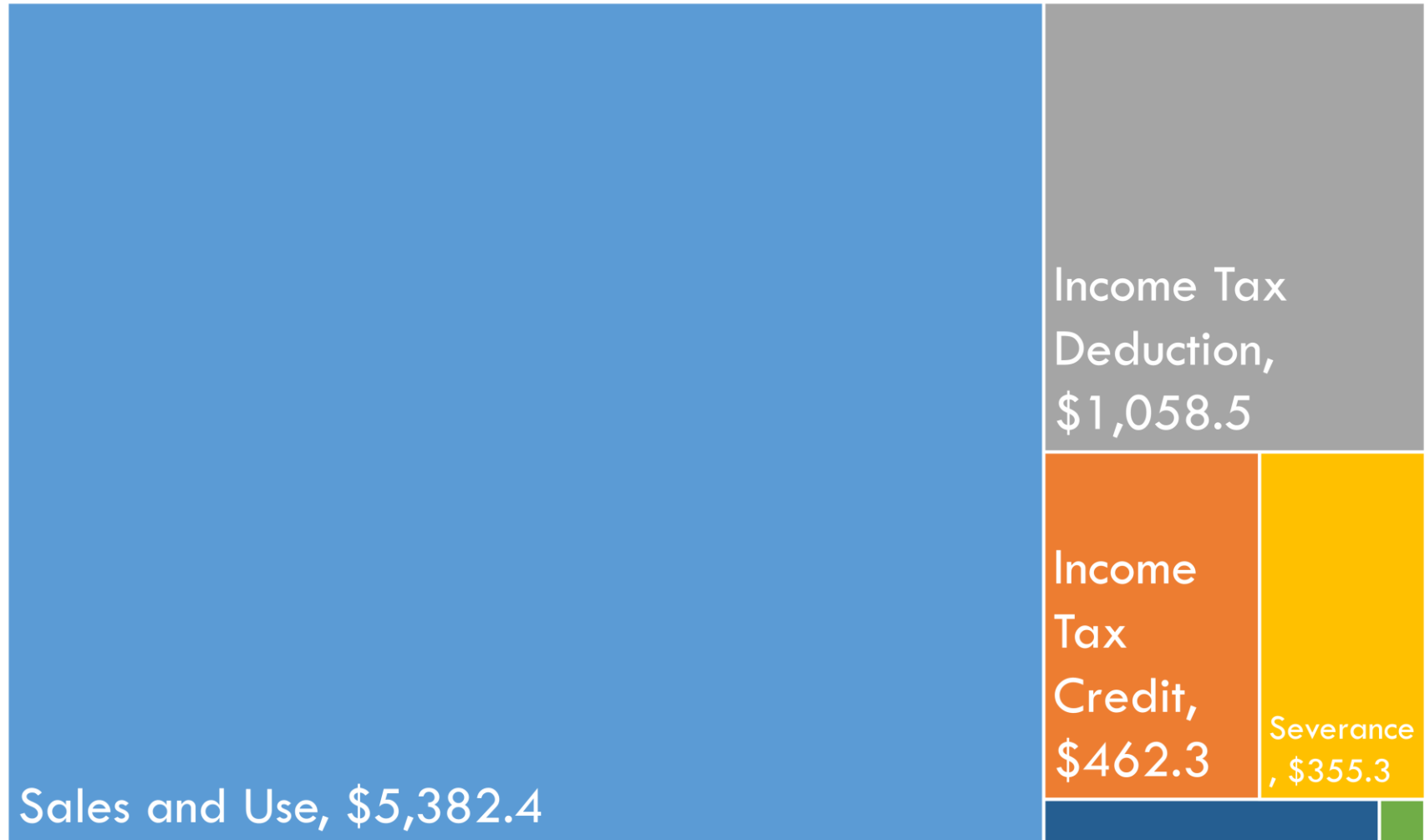
A new expenditure may not immediately cause a budget impact if enacted in a surplus year, but it will eventually do so if permanent

# State revenue loss attributable to tax expenditures

- Unknown, because there are large expenditures on which data are not available for reporting
- **DOR Tax Profile and Expenditure Report** is the best available resource
- 2020 TP&E estimates:
  - \$7.4 billion in foregone revenue (2018/2019)
  - this figure should be understood within the context of the statutory definition of a tax expenditure

# Tax Expenditures by Tax Type (2018/2019)

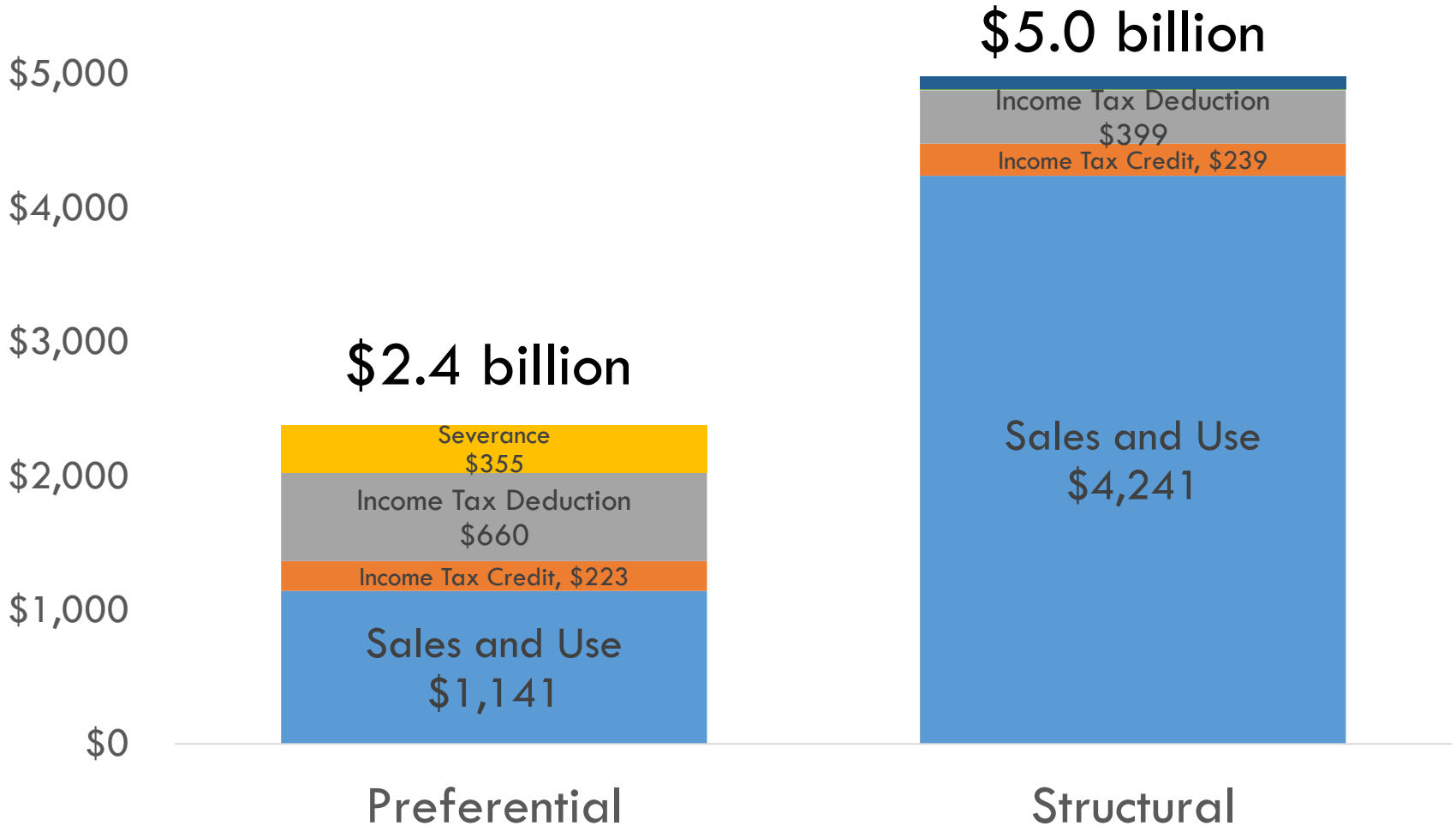
*Nominal dollars in millions*



# Preferential\* and Structural\* Tax Expenditures (2018/2019)

*Nominal dollars in millions*

\*As categorized by LCS for illustrative purposes only



# Largest **Structural** Tax Expenditures

- Wholesale Sales (\$3.2 billion)
- Sales to Governments/Charities (\$362 million)
- Sales of Gasoline and Special Fuel (\$313 million)
- Net Operating Loss Deduction (\$277 million)
- Credit for Tax Paid to Another State (\$232 million)
- Vendor Fee (\$108 million)

All other **structural** expenditures together worth **\$368 million**

# Largest **Preferential** Tax Expenditures

- Pension or Annuity Deduction (\$506 million)
- “Other” sales tax deductions\* (\$365 million)
- Oil and gas ad valorem credit (\$350 million)
- Food for home consumption (\$334 million)
- Prescriptions and medical devices (\$254 million)
- Fuel for residential power (\$107 million)
- “Other” sales tax exemptions\* (\$80 million)
- Colorado Earned Income Tax Credit (\$72 million)

All other **preferential** expenditures together worth  
**\$312 million**

Source: Department of Revenue 2020 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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