1954

0009 State Tax Structure: The Income Tax

Colorado Legislative Council

0009 State Tax Structure: The Income Tax

LEGISLATIVE COUNCIL

REPORT TO THE

COLORADO GENERAL ASSEMBLY

COLORADO TAX STRUCTURE

THE INCOME TAX

RESEARCH PUBLICATION NO. 9

1954

Colorado. Legislative Council

Research publication

52
Colo. 6

TABLE OF CONTENTS

TABLES

GRAPHS AND CHARTS

INTRODUCTION

Senate Joint Resolution No. 23, by Senator Dunklee, approved by the Thirty-ninth General Assembly at its First Regular Session, 1953, provided:

"WHEREAS, It has become very apparent that a study is necessary of the tax system and its structure in the State of Colorado; and

WHEREAS, There are some 287 ear-marked funds, most of which are statutory; and

WHEREAS, It is highly important to every individual within our State that the most efficient tax system be worked out for the benefit of all of our State, now therefore,

Be it resolved by the Senate of the Thirty-ninth General Assembly of the State of Colorado, the House of Representatives concurring herein:

That the Legislative Council, created by S. B. No. 18 which was adopted by this General Assembly, if said bill is approved by the Governor, is hereby directed to make, as one of its first and foremost assignments, a thorough investigation and study of the tax system and its structure in the State of Colorado, with special emphasis upon the feasibility of un-earmarking as many ear-marked funds as possible in view to accumulating this money in the General Fund so that the representatives of the people can distribute it equitably at the annual sessions. The Council shall report its findings and recommendations thereon to the Second Regular Session of the Thirty-ninth General Assembly."

\- - - - - -

Therefore, in compliance with the provisions of this resolution, the Legislative Council through its staff undertook an analysis of Colorado's several state taxes and the ear-marking of the revenue therefrom. The first phase of the study was presented in Research Publication No. 1, entitled <u>Colorado's Fund Structure</u>, and set forth the extent and nature of the earmarking of state revenues. Following the completion of this phase of the subject, the Council undertook to prepare analyses of the sources of the revenues, and it placed first emphasis upon the major sources of revenue to the General Fund and also the property tax.

The Council took particular note of the income tax for these reasons:

a. Each session of the Legislature brings greaterddemands for General Fund appropriations.

b. The income tax is the major single source of General Fund receipts.

c. At each session of the Legislature there are several major amendments to the income tax law proposed and debated, most of which affect the revenue from said tax.

Consequently, the Council felt that it was necessary to make as detailed and thorough going analysis of this tax as its resources permitted, and in this regard, the services of Dr. Earl Crockett, Professor of Economics, University of Colorado, were secured to make the study. Dr. Crockett has completed studies on this and other state tax problems from time to time during his twenty years in the field of government finance in Colorado, and he is recognized as one of Colorado's more informed authorities on state taxes.

The material presented herein is factual in its nature and does not make any recommendations with respect to any of the issues discussed. The purpose, as set forth in the authorizing resolution, is to provide the members of the General Assembly with a report on the investigation and study made on this element of the State's tax system.

THE COLORADO INCOME TAX

SECTION I -- SUMMARY

1. Colorado's income tax dates back to 1937. Previously, 31 states had enacted income tax measures. At first the Colorado tax was a meager revenue producer. However, during the time since 1937 (15 full years of tax collections) the revenue trend has been sharply upward. Reasons for increasing revenue include the following: (1) an ever-rising level of income going to the people of the state, (2) amendments to the law, especially in 1947, when rates were raised and exemptions lowered, and (3) improvement in tax administration. As a consequence, by 1953 net income tax collections ($18,156,000) represented over 60 per cent of general fund revenue.

2. As in most other states, the Colorado income tax applies to both individuals and corporations. In Colorado individuals pay about three-fourths and corporations one-fourth of the total tax. Exclusions from gross income, adjusted gross income and net taxable income correspond closely with the Federal law. This greatly simplifies the tax for both taxpayers and the Revenue Department.

3. Ten states in addition to Colorado, in the western half of the nation have income taxes. Colorado compared with these ten Pacific Coast, Rocky Mountain, and neighboring Plains states show the following:

a) Colorado's permanent tax rates on individual income (1% - 10%) are second highest (North Dakota being highest) among the 11 states.

b) Due to variations among the states relative to exemptions, the split-income and Federal income tax deductibility features, etc., a comparison of effective tax rates for various income levels is advisable.

c) For most income levels, effective tax rates in Colorado are either third or fourth highest among the 11 states of the West. In the low income brackets Oregon, Utah and Idaho have higher rates, while in the upper brackets of income California, North Dakota and Oregon tend to have higher effective rates than Colorado. States with lowest effective rates (all levels of income) are New Mexico, Kansas, Montana, Arizona and Oklahoma.

d) States with generally heavier corporation income taxes than Colorado are Idaho, North Dakota, and Oregon. Those with lower rates than Colorado's permanent rate of 5 per cent are California, Kansas, Montana, New Mexico, Oklahoma and Utah.

e) Seventeen per cent of Colorado's state revenue comes from the income tax. This is slightly above the average of the 11 states, the range being 5 per cent (New Mexico - the lowest) and 47 per cent (Oregon - the highest state).

4. During the last 15 years the impact of the Colorado income tax, particularly as it affects individuals, has been greatly broadened. In 1939, only 4 per cent of the people paid an income tax. However, by 1953 the number had increased to 25 per cent. Thus the tax has changed from a levy on the wealthy to a levy on a majority of householders.

5. Since Colorado passed her income tax law in 1937 Federal income tax rates have sharply risen. Consequently, the impact of the income method of taxation has become much heavier than formerly if both State and Federal taxes are considered together. For example, the average per capita income tax paid in Colorado (Federal and State) in 1939 was $7.08. Eleven years later by 1950, the average per capita tax had risen to $129.24. Since 1950 the average has probably declined slightly although final figures are not yet available.

6. With the broadening scope of the Colorado tax, accompanied by population growth and a rise of individual incomes, the number of tax returns

filed with the Department of Revenue has sharply increased. In 1939, only 65,000 (taxable and non-taxable returns) were filed. By 1953 the total had grown to 434,000. This increase has significantly added to the administrative load in the Revenue Department.

7. Since 1942, when the Department of Revenue assumed responsibility for income tax administration, cost of collection of the tax has averaged 2.77 per cent of total tax revenue. The percentage has remained fairly constant from year to year.

8. This study includes a report on several special income tax issues. They include the following:

a) A 2 per cent surtax on income from intangibles was imposed in the original law of 1937. It was considered a replacement tax for the old ad valorem levy on intangible property which had been repealed the same year, 1937. Since then intangible income exemptions have been introduced and currently are $600 per taxpayer. As a result of these exemptions few people now pay a surtax on intangible income (only 17,879 individuals in 1952). Surtax revenue amounts to approximately $1,000,000 annually. As changes in the law have largely nullified the surtax effects originally desired, there is less justification than previously, for continuing this special levy on intangible income. Perhaps the General Assembly might well re-examine this surtax issue.

b) The proper amount permitted for personal exemptions is almost continuously an issue in Colorado, as well as elsewhere. Several times in the past, following changes in the Federal law, exemptions in Colorado have been reduced. Now there is some consideration being given to raising exemptions, perhaps $100 per taxpayer, spouse and dependent. If this were done an estimated loss of about $900,000 revenue annually would result. Most of the benefits of the tax reduction would go to the smaller income receivers.

c) Another proposal receiving some consideration is to amend the Colorado income tax so as to permit the split-income method of tax calculation for a married couple. At present the Federal government permits this method of calculation. If Colorado were to adopt the split-income method an estimated reduction of $2,700,000 of income tax revenue would occur. Most of the benefits from this reduction would go to taxpayers in the higher income brackets.

d) Another issue relating to the income tax is the gross income tax proposal. A gross income tax could either supplement or replace the current Colorado net income tax. It is now being utilized in several states and numerous cities (largely in Pennsylvania and Ohio). When applied to business, the gross income tax is considered a multiple sales tax. When applied to individuals, all income is included without deductions or exemptions. The tax produces a great deal of revenue.

e) In 1953, the Colorado General Assembly amended the income tax law, by introducing a special levy on gross income from the production of crude oil and natural gas. As this special levy is actually a severance tax rather than a net income tax, it will be discussed in a separate report.

f) In 1954, the Colorado General Assembly provided for a tax-withholding plan for collecting the income tax on wages and salaries. The new system was introduced July 1, 1954. The Federal Government, five other states and various cities are now utilizing this method of tax collection. The Colorado law requires the withholding of an amount equal to 4 per cent of that withheld for the Federal income tax.

g) Another issue regarding the Colorado income tax is whether or not it would be desirable to discontinue permitting deduction from adjusted gross income of the Federal income tax paid by a taxpayer. About one-half of the income tax states of the nation do not permit such deduction. Should Colorado make this change in her law, estimated additional annual revenue of about $9\frac{1}{2}$ million would be forthcoming. Most of this additional revenue would come from individuals in the middle and upper brackets of income. Thus, effective tax rates would become more progressive than at present (now they are regressive on the higher incomes). However, due to the fact that the Federal government permits deduction of the state income tax from adjusted gross income for Federal tax purposes, the larger income taxpayers would contribute additional revenue to Colorado with "12 or 15 cent" dollars.

SECTION II -- HISTORICAL DEVELOPMENT

A. Historical Summary -- United States

In the United States the net income tax, as a regular and important revenue measure, is a Twentieth Century development. The tax had been tested and proven by various foreign countries, notably England, long before it gained a foothold here. In our country the real beginning was the introduction of an income tax in Wisconsin in 1911 and by the national government in 1913. Both measures taxed corporations as well as individuals.

The modern development of the income tax at the state level is shown in Table 1.

TABLE I

STATES WITH INCOME TAXES SHOWING DATES WHEN LAWS WERE ENACTED

State		Income Tax Enacted	State		Income Tax Enacted
1.	Wisconsin	1911	19.	Utah	1931
2.	Mississippi	1912	20.	Vermont	1931
3.	Connecticut(1)	1915	21.	Alabama	1933
4.	Montana	1917	22.	Arizona	1933
5.	Massachusetts	1917	23.	Kansas	1933
6.	Missouri	1917	24.	Minnesota	1933
7.	New York	1917	25.	New Mexico	1933
8.	North Dakota	1919	26.	Iowa	1934
9.	Delaware(2)	1921	27.	Louisiana	1934
10.	North Carolina	1921	28.	California	1935
11.	New Hampshire(2)	1923	29.	Oklahoma	1935
12.	South Carolina	1926	30.	Pennsylvania(1)	1935
13.	Virginia	1926	31.	Kentucky	1936
14.	Arkansas	1929	32.	Colorado	1937
15.	Oregon	1929	33.	Maryland	1937
16.	Georgia	1931	34.	District of Columbia	1939
17.	Idaho	1931	35.	Rhode Island(1)	1947
18.	Tennessee	1931			

(1) Corporation income tax only
(2) Personal income tax only

Source: Tax Systems, 11th Edition, Commerce Clearing House. Also State Tax Guide, 1954, Commerce Clearing House.

It may be seen that there was a rather continuous but slow increase in the number of states, until the onset of the depression of the thirties, when the movement gained rapid momentum. However, the development almost came to an end by 1939 as only one state, Rhode Island, has been added to the list since that time. This stoppage or check to the further development of state income taxation was primarily due to rising prosperity of the war years and since, and to the near-preemption of the field by the national government beginning with drastic changes in exemptions (downward), and rates (upward) in 1941.

Currently, 30 states have both a corporation and personal income tax, three states have a corporation income tax only, while two states apply the tax only to persons. In addition to the 35 income tax states indicated in the table, at least four other states in the past have enacted measures which were either invalidated for constitutional reasons, or else were repealed. These states were Illinois and Washington (laws, unconstitutional) and South Dakota and West Virginia (laws, repealed).

B. Historical Development -- Colorado

After enactment of the Wisconsin income tax law of 1911, the Colorado Tax Commission officially recommended a similar revenue measure for this state. The first recommendation came in 1912 and was repeated almost biennially over a period of 20 years. The Tax Commission's interest in an income tax was largely a desire for reform of the property tax which had proven very inadequate relative to intangible property.

In 1922, the Colorado State Tax Revision Committee was formed to sponsor an income tax amendment to the constitution. This committee was backed by farmers who wished property tax relief as well as by others who were generally interested in making the state tax system more equitable. A proposal was initiated and presented to the people of the state but was defeated in the November election of 1922.

During Governor William E. Sweet's administration in 1923 and 1924 efforts were made under his leadership to obtain an income tax but to no avail. Economic recovery was under way and the state was again receiving property tax revenue sufficient to match its expenditures without very much difficulty. Consequently, for a few years tax reform was largely forgotten.

In 1932, two initiated income tax amendments were submitted to the people of the state and both voted down. Although, due to the great depression, the state was having considerable financial difficulty, there was effective organized opposition to the adoption of an income tax. Another measure was submitted to the people by the General Assembly in 1933 and again voted down, however, this time by a narrow margin.

Some legal authorities expressed the opinion that Colorado could legally establish a graduated income tax even though the constitution was not amended. There was precedent for such a decision in a number of states whose constitutions contained uniformity clauses similar to the constitutional limitation in Colorado.

Such legal opinion, together with past failures in amending the constitution, induced the legislature of 1935 to pass a graduated income tax bill. The bill allocated the proceeds of the tax to the support of public schools and required a corresponding reduction in the property tax for the support of these schools. However, Governor Edwin C. Johnson vetoed the bill, stating that in his opinion the measure was unconstitutional. The House failed by two votes to over-ride the Governor's veto.

Apparently nothing was left to do except to make another attempt at amending the constitution. Accordingly, the same legislature submitted an amendment to the constitution which, if adopted by the people, would clearly remove any constitutional question as to the power of the legislature to pass a graduated income tax law. The measure was approved in the House by a unanimous vote. In the Senate only three votes were recorded against the amendment.

This amendment appeared on the election ballot of November 1936 as Amendment No. 2. During the summer and fall preceding election, considerable debate occurred throughout the state -- in the press, over the radio and in public forums -- relative to the issue. Organized groups supporting the income tax amendment included the State Federation for the Graduated Income Tax Amendment, the Colorado Education Association, Colorado State Grange, Colorado Farmers' Union, Colorado Farm Bureau, Denver Central Committee of the American Federation of Labor, and Colorado Congress of Parent Teachers Association. Also several newspapers, including the Rocky Mountain News, endorsed the proposal.

Most frequent arguments presented in favor of the amendment were: (1) Thirty-two other states already had successful income taxes, (2) a graduated income tax is in accordance with tax-paying ability of the people, (3) the amendment would make it possible for the state to contribute tax revenues to local units of government including schools, (4) instead of hopelessly trying to tax intangibles as property, the legislature could tax the income derived from these intangibles, and (5) the income tax would relieve the tax burden upon owners of real estate including homes and farms.

Principal arguments against the amendment were: (1) an income tax would drive industry out of the state, and (2) people of Denver would be required to pay most of the state tax, whereas, principal benefits from the tax would be received by schools in other parts of the state.

In the election the amendment passed by a vote of 167,268 to 159,143 --

a majority of 8,125 votes.

The amendment added a new section to Article X of the Constitution as follows:

> "Section 17. Income Tax. The General Assembly may levy income taxes, either graduated or proportional or both graduated and proportional for the support of the State, or any political subdivision thereof, or for public schools, and may, in the administration of an income tax law, provide for special classification or limited taxation or the exemption of tangible and intangible personal property."

Finally, after years of struggle, uncertainty and defeat, the legislature had clear authority to enact a graduated income tax. Accordingly, a measure was introduced in the Thirty-first General Assembly, January, 1937.

After heated debate, especially in the Senate, and after considerable compromise, the bill was finally passed and signed by Governor Ammons June 3, 1937 to become effective the first of July of the same year.

C. Provisions of the Law of 1937

Briefly, the law of 1937 levied a tax on the individual net incomes of all residents, and of non-residents if derived from sources within the state, from corporations and from fiduciaries.

A single person was allowed an exemption of $1,000 and a married person or the head of a family, $2,500. For each dependent, other than husband or wife, a further exemption of $400 was allowed.

Tax rates upon net income of individuals after exemptions were applied as follows:

Net Income	Per Cent
Under $2,000	1
$2,000 and under $4,000	2
$4,000 and under $6,000	3
$6,000 and under $8,000	4
$8,000 and under $10,000	5
All over $10,000	6

In addition, without exemptions, a surtax of 2 per cent was imposed upon the income received by individuals from intangible property. This surtax was in lieu of all property tax levies upon intangibles which previously had legally been included under the property tax.

Corporations were required to pay 4 per cent on their entire net income and banks, trust companies, financing and loan associations 6 per cent. Various non-profit organizations were made exempt under the law.

Income tax revenue was earmarked in a special fund for the support of public schools of the state. The revenue was to be distributed as a replacement for local property tax levies.

Fiduciaries. The Colorado law, in accordance with usual practice among the states, required fiduciaries to file income tax returns and to pay an income tax whenever there was tax liability. A fiduciary, for income tax purposes, is a person who holds in trust an estate to which another has a beneficial title or interest, or who received and controls income of another, such as trustees, executors, and administrators. The exemptions and rates correspond to those contained in the personal income tax and statistically the revenue collected should be included as personal income tax receipts.

Tax collections from fiduciaries have never represented more than a small fraction of total receipts. However, the provision for taxing fiduciaries is important -- otherwise this trust device could provide an important means of income tax avoidance.

D. Amendments to the Income Tax Law of 1937

Significant amendments may be summarized as follows:

1939 - 65 per cent of the income tax revenue was diverted from the school fund to the state's general fund.

1943 - $200 income exemption was permitted for the 2 per cent surtax on income from intangibles.

1947 - Earmarking was completely abandoned, the general fund being given all revenue.

1947 - Personal income tax exemptions (normal tax) were made $750 each for the taxpayer, his spouse and each dependent.

Rates were increased as shown below. The table compares the new rates with those in the original law of 1937.

PERSONAL INCOME TAX

Net Income	1947 (Per Cent)	1937 (Per Cent)
Under $ 1,000	1	1
$ 1,000 to $ 1,999	1½	1
2,000 to 2,999	2	2
3,000 to 3,999	2½	2
4,000 to 4,999	3	3
5,000 to 5,999	4	3
6,000 to 6,999	5	4
7,000 to 7,999	6	4
8,000 to 8,999	7	5
9,000 to 9,999	8	5
10,000 to 10,999	9	6
All over 11,000	10	6

SURTAX ON INCOME FROM INTANGIBLES

Exemption		Tax Rate (Per Cent)	
1937	1947	1937	1947
None	$200	2	2

CORPORATION INCOME TAX

	Tax Rate (Per Cent)	
....	1937	1947
General Corporations..................	4	5
Financial Corporations................	6	6

1950 - Income tax rates, on a temporary basis, were reduced 20 per cent for all taxpayers -- individual and corporate. This temporary reduction of 20 per cent has periodically been reenacted and currently (1954) is still in effect.

1951 - $600 exemption was permitted for income from intangibles (2 per cent surtax). $600 also was made the standard exemption for each taxpayer, spouse and dependent for the normal tax.

1954 - A payroll withholding tax plan was introduced to become effective July 1, 1954. This amendment is discussed elsewhere in this report.

currontly (1954) is still in effect.

1951 - $600 exemption was permitted for income from intangibles (2 per cent surtax). $600 also was made the standard exemption for each taxpayer, spouse and dependent for the normal tax.

1954 - A payroll withholding tax plan was introduced to become effective July 1, 1954. This amendment is discussed elsewhere in this report.

SECTION III -- THE PERSONAL INCOME TAX

Need for Analyzing Taxes Separately. As in most other jurisdictions of this country, Colorado's income tax law is a combination personal and corporation income tax. Therefore, the two taxes (personal and corporate) are often considered together when reporting tax yields, when discussing administrative problems, etc. However, it may be beneficial when analyzing the income tax to make a separation between the two. By considering the personal (individual) and the corporation income taxes separately, one may learn whether or not one tax is being unduly stressed as compared with the other (judged by rates, exemptions, tax collections, etc.) Also it is easier to make comparisons among the several states.

A. Qualitative Analysis of Personal Income Tax

A brief descriptive outline of Colorado's personal income tax, as indicated by legislation, administrative rulings and court decisions, follows. Also from time to time comparisons will be indicated relative to the Federal government and to other states.

Gross Income. Gross income for Colorado personal income tax purposes corresponds to the gross income definition for corporations. It is an all-inclusive concept comprising all income from whatever source derived unless specifically excluded by law.

Exclusions From Gross Income. 1. Income, such as interest on Federal bonds, which may not be taxed because of the Federal Constitution;

2. Life insurance benefits by reason of the death of the insured;

3. Return of premiums under life insurance, endowment or annuity contracts, except that at least 3 per cent of the cost of annuities is taxable annually, if received;

4. Gifts, bequests and inheritances;

5. Benefits from accident, health or workmen's compensation insurance;

6. Stock dividends;

7. Rental value of a parsonage or rectory;

8. Until termination of the state of war, $2,000 per year of compensation received for service in armed forces, mustering-out payments and payments to dependents;

9. Refunds from cooperatives on living expenses.

Business Deductions From Gross Income to Obtain Adjusted Gross Income.

1. Trade or business expenses of others than employees;

2. Travel and lodging expenses in connection with employment;

3. Reimbursed expenses in connection with employment;

4. Deductions regularly allowable on property for the production of rents or royalties;

5. Commutation expenses;

6. 50 per cent of gains from capital assets held over six months;

7. Gambling losses, to the extent of gambling gains.

Personal Deductions From Adjusted Gross Income. Resident individuals on a full calendar year basis with adjusted gross income of $5,000 or less may compute their normal tax in accordance with a tax table prescribed by the Department of Revenue. This table (see Table 2) reflects standard personal deductions (10 per cent of adjusted gross income) plus an amount for Federal income taxes paid.

Individuals with adjusted gross income above $5,000 may also use a standardized deduction amounting to 10 per cent of adjusted gross income or $1,000, whichever is the lesser, plus an amount equal to their Federal Income Tax.

If instead of using the tax table or the standardized deduction method,

TABLE 2

TAX TABLE FOR ADJUSTED GROSS INCOME OF $5000 OR LESS (1953)

TAX TABLE Read down the columns below until you find the line covering the total income you entered as item 7, Page 1. Then read across to the column headed by the number corresponding to the number of exemptions claimed in item 1, Page 1. Enter the tax you find there as item 8, Page 1.

These amounts in italics are the Federal Income Tax deducted in computing the Colorado Tax and are for use only if husband and wife filed joint returns with the United States and are filing separate returns with Colorado

If Total Income in Item 7, Page 1, is—		See General Instruction 6	And the number of exemptions claimed in item 1, Page 1, is—			
At least	But less than		1	2	3	4
			Your normal tax is—			
$ 0	$ 700		.00	0	0	0
700	750	*($12)*	.30	0	0	0
750	800	*(22)*	.60	0	0	0
800	850	*(32)*	.90	0	0	0
850	900	*(42)*	1.20	0	0	0
900	950	*(52)*	1.40	0	0	0
950	1,000	*(62)*	1.70	0	0	0
1,000	1,050	*(72)*	2.00	0	0	0
1,050	1,100	*(82)*	2.30	0	0	0
1,100	1,150	*(92)*	2.60	0	0	0
1,150	1,200	*(102)*	2.80	0	0	0
1,200	1,250	*(112)*	3.10	0	0	0
1,250	1,300	*(122)*	3.40	0	0	0
1,300	1,350	*(132)*	3.70	.00	0	0
1,350	1,400	*(142)*	4.00	.20	0	0
1,400	1,450	*(152)*	4.20	.50	0	0
1,450	1,500	*(162)*	4.50	.80	0	0
1,500	1,550	*(172)*	4.80	1.10	0	0
1,550	1,600	*(182)*	5.10	1.30	0	0
1,600	1,650	*(192)*	5.40	1.60	0	0
1,650	1,700	*(202)*	5.60	1.90	0	0
1,700	1,750	*(212)*	5.90	2.20	0	0
1,750	1,800	*(222)*	6.20	2.50	0	0
1,800	1,850	*(232)*	6.50	2.70	0	0
1,850	1,900	*(242)*	6.80	3.00	0	0
1,900	1,950	*(252)*	7.00	3.30	0	0
1,950	2,000	*(262)*	7.30	3.60	.00	0
2,000	2,050	*(272)*	7.60	3.90	.10	0
2,050	2,100	*(282)*	7.90	4.10	.40	0
2,100	2,150	*(292)*	8.20	4.40	.70	0
2,150	2,200	*(302)*	8.70	4.70	1.00	0
2,200	2,250	*(312)*	9.10	5.00	1.30	0
2,250	2,300	*(322)*	9.50	5.30	1.50	0
2,300	2,350	*(332)*	9.90	5.50	1.80	0
2,350	2,400	*(342)*	10.30	5.80	2.10	0
2,400	2,450	*(352)*	10.80	6.10	2.40	0
2,450	2,500	*(362)*	11.20	6.40	2.70	0
2,500	2,550	*(372)*	11.60	6.70	2.90	0
2,550	2,600	*(382)*	12.00	6.90	3.20	0
2,600	2,650	*(392)*	12.40	7.20	3.50	0
2,650	2,700	*(402)*	12.90	7.50	3.80	.00
2,700	2,750	*(412)*	13.30	7.80	4.10	.30
2,750	2,800	*(422)*	13.70	8.10	4.30	.60
2,800	2,850	*(432)*	14.10	8.50	4.60	.90

If Total Income in Item 7, Page 1, is—		See General Instruction 6	And the number of exemptions claimed in item 1, Page 1, is—						
At least	But less than		1	2	3	4	5	6	7
			Your normal tax is—						
$2,850	$2,900	*($442)*	14.50	8.90	4.90	1.20	0	0	0
2,900	2,950	*(452)*	15.00	9.40	5.20	1.40	0	0	0
2,950	3,000	*(463)*	15.40	9.80	5.50	1.70	0	0	0
3,000	3,050	*(474)*	15.80	10.20	5.70	2.00	0	0	0
3,050	3,100	*(485)*	16.20	10.60	6.00	2.30	0	0	0
3,100	3,150	*(496)*	16.60	11.10	6.30	2.60	0	0	0
3,150	3,200	*(507)*	17.00	11.50	6.60	2.80	0	0	0
3,200	3,250	*(518)*	17.40	11.90	6.90	3.10	0	0	0
3,250	3,300	*(529)*	17.80	12.30	7.10	3.40	0	0	0
3,300	3,350	*(541)*	18.20	12.70	7.40	3.70	.00	0	0
3,350	3,400	*(552)*	18.60	13.20	7.70	4.00	.20	0	0
3,400	3,450	*(563)*	19.00	13.60	8.00	4.20	.50	0	0
3,450	3,500	*(574)*	19.40	14.00	8.40	4.50	.80	0	0
3,500	3,550	*(585)*	19.90	14.40	8.80	4.80	1.10	0	0
3,550	3,600	*(596)*	20.30	14.80	9.20	5.10	1.40	0	0
3,600	3,650	*(607)*	20.90	15.30	9.70	5.40	1.60	0	0
3,650	3,700	*(618)*	21.40	15.70	10.10	5.70	1.90	0	0
3,700	3,750	*(629)*	22.00	16.10	10.50	5.90	2.20	0	0
3,750	3,800	*(640)*	22.50	16.50	10.90	6.20	2.50	0	0
3,800	3,850	*(651)*	23.10	16.90	11.30	6.50	2.80	0	0
3,850	3,900	*(662)*	23.60	17.40	11.70	6.80	3.00	0	0
3,900	3,950	*(673)*	24.10	17.80	12.20	7.10	3.30	0	0
3,950	4,000	*(684)*	24.70	18.20	12.60	7.30	3.60	.00	0
4,000	4,050	*(696)*	25.20	18.60	13.00	7.60	3.90	.10	0
4,050	4,100	*(707)*	25.80	19.00	13.40	7.90	4.20	.40	0
4,100	4,150	*(718)*	26.30	19.50	13.90	8.30	4.40	.70	0
4,150	4,200	*(729)*	26.90	19.90	14.30	8.70	4.70	1.00	0
4,200	4,250	*(740)*	27.40	20.40	14.70	9.10	5.00	1.30	0
4,250	4,300	*(751)*	27.90	20.90	15.10	9.50	5.30	1.50	0
4,300	4,350	*(762)*	28.50	21.50	15.50	9.90	5.60	1.80	0
4,350	4,400	*(773)*	29.00	22.10	15.90	10.40	5.80	2.10	0
4,400	4,450	*(784)*	29.60	22.60	16.40	10.80	6.10	2.40	0
4,450	4,500	*(795)*	30.10	23.20	16.80	11.20	6.40	2.70	0
4,500	4,550	*(806)*	30.70	23.70	17.20	11.60	6.70	2.90	0
4,550	4,600	*(817)*	31.20	24.30	17.60	12.00	7.00	3.20	0
4,600	4,650	*(828)*	31.70	24.90	18.10	12.50	7.20	3.50	0
4,650	4,700	*(839)*	32.30	25.40	18.50	12.90	7.50	3.80	.00
4,700	4,750	*(851)*	32.80	26.00	18.90	13.30	7.80	4.10	.30
4,750	4,800	*(862)*	33.40	26.50	19.30	13.70	8.10	4.30	.60
4,800	4,850	*(873)*	33.90	27.10	19.70	14.10	8.50	4.60	.90
4,850	4,900	*(884)*	34.50	27.70	20.20	14.60	9.00	4.90	1.20
4,900	4,950	*(895)*	35.00	28.20	20.80	15.00	9.40	5.20	1.40
4,950	5,000	*(906)*	35.50	28.80	21.30	15.40	9.80	5.50	1.70

personal deductions are itemized, the following are permitted in the law:

(1) Interest paid, but not that already deducted under business expenses;

(2) Contributions, not exceeding 15 per cent of net income, made for religious, charitable, scientific, literary or educational purposes, or for the prevention of cruelty to children or animals;

(3) Taxes, except the following: state income taxes, taxes on inheritance, estates and gifts, Federal excise, liquor and tobacco taxes, special assessments and water rent;

(4) Losses arising from fire, storm, shipwreck, or other casualty, or for theft and if not compensated for by insurance or otherwise;

(5) Bad debt losses;

(6) Medical and dental expenses in excess of 5 per cent of adjusted gross income, but not exceeding $1,250 for individuals claiming a single exemption. Additional maximums are set for those with more than one exemption depending upon the number of exemptions, however, not to exceed $5,000 for one taxpayer.

(7) Traveling expenses to and from the place of employment up to $75 for entire year (standard fixed amount), or if more than $75, as shown by a carefully prepared itemized expense account.

Similarity to Federal and Other State Income Tax Laws. The definition of gross income, the specific exclusions from gross income, and the business and personal deductions from gross income to obtain net income as outlined above, are provisions very similar to those in the Federal and other state income tax laws. One notable exception may be mentioned. It is not customary to permit a personal deduction for the expense of travel to and from one's regular place of employment. This provision was first permitted in Colorado through an amendment passed by the General Assembly in 1949.

B. Colorado Compared with Other States in the Region

For various comparative purposes, including this income tax analysis, it is helpful to compare Colorado with the states in the western half of the nation. The 97° Meridian is the approximate dividing line separating East from West. On this basis the West includes not only the traditionally regarded 11 western states, but also the tier of states extending from North Dakota to Texas. It is advantageous to include these neighboring plains states in any Colorado study, as many of the geographic and economic features are similar. In other words, Colorado is a state of the plains as well as of the mountains.

By following this regional arrangement we see that the states of the West are the ones listed in Table 3 (also shown on accompanying map). Among these 17 states, 11 have income taxes, all of which apply the tax to both individuals and corporations. Consequently, in our comparative analysis, we shall include these 11 states with income taxes.

TABLE 3

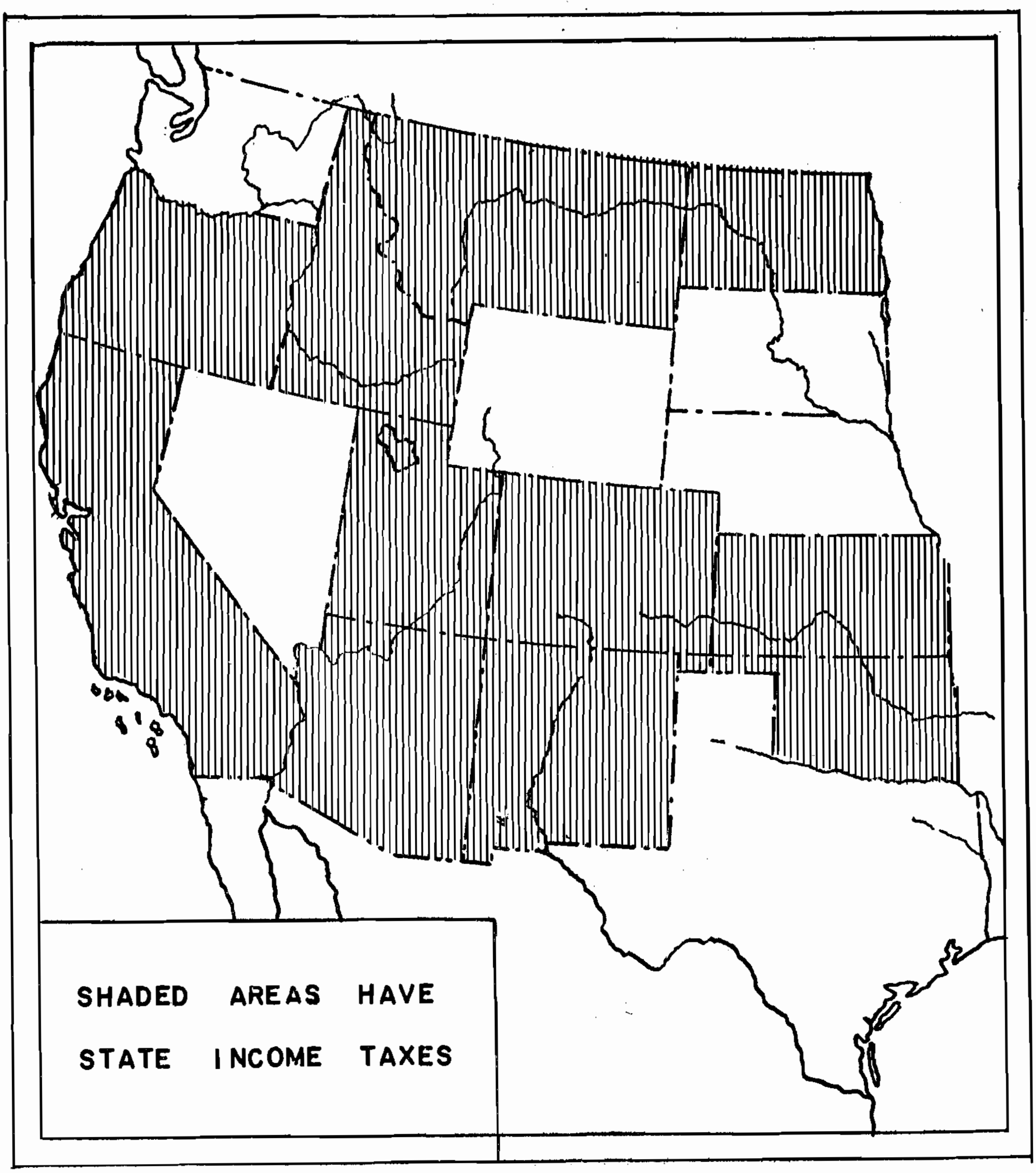
STATES IN THE WEST SHOWING THOSE WITH INCOME TAXES

State	Income Tax	State	Income Tax
Arizona	Yes	North Dakota	Yes
California	Yes	Oklahoma	Yes
Colorado	Yes	Oregon	Yes
Idaho	Yes	South Dakota	No
Kansas	Yes	Texas	No
Montana	Yes	Utah	Yes
Nebraska	No	Washington	No
Nevada	No	Wyoming	No
New Mexico	Yes		

Source: State Tax Guide, 1954, Commerce Clearing House

FIGURE I

STATES WEST, OR LARGELY WEST, OF THE 97° MERIDIAN SHOWING THOSE WITH INCOME TAXES



Personal Exemptions. The personal exemptions permitted in the income tax of Colorado and of the other western states are shown in Table 4.

TABLE 4

PERSONAL EXEMPTIONS PERMITTED IN COLORADO AND IN THE OTHER TEN INCOME TAX STATES OF THE WEST, 1954.

State	Single Individual	Married Couple	Each Dependent	Additional for Blind	Taxpayer or Spouse Over 65 Years
COLORADO	$ 600	$1200	$600	$600	$600
Arizona	1000	2000	600	500	---
California	2000	3500	400	500	---
Idaho	700	1500	200	---	---
Kansas	600	1200	600	---	600
Montana	1000	2000	300	---	---
New Mexico	1500	2500	200	---	---
North Dakota	600	1500	600	---	600
Oklahoma	1000	2000	500	---	---
Oregon	600	1200	600	600	---
Utah	600	1200	600	---	---

Source: State Tax Guide, 1954, Commerce Clearing House.

Colorado's $600 exemption per taxpayer, spouse, or dependent is the same as that in four of the 11 states being compared. Deviations from this, the most common pattern, are generally in the form of permitting higher exemptions for the taxpayer and spouse (California, the extreme, permitting $2,000 for a single person and $3,500 for married couple) and somewhat lower for dependents (New Mexico, permitting only $200 per dependent). Colorado is the most liberal state among the 11 relative to the blind and to those over 65 years of age, $600 additional exemption is permitted in each case. Colorado is the only state in the West permitting exactly the same exemption arrangements as those in the Federal law. (1953).

Net Taxable Income. After deducting personal exemptions from net income, the remainder is net taxable income. This latter is the base for applying tax rates.

Personal Income Tax Rates. Table 5 shows a summary of tax rates for all states with personal income taxes. Minimum and maximum rates are indicated as well as the levels of income at which the maximum rates are applied. In some states the quoted rates have been modified through amendments as indicated at the bottom of the table. Moreover, six states with community property laws and Oregon through special provision, permit a split-income calculation of the tax. This arrangement keeps the effective tax rate (after a certain level of income is reached) lower than otherwise would be the case. (Note Tables 7 and 8 which indicate effective tax rates.) Also a modifying factor of great significance is whether or not a state permits deduction of the federal income tax from the state tax base. Those states which do permit such deduction have taxes whose effective rates are greatly reduced in the middle and upper brackets of income. Seventeen of the personal income tax states permit such deduction: Alabama, Arizona, Colorado, Georgia, Idaho, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Missouri, Montana, New Mexico, North Dakota, Oklahoma, Oregon, and Utah. In addition, Delaware, Massachusetts and South Carolina permit a limited deduction for Federal taxes. The consequences of this deduction are later discussed more fully.

TABLE 5

SUMMARY OF PERSONAL INCOME TAX RATES, ALL STATES, 1954

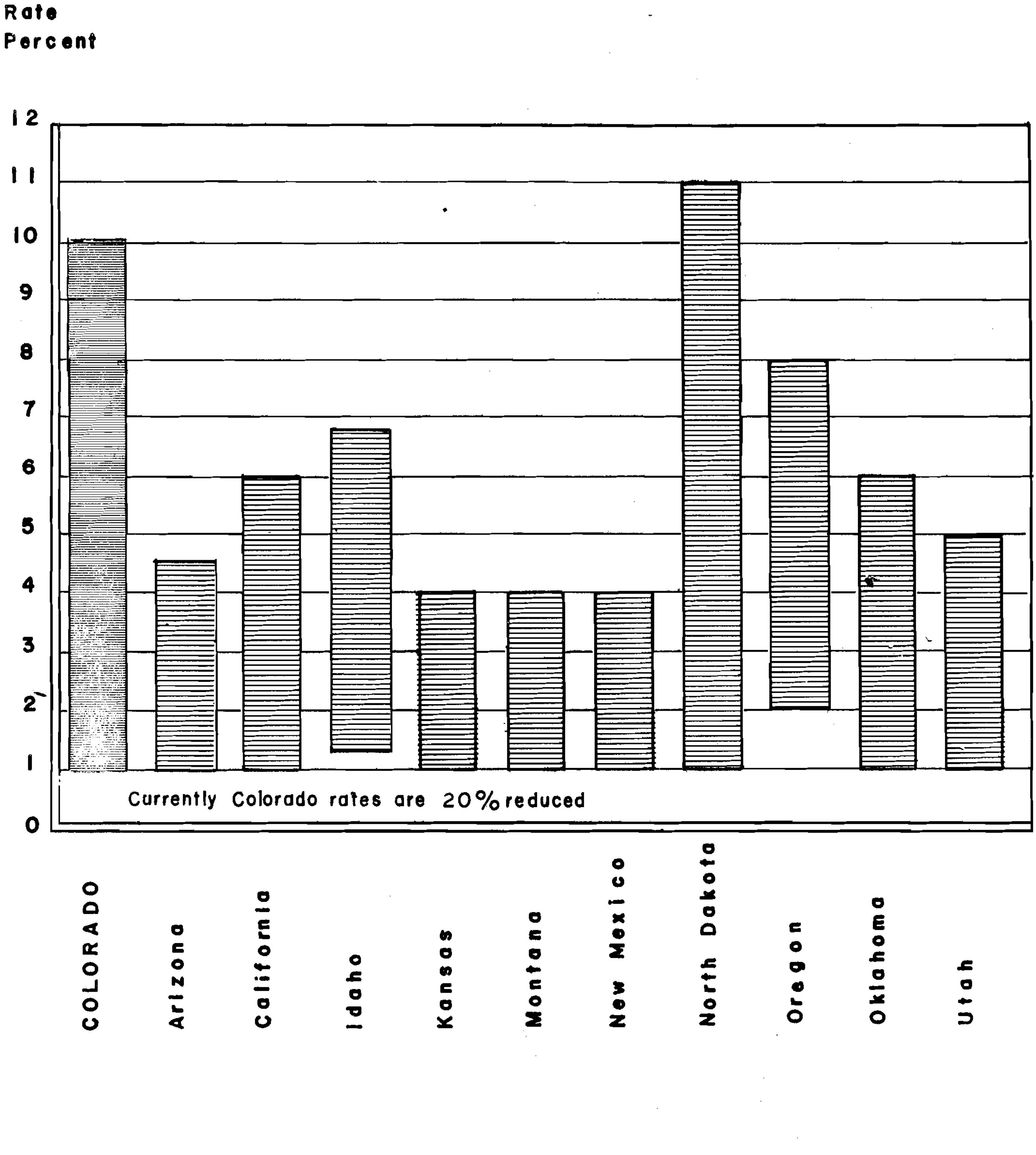
State	Rate Range (Per Cent)	Max. Rate on Income Over:
Colorado (1)	1-10	$ 11,000
Alabama	1½-5	5,000
Arizona (2)	1-4½	7,000
Arkansas	1-5	25,000
California (2)	1-6	25,000
Delaware	1-6	100,000
District of Columbia	2½-4	15,000
Georgia	1-7	20,000
Idaho (2)(3)	1½-8	5,000
Iowa	3/4-3 3/4	4,000
Kansas	1-4	7,000
Kentucky	2-6	8,000
Louisiana	2-6	50,000
Maryland	2-5 (Investment Income)	500
	2 Other Income	---
Massachusetts	7.38 (interest & dividends, capital gains)	---
Minnesota (5	1.845 (annuities) (4)	---
	3.075 (Business income)	---
Minnesota (5)	1-10	20,000
Mississippi	2-6	25,000
Missouri (6)	1-4	9,000
Montana	1-4	6,000
New Hampshire (7)	4.48	---
New Mexico (2)	1-4	100,000
New York	2-7	9,000
North Carolina	3-7	10,000
North Dakota	1-11	15,000
Oklahoma (2)	1-6	7,500
Oregon (2)	2-8	8,000
South Carolina	2-5	6,000
Tennessee (8)	6	---
Utah	1-5	4,000
Vermont	1½-5½	5,000
Virginia (9)	2-5	5,000
Wisconsin	1-8½	14,000

(1) Colorado: tax is reduced 20% for year 1954-55.
(2) Arizona, California, Idaho, Louisiana, New Mexico and Oklahoma: community property states in which one-half of community property income is taxable to each spouse. Oregon also permits a split-income calculation.
(3) Idaho: Reduced $5 for each dependent and after 1953 by 15% of computed tax.
(4) Massachusetts: Tax on business income reduced in 1954 by 25%.
(5) Minnesota: a surtax equal to 5% of the above rates and a tax of $5 per annum in addition are imposed for years, 1948-59.
(6) Missouri: Rates are not bracketed, but applied on entire income.
(7) New Hampshire: On interest and dividends only.
(8) Tennessee: On interest and dividends only.
(9) Virginia: Tax reduced 10-20% depending upon amount of income.

Source: State Tax Guide, 1954, Commerce Clearing House.

CHART I

MINIMUM AND MAXIMUM INDIVIDUAL INCOME TAX RATES, ELEVEN STATES IN THE WEST WITH INCOME TAXES, 1953



T A B L E 6

PERSONAL INCOME TAX RATES - DETAILED COMPARISON FOR STATES IN THE WEST.

Colorado

1st	$ 1,000	1%
2nd	$ 1,000	1½%
3rd	$ 1,000	2%
4th	$ 1,000	2½%
5th	$ 1,000	3%
6th	$ 1,000	4%
7th	$ 1,000	5%
8th	$ 1,000	6%
9th	$ 1,000	7%
10th	$ 1,000	8%
11th	$ 1,000	9%
Over	$11,000	10%

Surtax on intangible income over $600 - 2%

For taxable year 1954-55 taxes are reduced 20%

Arizona

1st	$1,000	1%
2nd	$1,000	1½%
3rd	$1,000	2%
4th	$1,000	2½%
5th	$1,000	3%
6th	$1,000	3½%
7th	$1,000	4%
Over	$7,000	4½%

California

1st	$ 5,000	1%
2nd	$ 5,000	2%
3rd	$ 5,000	3%
4th	$ 5,000	4%
5th	$ 5,000	5%
Over	$25,000	6%

Idaho

1st	$1,000	1½%
2nd	$1,000	3%
3rd	$1,000	4%
4th	$1,000	5%
5th	$1,000	6%
Over	$5,000	8%

Kansas

1st	$2,000	1%
Next	$1,000	2%
Next	$2,000	2½%
Next	$2,000	3%
Over	$7,000	4%

Montana

1st	$2,000	1%
2nd	$2,000	2%
3rd	$2,000	3%
Over	$6,000	4%

Minimum tax $1

New Mexico

1st	$ 10,000	1%
2nd	$ 10,000	2%
Next	$ 80,000	3%
Over	$100,000	4%

North Dakota

1st	$ 3,000	1%
Next	$ 1,000	2%
Next	$ 1,000	3%
Next	$ 1,000	5%
Next	$ 1,000	7½%
Next	$ 7,000	10%
Over	$15,000	11%

Oklahoma

1st	$1,500	1%
2nd	$1,500	2%
3rd	$1,500	3%
4th	$1,500	4%
5th	$1,500	5%
Over	$7,500	6%

Oregon

1st	$ 500	2%
2nd	$ 500	3%
2nd	$1,000	4%
3rd	$1,000	5%
4th	$1,000	6%1
Next	$4,000	7%
Over	$8,000	8%

Utah

1st	$1,000..............	1%
2nd	$1,000..............	2%
3rd	$1,000..............	3%
4th	$1,000..............	4%
Over	$4,000..............	5%

Source: State Tax Guide, 1954, Commerce Clearing House.

Perhaps the above rates may best be evaluated and compared by referring to the discussion in the next section.

Comparative Income Tax Liability for Different Income Levels Among the States in the West. A comparison of income tax rates among the states, as shown in previous tables, may be very misleading. For example, Colorado's rate of 10 per cent on incomes over $11,000 appears to be much higher than California's maximum rate of 6 per cent on incomes above $25,000. However, when all of the income tax provisions are considered in both states, the facts indicate that California's tax on large incomes is considerably heavier than Colorado's.

Income tax provisions which are principally responsible for making difficult a meaningful comparison of specific tax rates among the states are the following: (1) Varying amounts permitted among the states for personal exemptions and credits for dependents, (2) Variations pertaining to the Federal income tax (some states permit such deduction, others do not), and (3) Whether or not the state permits a split-income calculation for married couples. All these provisions are taken into consideration, as well as specific tax rates, in the comparative calculations shown in the following tables and figures. Total tax liability and effective tax rates for selected levels of income among the various states are the means by which significant comparisons can be drawn.

Tables 7 and 8 indicate that the tax upon a married couple tends to be

TABLE 7

AMOUNT OF NORMAL TAX LIABILITY, SELECTED LEVELS OF INCOME, THE ELEVEN INCOME TAX STATES OF THE WEST, FOR INCOME EARNED IN 1954

	Tax Liability for Married Couple with No Dependents Whose Net Income (1) Is:							
State	$2,000	$3,000	$5,000	$10,000	$20,000	$100,000	$200,000	$500,000
COLORADO	$6	$16	$44	$200	$786	$3,767	$6,049	$12,305
Arizona	None	9	30	114	405	2,073	3,326	7,068
California	None	None	15	65	230	4,290	10,290	28,290
Idaho	6	17	54	207	697	3,175	5,081	10,471
Kansas	8	16	48	181	473	1,912	3,003	6,058
Montana	1	9	34	163	456	1,910	3,000	6,056
New Mexico	None	4	21	62	136	1,161	1,971	4,998
North Dakota	5	13	34	269	1,007	5,262	8,559	17,496
Oklahoma	None	9	26	115	482	2,729	4,429	9,048
Oregon	15	39	114	331	866	3,705	6,046	12,430
Utah	8	23	46	277	640	2,441	3,811	7,872

(1) Before deductions for personal exemptions or Federal income tax credit, where permitted.

Source: Calculations were made from income tax rules and regulations of the several states.

TABLE 8

EFFECTIVE TAX RATE, SELECTED LEVELS OF INCOME, THE ELEVEN INCOME TAX STATES OF THE WEST, FOR INCOME EARNED IN 1954

	Effective Tax Rate for Married Couple With No Dependents Whose Net Income (1) Is:							
State	$2,000	$3,000	$5,000	$10,000	$20,000	$100,000	$200,000	$500,000
COLORADO	.3%	.5%	.9%	9.9%	3.9%	3.7%	3.0%	2.5%
Arizona	--	.3	.6	1.1	2.0	2.1	1.7	1.4
California	--	--	.3	.7	1.2	4.3	5.1	5.7
Idaho	.3	.6	1.1	2.0	3.5	3.2	2.5	2.1
Kansas	.4	.5	1.0	1.8	2.4	1.9	1.5	1.2
Montana	--	.3	.7	1.6	2.3	1.9	1.5	1.2
New Mexico	--	.1	.4	.6	.7	1.2	1.0	1.0
North Dakota	.3	.4	.7	2.7	5.0	5.3	4.3	3.5
Oklahoma	--	.3	.5	1.1	2.4	2.7	2.2	1.8
Oregon	.7	1.3	2.3	3.3	4.3	3.7	3.0	2.5
Utah	.4	.8	1.0	2.8	3.2	2.4	1.9	1.6

(1) Before deductions for personal exemptions or Federal income tax credit, where permitted.

Source: Previous table showing amount of tax liability.

highest, for all levels of income in Colorado, Idaho, North Dakota and Oregon. The state with uniformly lowest effective rates is New Mexico. States tending to fall somewhere near the middle range of rates regardless of income level are Arizona, Kansas, Montana, and Oklahoma. California and Utah have effective rates which differ considerably from the general pattern of rates among the other states. In California, rates are extremely low upon the lower brackets of income. This is because of general exemptions accompanied by a slow progression of rates. However, as income reaches the $100,000 level, the effective rate of 4.3 per cent in California is second highest among the states under comparison, while the effective rate of 5.7 per cent on a $500,000 income is nearly double the next highest rate. California's high effective rates on large incomes are largely because no deduction is permitted for Federal income taxes. Utah's effective rate varies in an opposite manner from that in California. The tax is relatively heavy on small incomes and then becomes moderate or even low as the level of income increases.

The relative position of Colorado among the other 10 states in the West with income taxes can perhaps best be seen by an examination of Charts 2 to 5.

CHART 2

EFFECTIVE TAX RATE FOR MARRIED COUPLE, NO DEPENDENTS, 1954 INCOME, THE ELEVEN STATES IN THE WEST WITH INCOME TAXES.

3,000 NET INCOME

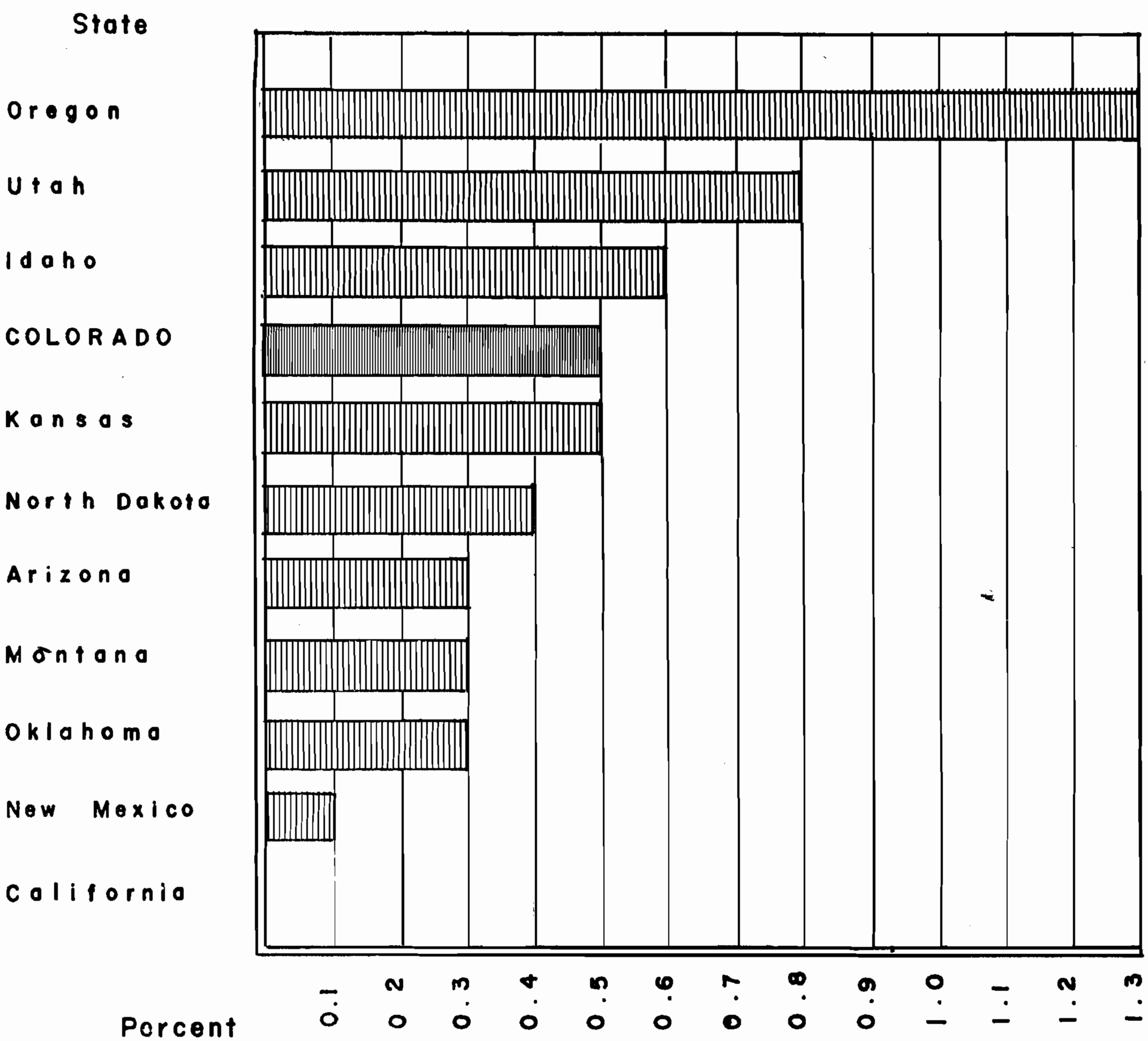


CHART 3

EFFECTIVE TAX RATE FOR MARRIED COUPLE, NO DEPENDENTS, 1954 INCOME, THE ELEVEN STATES IN THE WEST WITH INCOME TAXES

10,000 NET INCOME

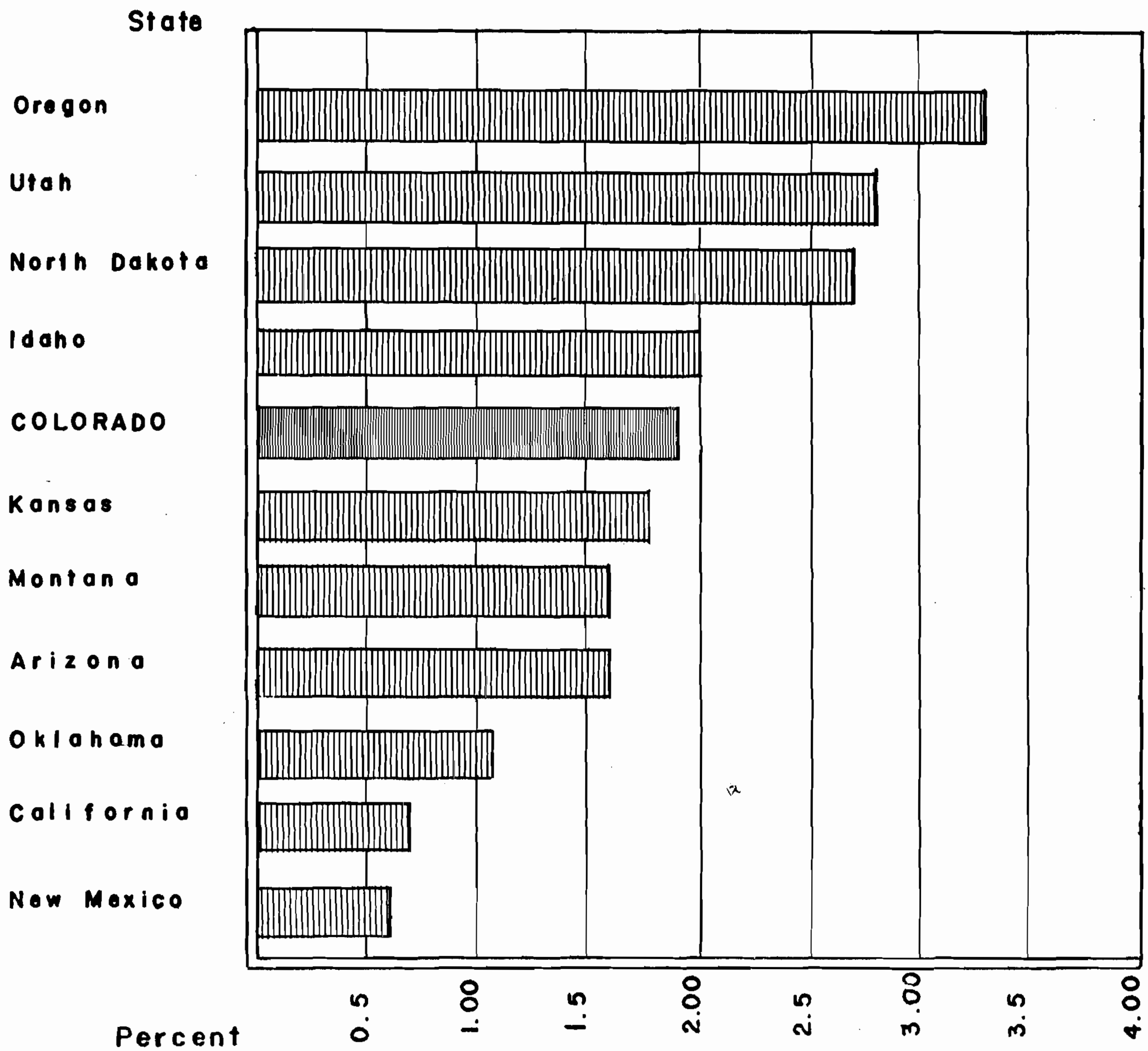


CHART 4

EFFECTIVE TAX RATE FOR MARRIED COUPLE, NO DEPENDENTS, 1954 INCOME, THE ELEVEN STATES IN THE WEST WITH INCOME TAXES

20,000 NET INCOME

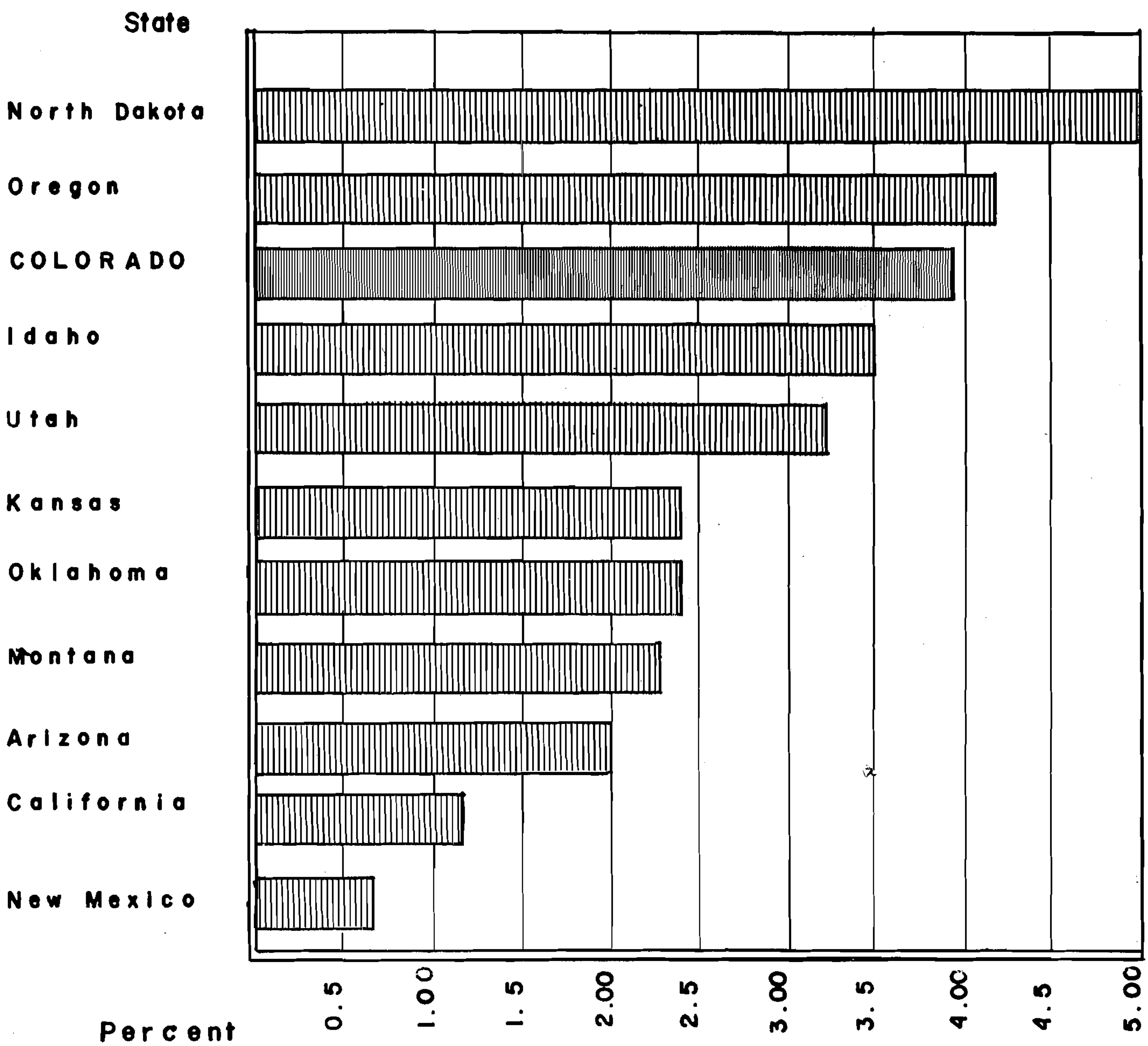
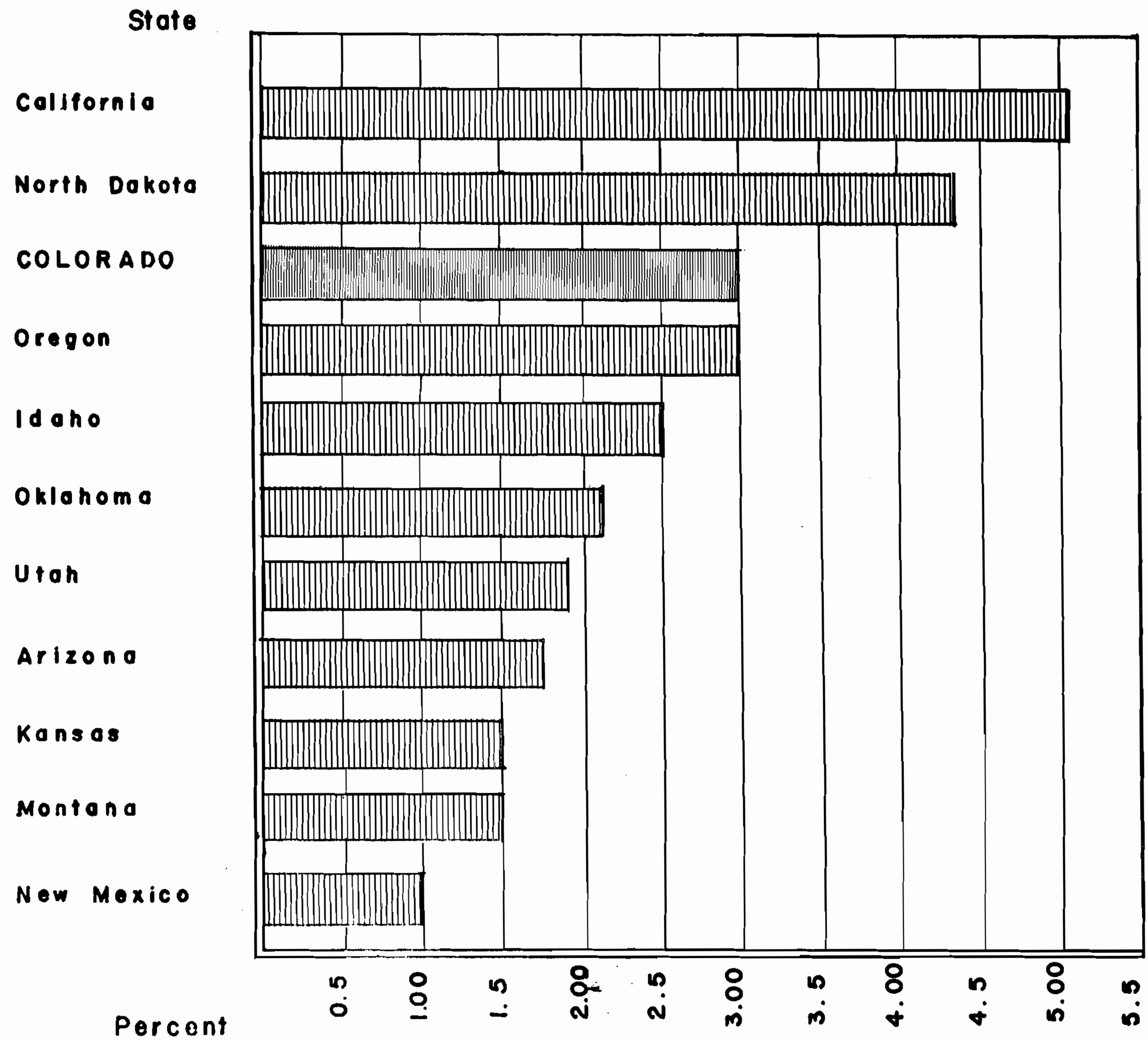


CHART 5

EFFECTIVE TAX RATE FOR MARRIED COUPLE, NO DEPENDENTS, 1954 INCOME, THE ELEVEN STATES IN THE WEST WITH INCOME TAXES

200,000 NET INCOME



C. Quantitative Aspects of the Personal Income Tax

This section compares Colorado's personal income tax with the same tax in the other states of the West from the standpoint of aggregate income tax receipts. Also yearly comparisons are made relative to aggregate receipts in Colorado since 1939 (the first full year of collections).

Table 9 shows personal income tax revenue in each of the 11 western states with income taxes, by years, 1939 to 1953. It may be seen that the trend has been upward in total receipts in every state. However, the rates of increase vary considerably among the states. These aggregate amounts indicated in the table are difficult to compare, as each state differs regarding population, wealth, total income, etc.

Table 10 is more easily analyzed. Personal income tax receipts are expressed as percentages of total tax receipts in the various states for the years since 1939. These percentages indicate the extent to which the tax has been stressed in comparison with all other taxes. Throughout most of the years, the states of Oregon, California, Idaho, Colorado, and Montana have depended upon the tax relatively more than the other western states. However, there have been changes in the position of the states from year to year. Percentage-wise, the personal income tax has never been very important in New Mexico and Oklahoma.

The current (1953) comparative importance of the personal income tax among the states is shown in Chart 6. Oregon obtained one-third of its state revenue in this form of taxation; while the next highest state, Idaho, received about one-half as much relatively. Colorado's 12.2 per cent represented the fourth highest among the states. This was relatively about one-third that of Oregon's 33.6 per cent but four times that of New Mexico's 3.1 per cent, the lowest state in the group.

TABLE 9

PERSONAL INCOME TAX REVENUE, THE ELEVEN INCOME TAX STATES IN THE WEST, 1939-1953 (000's omitted)

Year	Colo.	Ariz.	Calif.	Idaho	Kans.	Mont.	N. Mex.	N. Dak.	Okla.	Ore.	Utah
1939	1,361	372	20,672	520	1,325	435	268	275	2,469	3,338	680
1940	2,074	462	19,572	704	1,315	543	215	309	2,403	3,775	795
1941	2,260	510	20,293	898	1,542	660	259	400 (1)	2,425	4,720	888
1942	3,096	815	29,038	898	2,572	852	384	554 (1)	3,573	7,175	1,277
1943	4,087	1,270	39,351	1,917	4,237	1,202	494	1,084	4,524	10,938	2,051
1944	4,157	1,617	48,323	2,664	4,971	1,347	537	1,511	5,523	8,028	2,427
1945	3,599	1,498	47,133	2,912	5,501	1,445	522	1,821	7,286	10,901	2,310
1946	3,630	1,841	44,946	3,120	5,499	1,589	552	1,614	5,571	14,487	2,579
1947	5,487	2,615	51,221	4,523	7,062	2,283	955	2,458	7,578	19,972	3,177
1948	6,976	2,594	49,482	5,525	9,715	3,075	1,199	4,122	6,924	30,863	3,398
1949	11,189	3,010	50,178	5,882	11,931	4,125	1,483	4,948	8,067	35,863	4,210
1950	11,284	2,669	60,500	5,406	8,313	3,687	1,546	3,697	8,300 (1)	29,460	4,111
1951	12,397	3,500 (1)	75,516	6,393	10,224	4,435	2,056	3,812	8,766	35,946	5,992
1952	14,053	4,915	91,176	6,752	10,941	5,325	2,235	4,091	9,695	42,825	7,303
1953	13,594	5,643	94,324	6,706	11,799	4,898	2,165	3,561	9,175	43,600	5,272

(1) Estimated

Source: State Finances, U. S. Bureau of Census

TABLE 10

PERSONAL INCOME TAX REVENUE AS A PERCENTAGE OF TOTAL TAX REVENUE, THE ELEVEN INCOME TAX STATES IN THE WEST, 1939-1953

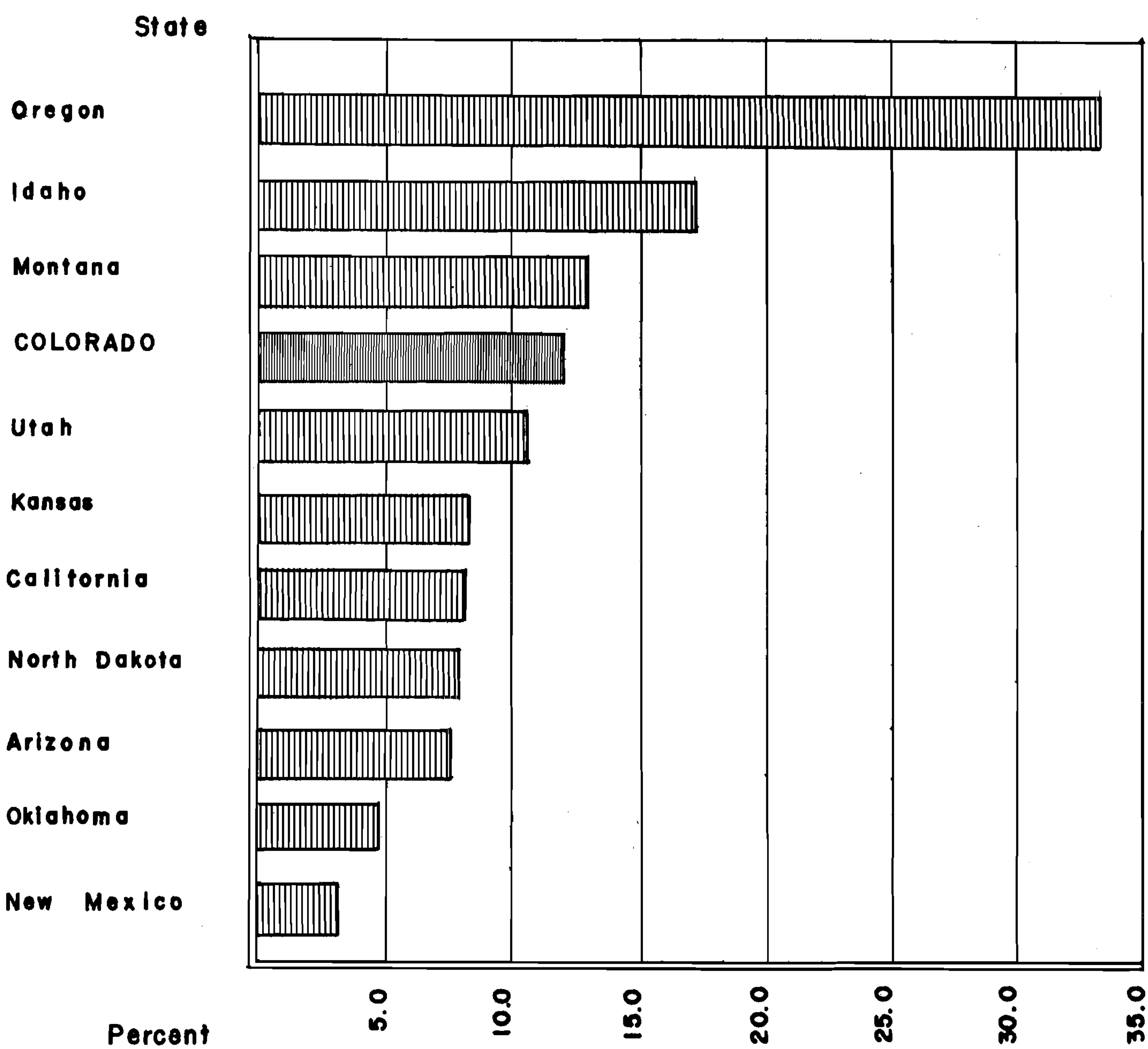
Year	Colo.	Ariz.	Calif.	Idaho	Kans.	Mont.	N. Mex.	N. Dak.	Okla.	Ore.	Utah
1939	4.5%	2.8%	9.4%	5.9%	4.2%	4.0%	2.0%	2.9%	4.6%	16.4%	4.4%
1940	6.1	2.5	7.6	6.0	3.4	4.7	1.4	2.2	4.3	14.8	4.7
1941	6.2	2.8	7.0	6.9	3.9	5.3	1.6	2.7	4.2	16.3	4.9
1942	8.0	3.4	8.7	6.9	5.8	6.0	2.1	3.0	4.8	20.0	6.2
1943	10.0	5.3	11.1	14.2	8.8	8.6	2.6	6.1	6.3	27.5	9.2
1944	10.1	6.3	12.6	18.8	10.5	8.2	2.6	7.8	7.4	21.3	10.8
1945	8.5	6.6	11.7	20.7	11.6	10.0	2.4	9.7	8.6	27.8	10.4
1946	7.1	5.8	9.4	16.3	9.3	10.2	2.0	7.7	5.3	27.9	9.9
1947	9.0	6.9	8.8	18.4	9.4	11.6	2.9	9.3	6.4	30.1	10.5
1948	9.1	5.3	7.1	19.4	10.5	13.4	3.1	13.1	5.2	36.0	8.7
1949	13.2	6.4	6.7	19.8	11.7	16.1	3.3	13.7	5.6	36.4	9.8
1950	12.6	5.6	7.5	18.0	7.0	12.3	3.0	9.5	5.3	29.5	9.3
1951	12.4	5.3	7.9	18.7	8.3	13.1	3.5	9.0	5.0	32.8	12.0
1952	13.3	7.0	8.6	17.8	8.2	14.4	3.4	9.3	5.2	33.4	13.5
1953	12.2	7.6	8.3	17.3	8.6	13.1	3.1	8.0	4.7	33.6	10.6

Source: Calculated from State Finances, U. S. Bureau of Census

CHART 6

PERSONAL INCOME TAX REVENUE AS A PERCENTAGE OF TOTAL STATE TAX REVENUE, ELEVEN INCOME TAX STATES OF THE WEST, 1953

PERSONAL INCOME TAX



Another comparison is shown in Table 11. By relating total personal income tax collections to the total state populations, an average per capita figure is obtained which can be useful in making comparisons among the states as well as for analyzing any particular state's collections over the years. Per capita personal income tax receipts have always been highest in Oregon and lowest in New Mexico among the western states. Colorado's per capita receipts were very near the average until 1949. Since then the amount in Colorado has been slightly higher than average.

Chart 7 shows the per capita personal income tax receipts in 1953 for the 11 states in the west with income taxes. Colorado's $9.50 per capita was third from the highest, the median state being Utah with a per capita of $7.15. However, Colorado's amount corresponded rather closely with the 11-state arithmetic mean of $8.82.

Chart 8 shows changes occurring in Colorado since 1939. The average per capita personal income tax revenue rose almost without interruption from a low of $1.23 in 1939 to a high of $10.21 in 1952. There was a slight decline to $9.50 in 1953.

Table 12 and Chart 9 show changes from year to year since 1939 regarding the average personal income tax paid (per taxpayer) in Colorado. There has been a remarkably high degree of stability in the average figures in spite of an upward trend in both tax rates and total collections. This situation is largely due to an expanding number of taxpayers because of both a rise in personal incomes and a lowering of personal exemptions. Another factor has been an increase in Federal income taxes, leaving relatively less income per individual to be taxed by Colorado.

Finally, in this section, Table 13 analyzes Colorado's personal income tax from the standpoint of total receipts expressed as percentages of total

TABLE 11

PER CAPITA PERSONAL INCOME TAX REVENUE, THE ELEVEN INCOME TAX STATES IN THE WEST, 1939-1953.

Year	Colo.	Ariz.	Calif.	Idaho	Kans.	Mont.	N.Mex.	N.Dak.	Okla.	Ore.	Utah	Average(1)
1939	$ 1.23	$ .80	$3.10	$ 1.01	$ .72	$ .79	$ .52	$ .43	$1.06	$ 3.13	$ 1.27	$1.28
1940	1.85	.95	2.88	1.35	.72	.98	.41	.48	1.03	3.49	1.46	1.42
1941	2.00	1.01	2.91	1.70	.86	1.18	.48	.63	1.04	4.28	1.60	1.61
1942	2.70	1.53	3.93	1.71	1.43	1.54	.71	.90	1.73	6.29	2.24	2.25
1943	3.61	2.13	5.00	3.66	2.34	2.28	.92	1.87	2.18	9.43	3.42	3.35
1944	3.56	2.34	5.77	4.98	2.74	2.76	.99	2.82	2.42	6.39	3.77	3.50
1945	3.23	2.51	5.42	5.21	3.02	3.19	1.00	3.57	3.51	8.35	3.88	3.90
1946	3.39	3.23	4.95	5.98	3.07	3.56	1.07	3.16	2.54	11.05	4.32	4.21
1947	4.84	4.39	5.41	8.63	3.76	4.78	1.82	4.58	3.30	13.93	5.00	5.49
1948	6.10	4.03	5.04	10.52	5.05	6.30	2.19	7.62	3.03	19.98	5.31	6.83
1949	9.33	4.28	4.97	10.04	6.30	8.07	2.60	8.50	3.52	21.88	6.28	7.80
1950	9.03	3.68	5.76	9.40	4.46	6.56	2.45	6.34	3.42	19.73	6.07	7.00
1951	9.26	5.80	7.13	10.78	5.33	7.42	2.98	6.10	3.93	23.57	8.62	8.27
1952	10.21	6.10	8.27	11.44	5.61	9.04	3.14	6.76	4.28	27.49	10.30	9.33
1953	9.50	6.57	8.28	11.03	5.89	8.29	2.99	5.93	4.05	27.35	7.15	8.82

(1) Eleven state average

Source: State Government Finances, Bureau of Census.

CHART 7

PER CAPITA PERSONAL INCOME TAX REVENUE, ELEVEN INCOME TAX STATES OF THE WEST, 1953

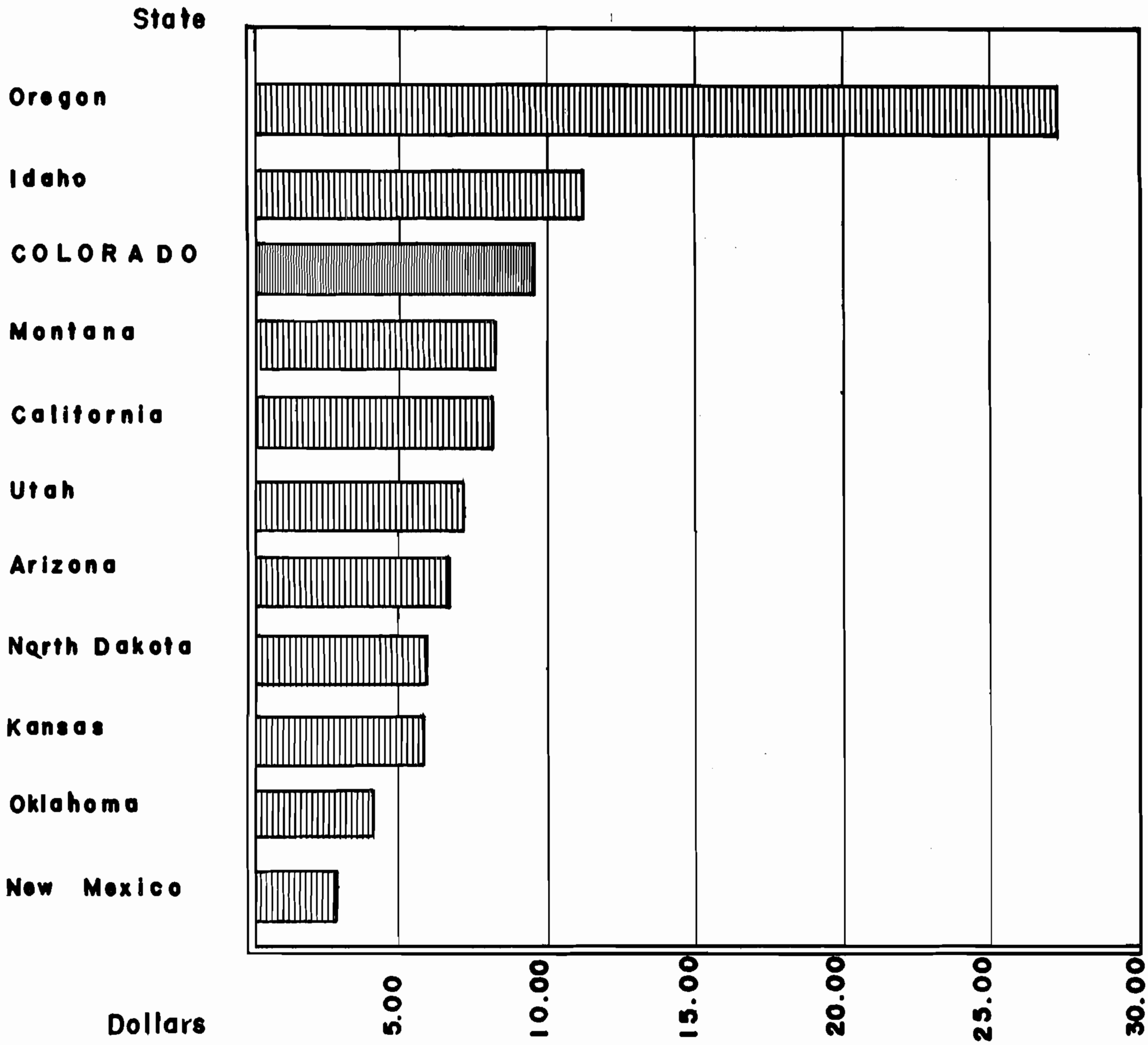


CHART 8

COLORADO PER CAPITA, PERSONAL INCOME TAX REVENUE COMPARED WITH PER CAPITA AVERAGE FOR THE ELEVEN INCOME TAX STATES IN THE WEST

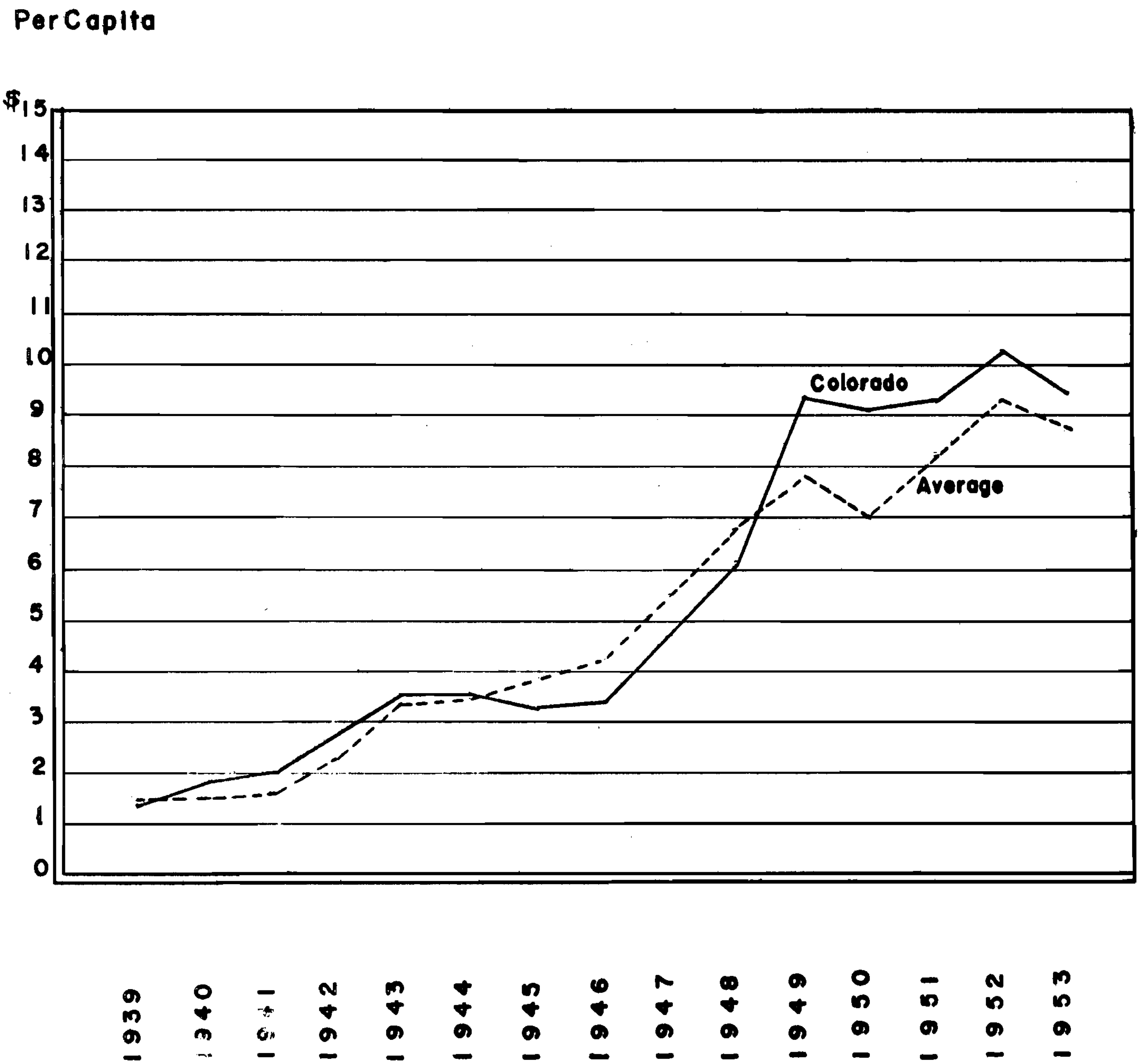


TABLE 12

COLORADO PERSONAL INCOME TAX EXPRESSED AS AVERAGE PAYMENT PER TAXABLE RETURN, 1939-1953.

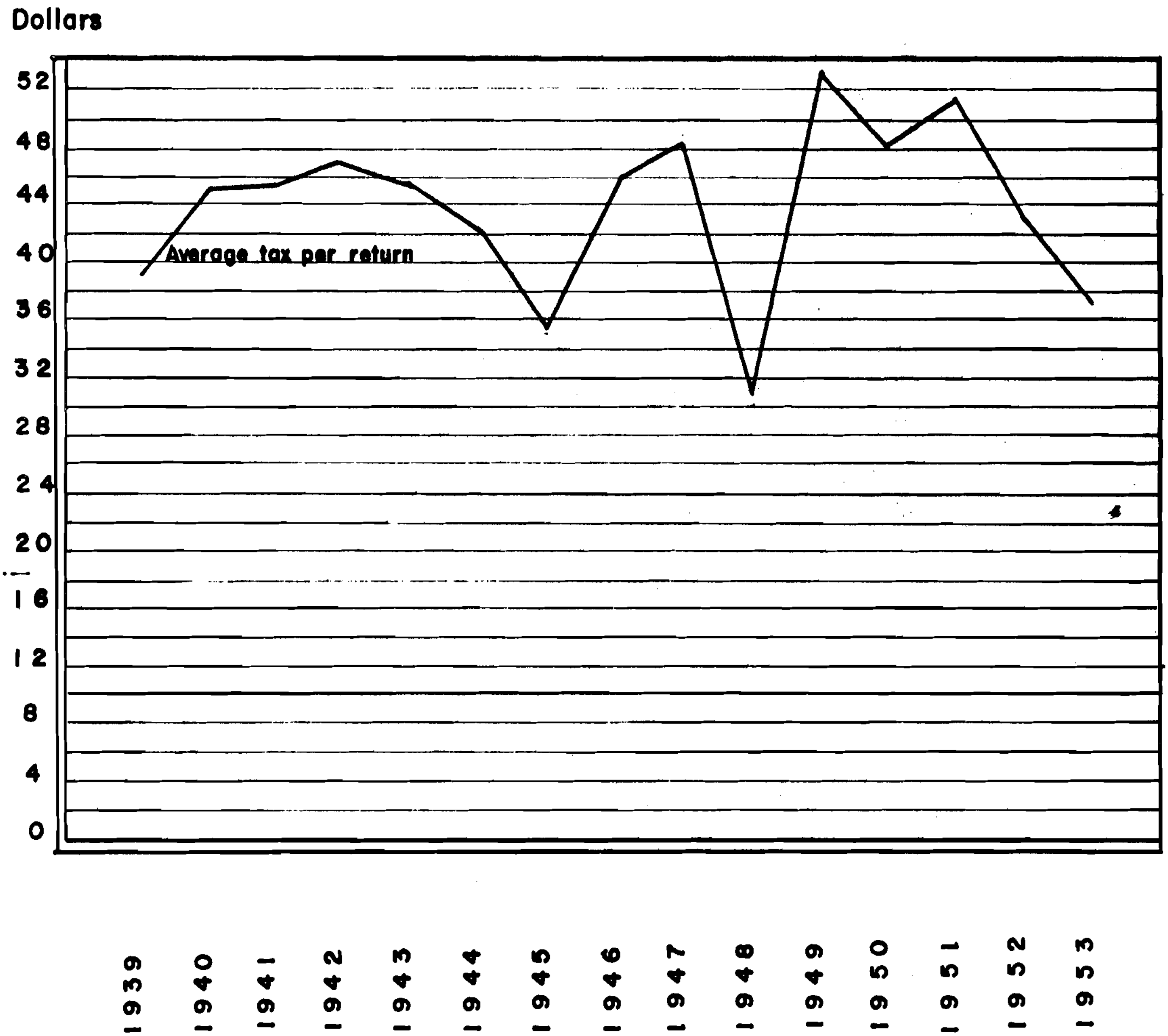
Year	Average Payment Per Taxable Return(1)	Year	Average Payment Per Taxable Return
1939	39.17	1947	48.25
1940	45.12	1948	31.21
1941	45.50	1949	53.07
1942	47.84	1950	48.19
1943	45.80	1951	51.54
1944	42.50	1952	43.29
1945	35.72	1953	37.42
1946	46.00	Average (15 yrs)	43.87

(1) Calculated by dividing total personal income tax revenue by total personal taxable returns filed with the Department of Revenue.

CHART 9

AVERAGE PAYMENT PER TAXPAYER,
COLORADO PERSONAL INCOME TAX

1939 — 1953



T A B L E 13

COLORADO PERSONAL INCOME TAX EXPRESSED BY: TOTAL REVENUE, AND AS PERCENTAGES OF ALL TAX REVENUE, TOTAL INCOME PAYMENTS AND FEDERAL PERSONAL INCOME TAX REVENUE FROM COLORADO, 1939-1953.

Year	Colorado Personal Income Tax Revenue	Colorado Personal Income Tax Revenue Expressed as Percentage of: All Colo. State Revenue	Total Income Payments	Federal Personal Income Tax Revenue from Colorado (2)
1939	$ 1,361,000	4.5	.24	22.2
1940	2,074,000	6.1	.35	22.9
1941	2,260,000	6.2	.33	9.5
1942	3,096,000	8.0	.31	4.6
1943	4,087,000	10.0	.36	4.0
1944	4,157,000	10.1	.37	3.8
1945	3,599,000	8.5	.28	2.7
1946	3,630,000	7.1	.26	2.9
1947	5,487,000	9.0	.33	3.6
1948	6,976,000	9.1	.40	5.6
1949	11,189,000	13.2	.66	8.7
1950	11,284,000	12.6	.61	7.1
1951	12,397,000	12.4	.58	
1952	14,053,000	13.3	.61	
1953	13,594,000	12.2	.57	

(1) Fiscal years
(2) Figures since 1950 are not yet available

Source: Statistics of Income for 1950, U. S. Treasury Department; State Tax Collections, Bureau of the Census.

state revenue, of total income payments in the state and of total Federal personal income tax revenue collected from Colorado. All three comparisons for the years since 1939, are good indicators of what has been happening to the personal income tax in the state.

SECTION IV -- THE CORPORATION INCOME TAX

In most of the states with income taxes, the corporation tax is closely integrated with the tax upon individuals. This is true in Colorado. Interest in both taxes developed jointly: both were established at the same time (1937) as parts of one income tax law and both are administered by the same governmental agency (Income Tax Division of the Department of Revenue).

A. Arguments for Corporation Income Tax.

Specific reasons advanced for applying a tax upon the net income of corporations include the following:

(1) It is considered difficult adequately and fairly to tax corporations upon all of their assets (tangible and intangible) under the property tax. Consequently, there is the alleged need for some supplemental revenue measure such as the income tax. (2) The income tax is said to avoid some legal difficulties as compared with most other revenue measures relative to the taxation of corporations doing business in interstate commerce or in more than one state. (3) It is considered desirable to supplement the individual income tax with a corporation income tax because of absentee ownership of various corporations doing business in Colorado.

B. Corporation Income Tax Rules and Regulations in Colorado.

Exempt Organizations. Most states imposing an income tax grant exemption to certain designated corporations. The principal requirement placed upon legislative bodies in granting such exemption is that those granted be reasonable.

The following organizations are exempt from the Colorado corporation income tax:

(1) Labor, agricultural or horticultural organizations,

(2) Fraternal benefit societies,

(3) Non-profit cemetery companies,

(4) Charitable corporations and churches,

(5) Non-profit business and civic leagues,

(6) Non-profit pleasure clubs,

(7) Local benevolent life insurance associations,

(8) Mutual ditch, irrigation or other similar companies,

(9) Mutual casualty insurance companies,

(10) Voluntary employees' beneficiary associations,

(11) Teachers' retirement fund associations,

(12) Insurance companies,

(13) Credit unions,

(14) Employees' pension and profit-sharing trusts.

The above exemptions follow very closely those permitted by the Federal government. Also there is little variation among the 11 western states relative to exempt organizations.

Gross Income. Gross income under the Colorado law includes, in general, compensation for personal and professional services, business income, profits from sale of property, interest, rent, dividends, and gains, profits, and income derived from any source whatsoever, unless exempt from the tax by law.

The above concept of gross income is very comprehensive. It follows closely the definition used by the Federal government and most other states.

Exclusions from Gross Income. Gross income includes income from whatever source derived except the following:

(1) Income which may not be taxed under the provisions of the United States Constitution, for example, interest on U. S. Government Bonds.

(2) Amounts received under a life insurance contract by reason of the death of the insured.

(3) Return of premiums under life insurance, endowment or annuity contracts, except that at least 3 per cent of the cost of annuities is taxable annually, if received.

(4) Property acquired by gift, devise, bequest or inheritance.

(5) Stock dividends.

(6) 85 per cent of dividends received from other corporations.

Here, again, the Colorado law follows rather closely the Federal law as well as the laws of most other states. However, some states exclude two additional kinds of income not excluded in Colorado, namely: (1) Capital gains and (2) Interest upon obligations of the state or its political subdivisions.

A few states have adopted the Federal net income tax base as the state tax base and thereby exclude from gross income exactly the same items as are excluded under Federal law. An advantage of this arrangement is greater simplicity for the taxpayer in calculating his tax and for the tax administrator in auditing the tax return. A possible disadvantage is that unpredictable and uncontrollable (by the state) changes may occur in the Federal law. Moreover, a state using the Federal income tax base would be unable to include for tax purposes (as Colorado is now doing) interest on state and municipal bonds.

Deductions from Gross Income. The following are Colorado allowable deductions from corporation gross income:

(1) Ordinary and necessary business expenses, salaries, traveling expenses and rentals.

(2) Interest paid on indebtedness, except that created to purchase tax exempt securities, and amounts paid by savings and loan associations on share capital, share accounts, and savings accounts.

(3) All taxes except state income taxes, estate, inheritance and gift taxes and special assessments; however, corporations allocating income to Colorado may deduct taxes on net income paid to another state.

(4) Uncompensated losses.

(5) Losses from the sale of capital assets, up to $2000 maximum.

(6) Bad debts.

(7) Reasonable allowance for depreciation, obsolescence and depletion.

(8) Charitable gifts not to exceed 5 per cent of net income computed without the benefit of this section.

(9) Rebates to members and customers of cooperatives.

The law permits no deductions for the following:

(1) Amounts spent for permanent improvement or betterment.

(2) Restoration of property for which depreciation allowance has been taken.

(3) Life insurance premiums on policies for the benefit of the payor.

(4) Deductions against wholly exempt income.

(5) Losses incurred in transactions between a corporation and a majority stockholder.

(6) Shrinkage of property value not through depreciation or depletion.

(7) Loss from wash sales of securities.

All the deductions and specific denial of deductions from gross income in the Colorado law are similar to those contained in the laws of other states, most of which follow the lead of the Federal income tax. One important exception until 1954 is worthy of a brief discussion. The Federal Government and some states permit a deduction for losses sustained in previous and, or subsequent years. This deduction (not permitted in Colorado until 1954) is known as the "carry-forward and carry-back net loss deduction."

Carry-Forward and Carry-Back Net Loss Deduction. Only the Federal government and seven states permit a deduction for losses occuring in years other than the current one under consideration at a particular time. These jurisdictions together with their carry-forward or carry-back provisions are shown in Table 14.

TABLE 14

FEDERAL AND STATE CORPORATION INCOME TAX LAWS PERMITTING A NET-LOSS CARRY-FORWARD OR CARRY-BACK DEDUCTION

	Carry-forward	Carry-back
Federal Government	5 yrs.	2 yrs.
COLORADO (1)	4 yrs.	none
Arizona	5 yrs.	1 yr.
Idaho	2 yrs.	none
Minnesota	2 yrs.	none
North Carolina	2 yrs.	none
North Dakota	4 yrs.	none
Wisconsin	2 yrs.	none

(1) The Colorado law (Chapter 62, Session Laws of Colorado, 1954) permits net capital loss or net operating loss to be treated as a short-term capital loss within a four-year period succeeding taxable year. Such loss, in excess of capital gains, can be deducted from gross income.

An advantage of the carry-over and carry-back loss deduction is that fluctuating income is not unduly penalized in comparison with constant and steady income. Without such provision, principal victims are recipients of casual income, those involved with capital gains and losses, new and risky business and small business.

A disadvantage of permitting the deduction is that the tax is made more complicated and difficult to administer. This is especially true relative to the carry-back provision, as refunds may be required and considerable time may elapse before accounts can be closed. Another possible disadvantage is that the yield of the corporation income tax may be reduced considerably when carry-forward or carry-back deductions are permitted.

Allocation of Income of Corporations Receiving Part of Income from Out-of-State. In Colorado, corporations are liable for payment of tax on all net income from sources within the state. In the case of corporations whose gross income is derived from sources both within and without the state, direct allocation is made when such a method clearly reflects the net income which should normally be subject to the tax. In cases where direct allocation is impossible, apportionment should be made on the basis of ownership of property and revenue from sales within and outside of the state. Should this method also be impracticable a special formula for allocation may be developed subject to approval by the Department of Revenue.

Tax Rates. Table 15 shows the tax rates applied to corporation net income in the 11 states of the West with income taxes. Eight states, including Colorado, have a proportional or flat rate, while three states apply progressive rates. However, these three states graduate the rate, in each case, so rapidly that the maximum is reached with a relatively small corporation income.

Returns. In Colorado, all corporations except those exempt from the tax must file a return on or before the 15th of the fourth month following the close of the taxable year, April 15th for calendar year corporations.

TABLE 15

CORPORATION INCOME TAX RATES

(Eleven Income Tax States in West, 1954)

State	Rate	Minimum Rate on Income Over:
Arizona	1%-5%	$6,000
California	4%	-------
Colorado	5%(1)	-------
Idaho	1½%-8%(2)	5,000
Kansas	2%	-------
Montana	3%	-------
New Mexico	2%	-------
North Dakota	3%-6%	15,000
Oklahoma	4%	-------
Oregon	8%	-------
Utah	3%	-------

(1) For taxable year 1954-55 the tax is reduced 20%. Financial institutions are taxed at rate of 6%.
(2) After 1953, tax is reduced by 15%.

Source: Commerce Clearing House, State Tax Guide, 2nd Ed. 1954.

Payment The tax is payable to the Department of Revenue on the 15th day of the fourth month following the close of the taxable year, redundant, or in four equal installments, the first with the return, the second on the 15th of the seventh month, the third on the 15th of the tenth month and the fourth on the 15th of the twelfth month.

Information at Source. All corporations making payments of salaries, wages, rent, dividends, etc. to any resident or individual deriving income from Colorado must make an informational return thereof to the Director of Revenue on or before February 15th. By administrative ruling, only payments of $100 or more, interest of $50 or more, and dividends of $10 or more must be reported.

Withholding at Source. Beginning July 1, 1954, all employers must withhold from wages 4 per cent of the amount withheld for Federal income taxes. Reports and payments are due from employers quarterly not later than the last days of April, July, October, and January for the preceding calendar quarters. Annual summary statements are due by March 15th.

Banks and Financial Institutions. Financial institutions, in all states, represent a special classification for taxation. This is largely because of the dual chartering (both Federal and state) of commercial banks which require equal competitive treatment in taxation. Congress has specified how national banks may be taxed by the states. This tends to set the pattern for taxation of all competing financial institutions.

In Colorado, the banks and financial institutions subject to the special corporation (excise) tax are the following:

(1) National banks

(2) State banks

(3) Industrial banks

(4) Morris plan banks

(5) Trust companies

The tax is in lieu of all property taxes, except taxes upon real estate.

The definition of gross and net income follows the regular corporation income tax law, except that interest on Federal and municipal securities is included.

The tax rate is 6 per cent as compared with the regular rate of 5 per cent (temporarily reduced to 4 per cent) on general corporations.

C. <u>Quantitative Aspects of the Corporation Income Tax</u>

Table 16 gives figures indicating total corporation income tax collections, by years since 1939, among the 11 states in the West with income taxes. Collections vary considerably from state to state and from year to year. However, there has been a trend upward in collections in all of the states since 1939, the first full year of collections in Colorado.

Corporation income tax revenue expressed as a percentage of total state tax revenue is shown in Table 17. This table indicates the extent to which the corporation income tax is stressed relative to all other taxes in each state. During the last 10 years, in Colorado, the percentage has fluctuated but little, having been about 5 or 6 per cent each year.

The relative position of Colorado among the other 10 income tax states of the West, in 1953, is shown in Chart 10. Colorado's 5 per cent was a middle figure as compared with the extremes of 14.3 per cent in Oregon, the highest state, and 1.5 per cent in New Mexico, the lowest state.

Table 18 compares the revenue from the Colorado corporation income tax with total state tax revenue, with total income payments, and with Federal corporation income tax collections from Colorado. Total income payments are considered a fairly good index of ability to pay taxes. According to the figures in Column 3, the highest ratio was reached in 1949 when .34 of

TABLE 16

TOTAL CORPORATION INCOME TAX REVENUE, ELEVEN INCOME TAX STATES IN THE WEST, 1939-1953 (000's omitted)

Year	Colo.	Ariz.	Calif.	Idaho	Kans.	Mont.	N.Mex.	N.Dak.	Okla.	Ore.	Utah
1939	706	544	20,230	877	867	395	279	149	4,585	1,484	1,024
1940	1,035	856	20,597	1,043	754	668	220	281	3,840	1,712	881
1941	1,289	1,000	22,988	1,503	889	609	316	300(1)	3,768	2,516	957
1942	1,218	1,181	34,394	1,503(1)	1,267	1,541	400	415(1)	4,503	4,755	1,165
1943	1,548	1,500(1)	52,888	1,336	1,793	1,425	562	760	5,593	7,213	1,304
1944	2,319	1,898	67,671	1,846	2,125	1,237	698	848	6,278	6,906	1,414
1945	2,546	1,821	58,018	1,543	1,839	1,115	602	705	8,650	5,216	1,414
1946	3,301	2,181	55,783	1,456	1,695	766	662	543	7,041	8,381	1,277
1947	3,076	2,588	59,151	2,146	2,190	1,315	672	813	7,028	10,922	1,508
1948	4,620	5,647	69,181	3,061	3,142	1,907	1,011	1,189	8,305	16,576	2,081
1949	5,783	5,269	75,798	3,610	3,763	2,245	1,415	1,421	9,022	20,041	3,005
1950	5,987	2,897	74,546	3,297	3,456	1,678	1,255	1,306	7,893	17,017	2,584
1951	6,535	5,378	98,428	3,500	3,644	2,615	1,303	1,351	8,289	14,538	2,485
1952	6,121	6,257	119,386	4,064	3,790	2,284	1,271	1,391	8,850	22,071	3,227
1953	5,515	3,444	119,107	3,518	3,289	1,610	1,080	967	8,538	18,606	2,997

(1) Estimated

Source: State Government Finances, U. S. Bureau of the Census

TABLE 17

CORPORATION INCOME TAX REVENUE EXPRESSED AS A PERCENTAGE OF TOTAL STATE TAX REVENUES, ELEVEN INCOME TAX STATES IN THE WEST, 1939-1953

Year	Colo.	Ariz.	Calif.	Idaho	Kans.	Mont.	N.Mex.	N.Dak.	Okla.	Ore.	Utah
1939	2.3	4.2	9.2	10.0	2.7	3.6	2.1	1.6	8.5	7.3	6.7
1940	3.1	4.6	8,0	9.0	2.0	5.8	1.4	2.0	6.8	6.7	5.2
1941	3.5	5.6	8.0	11.5	2.2	4.9	1.9	---	6.6	8.7	5.3
1942	3.2	5.0	10.3	11.5	2.9	10.9	---	---	6.1	13.3	5.7
1943	3.8	---	14.9	9.9	3.7	10.2	3.0	4.3	7.8	18.1	5.7
1944	5.6	7.4	17.6	13.0	4.5	7.5	3.4	4.4	8.4	18.3	5.9
1945	6.0	8.0	14.4	11.0	3.9	7.7	2.8	3.8	10.2	13.3	6.4
1946	6.5	6.9	11.7	7.6	2.9	4.9	2.4	2.6	6.7	16.2	4.9
1947	5.1	6.9	10.2	9.2	2.9	7.3	2.1	3.1	5.9	16.5	5.0
1948	6.0	11.5	9.9	10.8	3.4	8.3	2.6	3.8	6.3	19.3	5.4
1949	6.8	11.3	10.1	12.2	3.7	8.7	3.2	3.9	6.3	20.4	7.0
1950	6.7	6.0	9.2	11.0	2.9	5.6	2.5	3.3	5.0	17.0	5.9
1951	6.5	8.1	10.3	10.3	3.0	7.7	2.2	3.2	4.7	13.3	5.0
1952	5.8	8.9	11.2	10.7	2.9	6.2	2.0	3.1	4.7	17.2	6.0
1953	5.0	4.6	10.4	9.1	2.4	4.3	1.5	2.2	4.4	14.3	6.0

Source: Calculations made from data in State Finances, U. S. Bureau of the Census.

CHART 10

CORPORATION INCOME TAX REVENUE EXPRESSED AS A PERCENTAGE OF TOTAL STATE TAX REVENUE, ELEVEN STATES IN THE WEST WITH INCOME TAXES

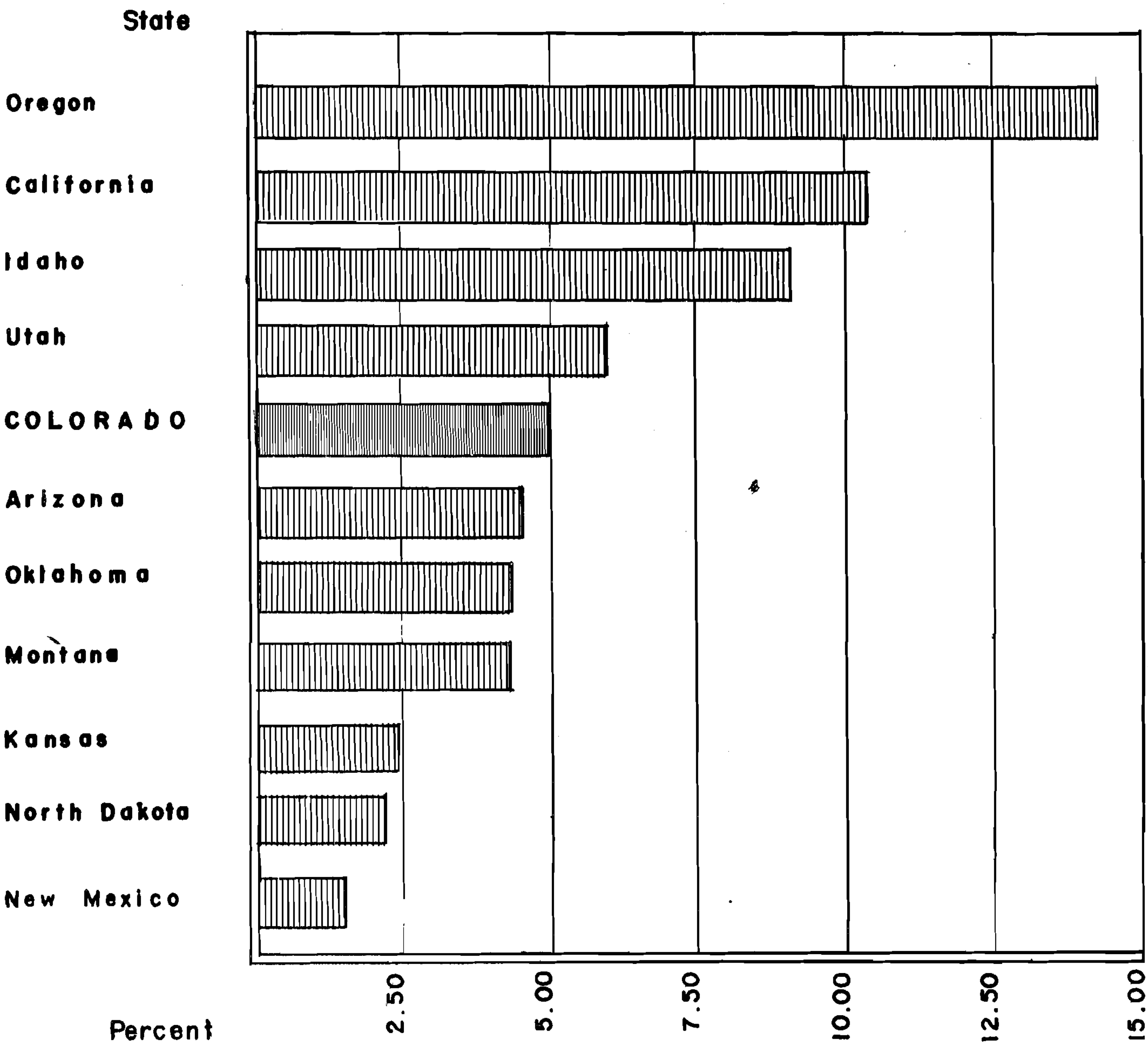


TABLE 18

COLORADO CORPORATION INCOME TAX EXPRESSED BY: TOTAL REVENUE, AND PERCENTAGES OF ALL STATE REVENUE, TOTAL INCOME PAYMENTS AND FEDERAL CORPORATION INCOME TAX REVENUE FROM COLORADO, 1939-1953.

Year (1)	Colorado Corporation Income Tax Revenue	Colorado Corporation Income Tax Revenue Expressed as Percentage of: Total Colo. State Revenue	Total Income Payments	Fed. Corp. Income Tax Revenue from Colo. (2)
1939	$ 706,000	2.3	.13	10.0
1940	1,035,000	3.1	.18	9.8
1941	1,289,000	3.5	.19	5.1
1942	1,218,000	3.2	.12	3.0
1943	1,548,000	3.8	.14	2.8
1944	2,319,000	5.6	.21	3.9
1945	2,546,000	6.0	.20	4.4
1946	3,301,000	6.5	.24	6.2
1947	3,076,000	5.1	.19	5.2
1948	4,620,000	6.0	.27	6.7
1949	5,783,000	6.8	.34	10.0
1950	5,987,000	6.7	.32	
1951	6,535,000	6.5	.31	
1952	6,121,000	5.8	.26	
1953	5,515,000	5.0	.23	

(1) Fiscal years

(2) Figures since 1949 are not yet available

Source: Statistics of Income for 1949, Part II U. S. Treasury Department; State Tax Collections, U. S. Bureau of the Census.

1 per cent of the total income payments were paid in state corporation income taxes. However, the general trend has been upward in this ratio since 1939. Recent figures are not available showing Federal corporation income tax collections from Colorado. However, in 1949 Colorado's corporation income tax represented 10 per cent as much as the Federal tax on Colorado corporations. There is reason to believe this ratio has declined somewhat since 1949.

A final table (No. 19) and accompanying Chart 11 in this section show the average state income tax paid by corporations in Colorado since 1939. The average rose from $537, the first year, to a high of $1,614 in 1949. Since then there has been some decline, the average tax being $1,023 in 1953 as compared with the 15 year average tax of $1,000 per corporation.

T A B L E 19

AVERAGE COLORADO INCOME TAX PAID BY CORPORATIONS,

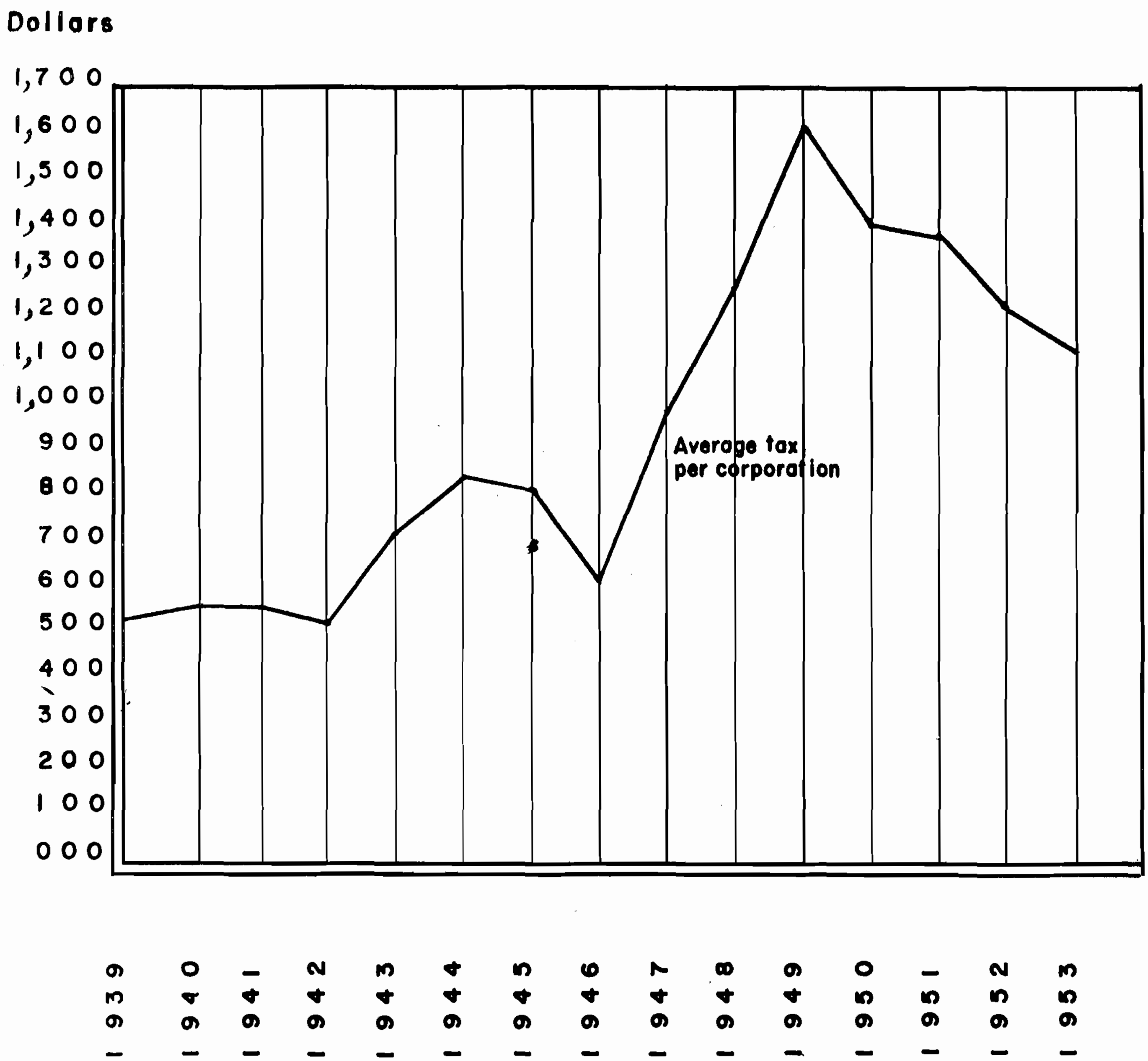
CALENDAR YEARS, 1939-1953.

Year	Average Tax Per Corporation(1)	Year	Average Tax Per Corporation(1)
1939	$537	1947	995
1940	561	1948	1,264
1941	562	1949	1,614
1942	522	1950	1,402
1943	713	1951	1,397
1944	841	1952	1,121
1945	811	1953	1,023
1946	622	Average (15 yrs)	1,000

(1) Calculated by dividing total income tax collections by total corporation taxable returns filed each year.

CHART II

AVERAGE COLORADO INCOME TAX PAID BY CORPORATIONS, CALENDAR YEARS 1939 — 1953



SECTION V -- THE COLORADO INCOME TAX -- GENERAL ANALYSIS

A. Comparison of Individual and Corporation Income Tax

Separate analyses have been made of the individual and corporation income taxes. This section considers the two taxes together, comparing them with each other and analyzing the revenue consequences of their combined yields.

Table 20 gives total collections and collections by individual, corporation and fiduciary returns for the years since 1938. Most of the tables in this study show revenue by fiscal years. However, in this table figures are reported for calendar years. It may be observed that individuals have always accounted for considerably more revenue than corporations, and that fiduciaries represent a rather insignificant role revenue-wise.

B. Comparison With Other Income Tax States of the West

The comparative revenue importance of the individual and corporation income taxes among the 11 states in the West with income taxes is shown in Chart 12. In all states except California the individual income tax is more productive than the tax on corporations. However, the extent of greater productivity varies considerably. The median state, New Mexico, collects two-thirds from individuals and one-third from corporations. The percentages in Colorado correspond rather closely to this ratio. In a highly agricultural state, such as North Dakota or Kansas, one would expect a higher proportion of taxes from individuals than in a state which is industrialized, such as California.

Table 21 and Chart 13 show a comparison among the income tax states of the West from the standpoint of importance of the income tax as compared with all other state tax revenue. This is a good index to show the relative

TABLE 20

COLORADO INCOME-TAX COLLECTIONS, BY TYPE OF RETURN

CALENDAR YEARS 1938-1953

Year	Total Collections	Individuals	Corporations	Fiduciaries
1938 (1)	$ 1,284,403	$ 722,770	$ 561,633	$----------
1939	2,829,302	1,729,629	1,054,447	45,226
1940	3,361,132	2,091,243	1,224,768	45,121
1941	3,543,432	2,398,859	1,106,286	38,287
1942	4,596,081	3,084,783	1,441,273	70,025
1943	6,160,740	3,620,668	2,455,802	84,270
1944	6,359,497	3,302,384	2,976,493	80,445
1945	6,126,933	3,035,378	3,038,556	52,987
1946	6,831,666	4,124,318	2,628,694	78,654
1947	9,631,494	5,647,859	3,861,995	121,640
1948	12,373,555	7,006,222	5,273,924	93,409
1949	18,698,920	12,053,892	6,465,992	179,036
1950	17,376,772	11,230,647	6,014,833	131,292
1951	19,668,861	12,811,605	6,683,162	169,094
1952	19,889,870	13,888,176	5,815,935	185,759
1953	18,331,749	12,956,682	5,214,754	160,311

(1) Six months only. The law became operative July 1, 1937, collections beginning the subsequent year.

Source: Reports of the Department of Revenue, State of Colorado

CHART 12

REVENUE IMPORTANCE OF THE INDIVIDUAL VS. CORPORATION INCOME TAX, THE ELEVEN INCOME TAX STATES OF THE WEST, 1953

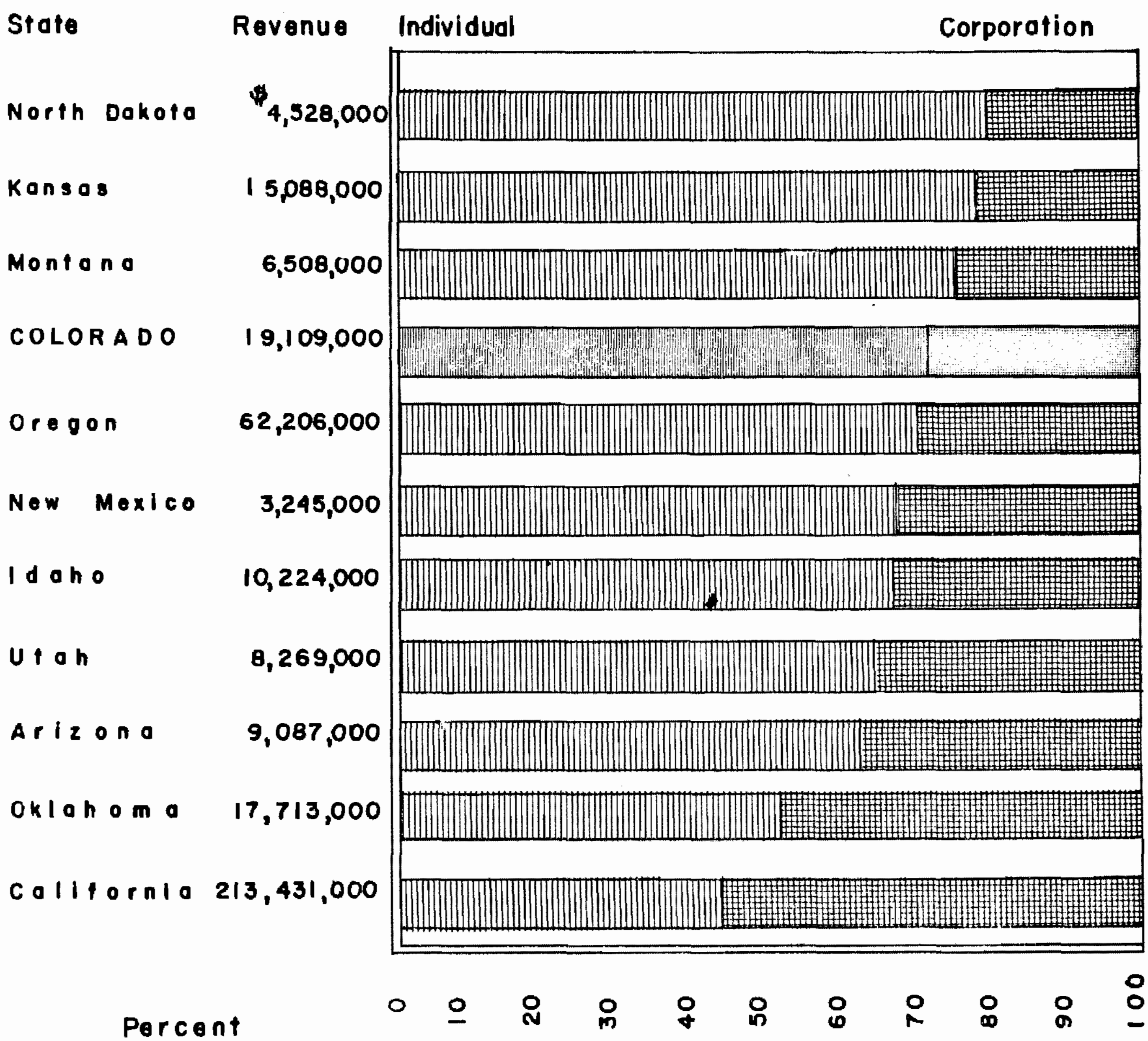


TABLE 21

INCOME TAX REVENUE AS A PERCENTAGE OF TOTAL STATE TAX REVENUE, THE ELEVEN INCOME-TAX STATES OF WEST, 1953[1]

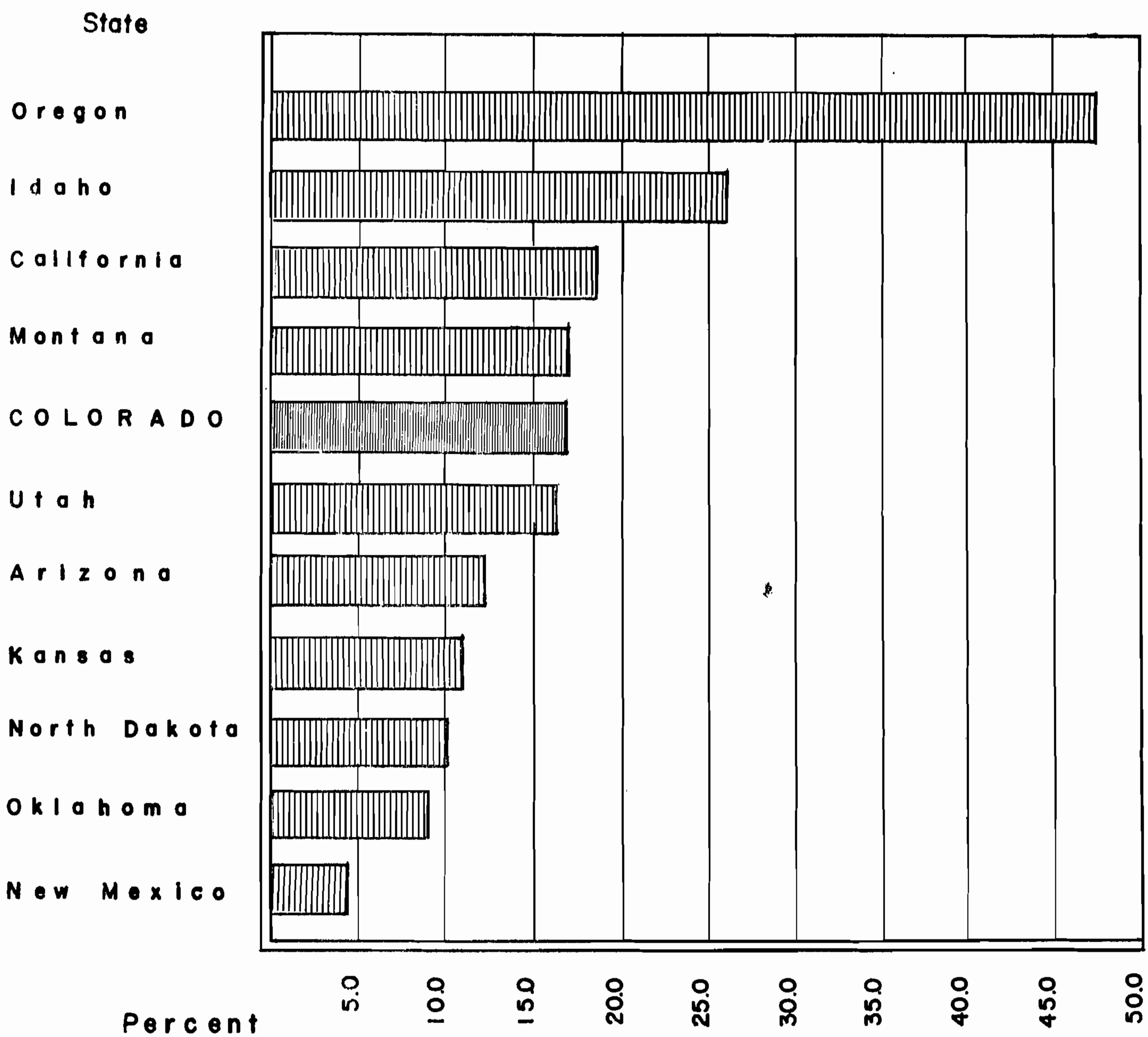
State	Total State Tax Collections	Total Income Tax Collections[2]	Income Tax as Percentage of Total Taxes
Arizona	$ 74,540,000	$ 9,087,000	12.2%
California	1,141,517,000	213,431,000	18.7
COLORADO	111,431,000	19,109,000	17.1
Idaho	38,765,000	10,224,000	26.4
Kansas	137,238,000	15,088,000	11.0
Montana	37,406,000	6,508,000	17.4
New Mexico	70,368,000	3,245,000	4.6
North Dakota	44,472,000	4,528,000	10.2
Oklahoma	196,181,000	17,713,000	9.0
Oregon	129,779,000	62,206,000	47.9
Utah	49,805,000	8,269,000	16.6
Total (11 states)	$2,031,502,000	$369,408,000	18.2

(1) Fiscal Year ending June 30, 1953
(2) Includes both corporation and individual income taxes.

Source: State Tax Collections in 1953, Department of Commerce, U. S. Bureau of the Census.

CHART 13

INCOME TAX REVENUE AS A PERCENTAGE OF TOTAL STATE TAX REVENUE, THE ELEVEN INCOME TAX STATES OF THE WEST, 1953



emphasis placed upon income taxation. The ratio of income tax revenue to total revenue ranges from a high of 47.9 per cent in Oregon to a low of 4.6 per cent in New Mexico. Colorado's 17.1 per cent is below the arithmetic mean (18.2 per cent) but slightly above the median of the 11 states.

The average per capita income tax for the total population of the state is an index frequently utilized for making comparisons among states as well as for comparing the same state over a period of years.

Table 22 shows average per capita income tax collections in 1953 for the 11 states in the West with income taxes. The same comparison is shown in Chart 14. Oregon's $39.03 per capita is more than double the next highest state, California, which is $18.74. Again in the comparison, as was true in the previous chart, Colorado with $13.35 per capita is higher than the median state ($11.01, Montana) but lower than the arithmetic mean per capita ($16.20) for the 11 states. The per capita index has a serious defect in that no allowance is made for relative poverty in some states as compared with others.

The per capita comparison defect is at least partly overcome by relating total income tax revenue to total income payments to individuals in the various states under comparison. This ratio is shown in Table 23 and Chart 15. The ratio of .8 of 1 per cent for Colorado tends to support and validate the previous tables of comparison. Relative to the other 10 states in the West with income taxes, Colorado probably stresses the income tax less than Oregon, California and Idaho, about the same as Utah, Montana and Arizona, somewhat more than North Dakota and Oklahoma, and considerably more than Kansas and New Mexico.

TABLE 22

PER CAPITA INCOME TAX REVENUE, THE ELEVEN INCOME-TAX STATES OF THE WEST, 1953[1]

State	Population July 1, 1952[2]	Income Tax Revenue	Per Capita Income Tax Revenue
Arizona	859,000	9,087,000	$10.57
California	11,390,000	213,431,000	18.74
COLORADO	1,431,000	19,109,000	13.35
Idaho	608,000	10,224,000	16.82
Kansas	2,002,000	15,088,000	7.54
Montana	591,000	6,508,000	11.01
New Mexico	725,000	3,245,000	4.48
North Dakota	600,000	4,528,000	7.54
Oklahoma	2,265,000	17,713,000	7.82
Oregon	1,594,000	62,206,000	39.03
Utah	737,000	8,269,000	11.22
Total (11 states)	22,802,000	369,408,000	$16.20

(1) Fiscal year ending June 30, 1953.
(2) Estimated by U. S. Bureau of the Census.

CHART 14

PER CAPITA INCOME TAX REVENUE THE ELEVEN INCOME TAX STATES OF THE WEST, 1953

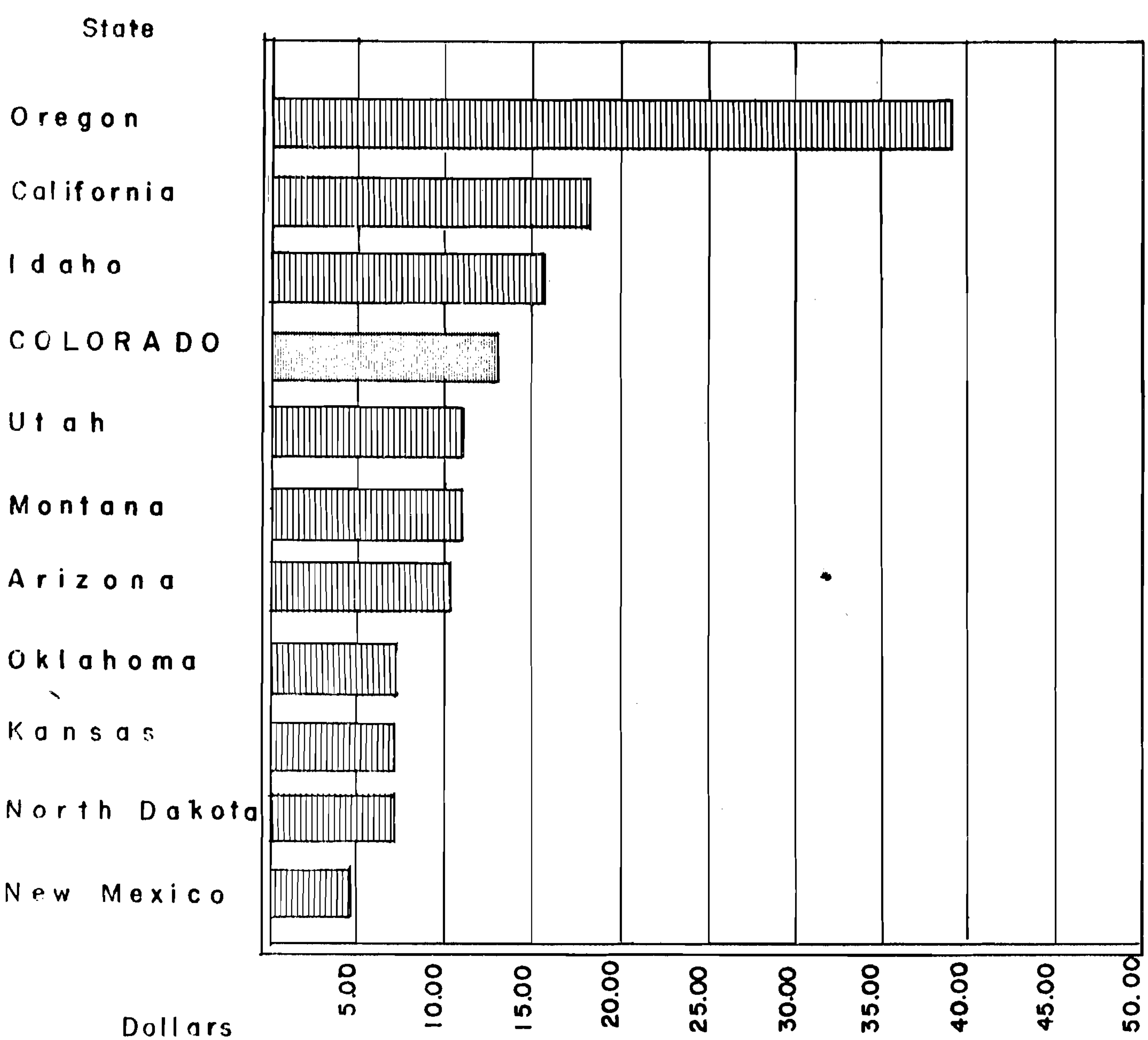


TABLE 23

INCOME TAX REVENUE AS A PERCENTAGE OF INCOME PAYMENTS TO INDIVIDUALS, THE ELEVEN INCOME-TAX STATES OF THE WEST, 1953(1)

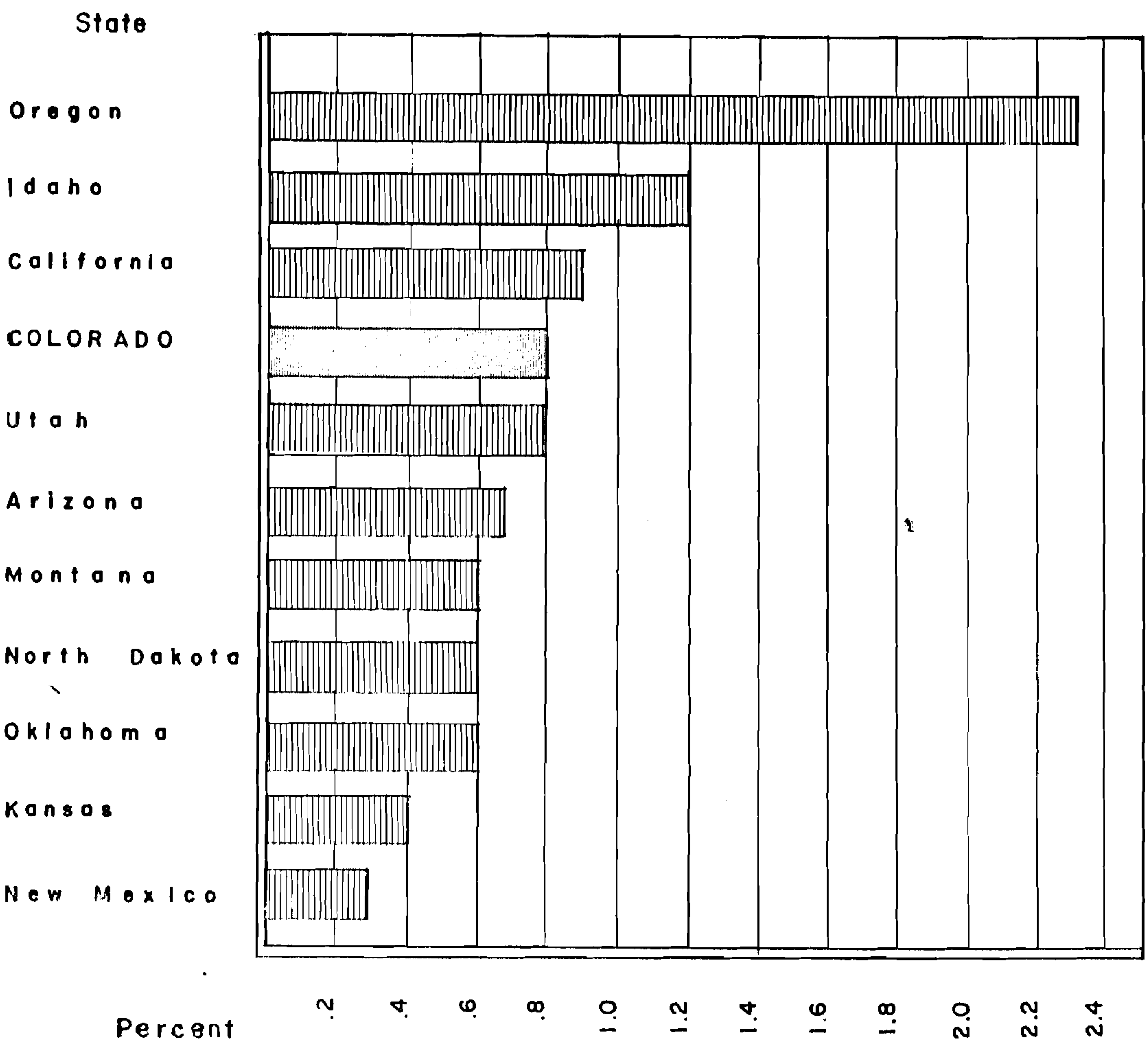
State	Income Payments 1952(2)	Income Tax Collections	Income Tax as Percentage of Payments
Arizona	$ 1,287,000	$ 9,087	.7%
California	23,146,000	213,431	.9
COLORADO	2,316,000	19,109	.8
Idaho	874,000	10,224	1.2
Kansas	3,400,000	15,088	.4
Montana	1,003,000	6,508	.6
New Mexico	965,000	3,245	.3
North Dakota	734,000	4,528	.6
Oklahoma	2,910,000	17,713	.6
Oregon	2,763,000	62,206	2.3
Utah	1,069,000	8,269	.8
Total (11 states)	$40,467,000	$369,408	.9%

(1) Fiscal year ending June 30, 1953.
(2) Calendar year.

Source: State Tax Collections in 1953, Department of Commerce, U. S. Bureau of the Census.

CHART 15

INCOME TAX COLLECTIONS AS PERCENTAGE OF TOTAL INCOME PAYMENTS TO INDIVIDUALS, THE ELEVEN INCOME TAX STATES OF THE WEST



C. Income Tax Revenue, Colorado, 1939-1954.

Table 24 shows Colorado income tax collections by fiscal years since 1939. The figures indicate a nine-fold increase for the 16-year period. Collections reached a peak of $20,255,000 in 1952, and have declined somewhat since then. The same table gives figures indicating income tax revenue as a percentage of total state tax revenue. These figures are also graphically shown in Chart 16. It may be seen that for most of the years (especially since 1942) between 14 and 20 per cent of the state's tax receipts have come from the income tax. The ratio has been remarkably stable, indicating that total state tax revenue has risen in about the same proportion as income tax revenue has risen.

Another comparison shown in Table 24 and in Chart 17 expresses total state income tax payments as percentages of income payments to individuals. These ratios are supposed to be indicative of changes which may be occurring in the tax relative to ability-to-pay such tax as measured by total income of individuals each year under consideration. The ratio was unusually stable for the years between 1940 and 1947. Since 1948, there has been a slight rise in the ratio, the peak being 1 per cent of total income payments in the year 1949.

A final comparison of changes occurring in Colorado relative to total income tax revenue is shown in Table 25 and Chart 18. The income tax is expressed as an average per capita amount by years in both current dollars and in constant-purchasing-power dollars. Thus, the last column in the table (per capita tax, corrected for general price level changes) is significant in that the tax revenue, by years, is related not only to population growth but also to the depreciating value of the dollar. According to these last figures (corrected for population change and price level change)

TABLE 24

COLORADO INCOME TAX REVENUE EXPRESSED AS PERCENTAGES OF TOTAL STATE TAXES AND OF INCOME PAYMENTS TO INDIVIDUALS, 1939-1954.

Year (1)	Income Tax Revenue (000's omitted)	Income Tax Revenue Expressed as Percentage of: Total State Revenue	Income Payments
1939	$ 2,067	6.8	.36
1940	3,118	9.2	.53
1941	3,559	9.7	.51
1942	4,327	11.2	.44
1943	5,636	13.8	.49
1944	6,547	15.9	.58
1945	6,238	14.7	.49
1946	7,089	13.9	.51
1947	8,634	14.2	.52
1948	11,682	15.3	.63
1949	17,064	20.1	1.00
1950	17,495	19.6	.94
1951	19,022	19.0	.89
1952	20,255	19.1	.87
1953	19,109	17.1	
1954	18,301	15.9	

(1) Fiscal years

Source: Reports, Colorado State Department of Revenue
Survey of Current Business, August, 1939-1953, Department of Commerce.

CHART 16

STATE INCOME TAX REVENUE EXPRESSED AS PERCENTAGE OF TOTAL STATE TAX REVENUE, COLORADO, 1939—1954

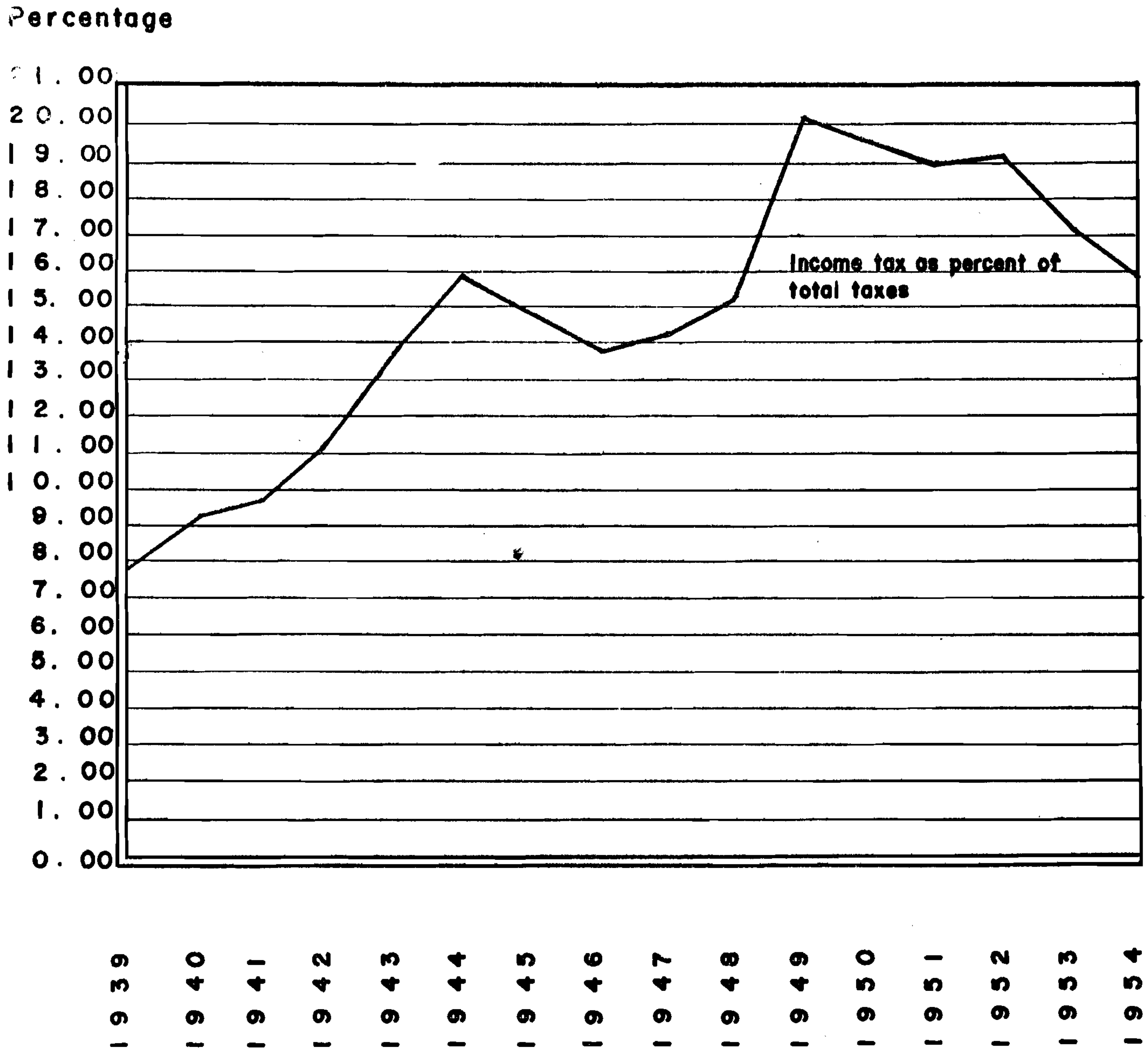


CHART 17

STATE INCOME TAX REVENUE EXPRESSED AS PERCENTAGE OF INCOME PAYMENTS TO INDIVIDUALS, COLORADO 1939—1954

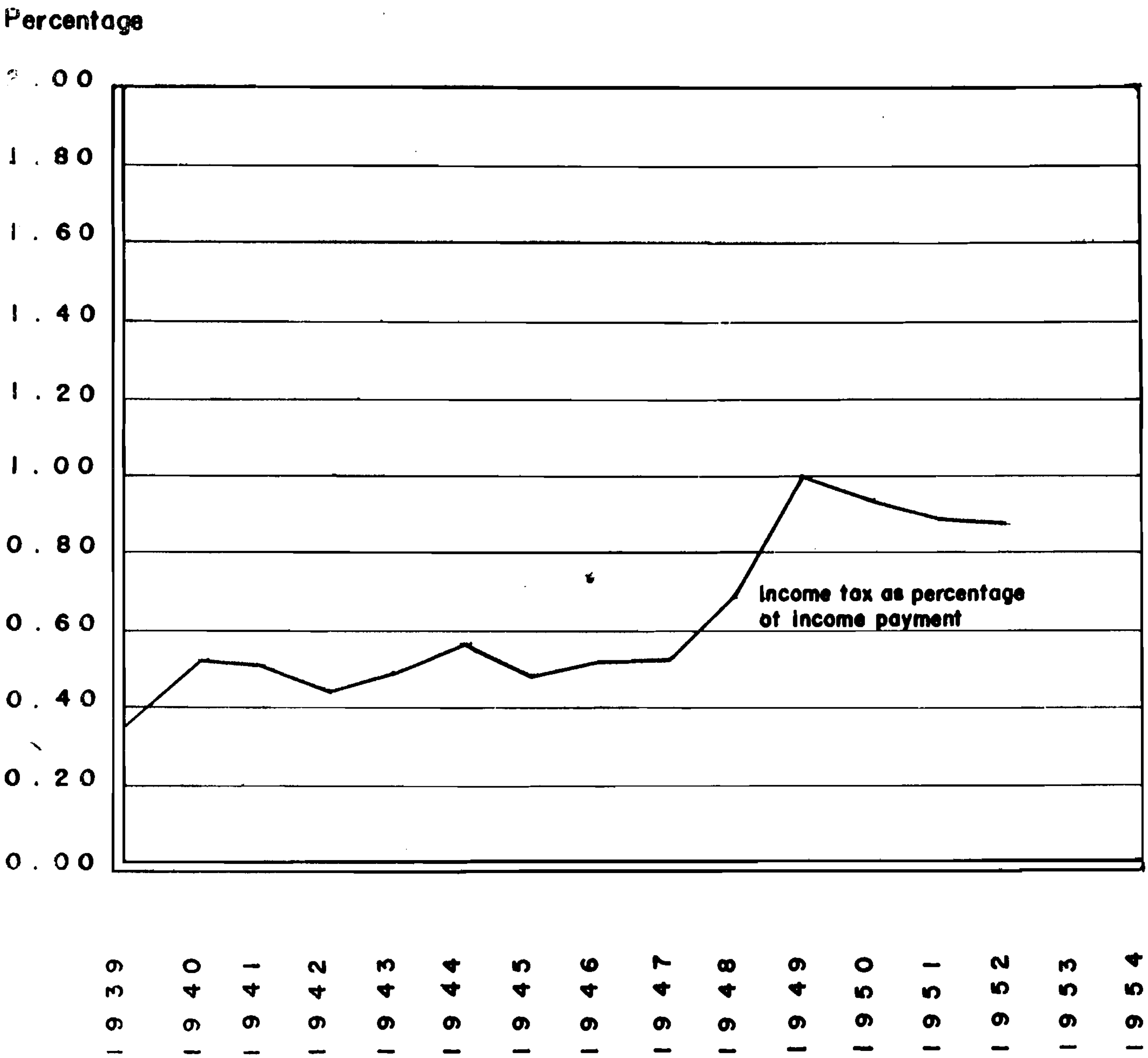


TABLE 25

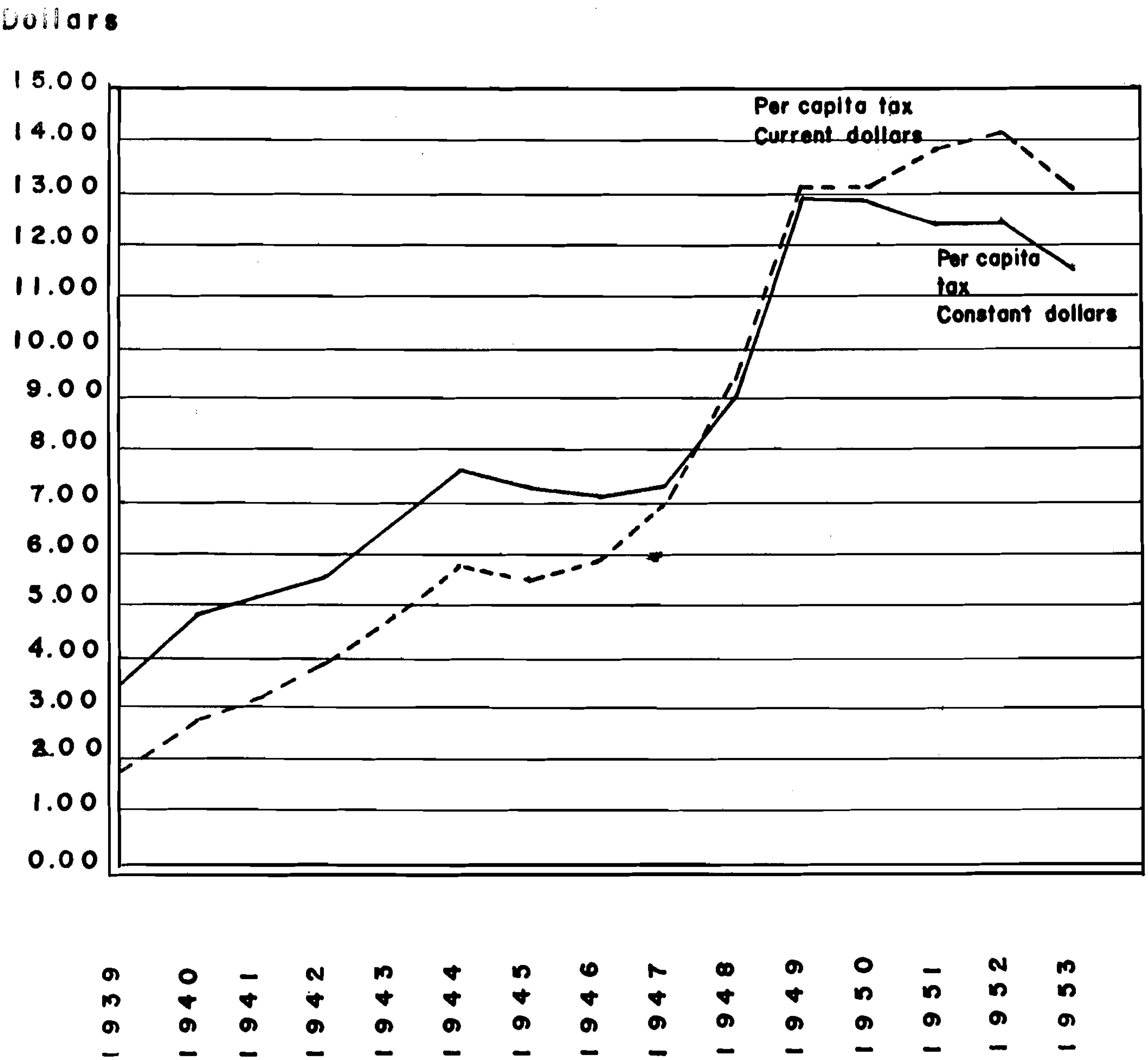
AVERAGE PER CAPITA INCOME TAX PAYMENTS IN COLORADO, EXPRESSED IN CURRENT DOLLARS AND IN CONSTANT-PURCHASING-POWER DOLLARS 1939-1953

Year (1)	Average Per Capita Tax (Current Dollars) (2)	Consumer Price Index (3)	Per Capita Tax Corrected For Price Index Changes (4)
1939	$ 1.86	55.5	$ 3.35
1940	2.76	56.6	4.89
1941	3.17	62.9	5.03
1942	3.89	69.7	5.58
1943	4.89	74.0	6.60
1944	5.76	75.2	7.65
1945	5.59	76.9	7.27
1946	5.89	83.4	7.06
1947	6.98	95.5	7.30
1948	9.25	102.8	9.00
1949	13.18	101.8	12.94
1950	13.20	102.8	12.84
1951	13.82	111.0	12.45
1952	14.19	113.5	12.50
1953	13.12	114.4	11.47

(1) Fiscal year
(2) Calculated by dividing total income tax revenue by total state population each year.
(3) Bureau of Labor Statistics, 1947-1949 = 100.
(4) Calculated by dividing Average Per Capita tax (current dollars) by price index and multiplying by 100.

CHART 18

COLORADO INCOME TAX, AVERAGE PER CAPITA PAYMENTS, 1939 — 1953



the income tax rose from $3.35 (1947-49 dollars) per capita in 1939 to a high of $12.94 per capita in 1949. Since then there has been a slight decline to $11.47 per capita in 1953.

D. Increasing Impact of Taxes Upon Income -- Federal and State Combined.

Since Colorado adopted the net income method of taxation in 1937, the Federal income tax has sharply increased. In order to finance Second World War expenditures, Federal personal exemptions were reduced and tax rates were drastically raised. As a consequence, Federal income tax collections from Colorado residents increased several fold.

Table 26 indicates the upward trend of individual income taxes (Federal and state) paid by residents of Colorado from 1939 to 1950. It may be observed that total income taxes paid by individuals increased from a low of $7,864,000 in 1939 to a high of $171,243,000 in 1950. Expressed on an average per capita basis, the rise was from $7.08 in 1939 to $129.24 in 1950. Any consideration given to the impact of the Colorado income tax should probably also take into consideration the impact of the Federal income tax. Federal figures are not yet available, in final form, for years since 1950.

E. General Fund Revenue Importance of the Income Tax.

Due to the fact that much of the state tax revenue in Colorado is earmarked for special purposes (about 80 per cent of the total in 1953), there are comparatively few sources of revenue left for the general fund. Yet the general fund is the basis for financial support of the state institutions as well as the general functions of state government. Therefore, it is from the general fund that the legislature authorizes appropriations and enacts the state's annual budget.

The principal source of revenue for the general fund is the income tax. Since 1947, none of the receipts to the income tax have been earmarked --

TABLE 26

TOTAL FEDERAL AND STATE INCOME TAXES PAID BY INDIVIDUALS IN COLORADO, ALSO EXPRESSED AS AVERAGE PER CAPITA, 1939-1953.

	Individual Income Taxes (1)				
Year	Colorado	Federal (2)	Total	State Population (1)	Average Per Capita Total Taxes
1939	$ 1,730	$ 6,134	$ 7,864	1,111	$ 7.08
1940	2,091	9,066	11,157	1,130	9.87
1941	2,399	23,909	26,308	1,124	23.41
1942	3,085	66,622	69,707	1,113	62.63
1943	3,621	102,802	106,423	1,137	99.30
1944	3,302	110,086	113,388	1,137	99.72
1945	3,035	131,725	134,760	1,116	120.75
1946	4,124	124,269	128,393	1,203	106.73
1947	5,648	150,660	156,308	1,237	126.36
1948	6,892	124,269	131,161	1,263	103.85
1949	12,054	128,524	140,578	1,295	108.55
1950	11,231	160,012	171,243	1,325	129.24
1951	12,812			1,376	
1952	13,888			1,431	
1953	12,957			1,413	

(1) 000's omitted
(2) Federal figures are not yet available for years since 1950.

Source: *Statistics of Income for 1950*, U. S. Department of the Treasury; *State Tax Collections, 1939-1953*, U. S. Bureau of the Census; *Annual Reports*, Colorado State Department of Revenue.

all such revenue going to the general fund. Current revenue sources of the general fund for the last four years are shown in Table 27.

In 1950, the general fund depended upon the income tax for nearly 70 per cent of its current revenue. Since then the trend has been down slightly, the ratio being 60.5 per cent in 1953. Thus a very high proportion of revenue appropriated by the General Assembly and subject to their control comes from a single kind of tax. This situation does not necessarily imply that the income tax is too heavy. Rather, the interpretation should probably be that too many other sources of revenue are diverted from the general fund because of earmarking.

F. Advantages and Disadvantages of the Income Tax

Advantages

(1) The argument of equity or fairness. The tax is said to conform to the ability-to-pay principle of taxation, as net income is the best measure of economic wellbeing of an individual or firm. In contrast with property and sales taxes, the tax is assessed only when income is earned. Allowance for cost of acquiring income is permitted. Moreover, the tax takes into consideration family size by permitting exemptions and may apply progressive rates as income increases. All these considerations argue for fairness of the tax.

(2) The direct tax argument. The burden of the income tax is generally not shifted to others, but rather is borne by the initial taxpayer. In other words, the tax is not hidden; it is out in the open. To the extent that this condition prevails, it becomes possible to distribute tax burdens more fairly because the tax "stays put." Also there is the probability that individuals are more responsible citizens when taxes are directly and knowingly paid.

TABLE 27

TAX REVENUE SOURCES OF GENERAL FUND, COLORADO, 1950-1953[1]

Tax Source	1950	Tax Receipts (Dollars) 1951	1952	1953
INCOME	$16,423,994	$17,987,314	$19,161,346	$18,156,274
Sales, Use & Liquor (15%)	1,758,013	2,390,386	2,446,910	2,836,776
Inheritance	1,661,469	2,019,532	2,360,411	2,828,781
Insurance	1,704,407	1,964,456	2,277,046	2,534,930
Racing	645,519	1,312,713	1,580,945	1,798,438
Other taxes	1,480,060	1,542,859	1,649,328	1,834,460
Total	$23,673,462	$27,217,260	$29,475,986	$29,989,659

	1950	Tax Receipts (Percentages) 1951	1952	1953
Income	69.4	66.1	65.0	60.5
Sales, Use & Liquor (15%)	7.4	8.8	8.3	9.5
Inheritance	7.0	7.4	8.0	9.4
Insurance	7.2	7.2	7.7	8.5
Racing	2.7	4.8	5.4	6.0
Other Taxes	6.3	5.7	5.6	6.1
	100.0	100.0	100.0	100.0

(1) Fiscal years

Source: Budget Reports, State of Colorado.

(3) <u>Taxation of intangibles argument</u>. States have encountered extreme difficulty in taxing intangible wealth (stocks, bonds, mortgages, notes, deposits, etc.) under the property tax. Regular mill levies are usually high enough to be confiscatory. Consequently, intangibles go into hiding and are not found by assessors. Recognizing this difficulty many states now exempt by law all intangibles from the property tax and tax instead the income from intangibles under an income tax. This arrangement appears to be both practical and fair.

(4) <u>The neutrality argument</u>. The effect of the tax upon production is said to be more neutral than is the case with most other revenue measures. In other words, the tax is said to have a minimum adverse effect upon investment, production and employment. The individual income tax, being personal in nature and levied upon a surplus rather than a cost, is probably less likely to discourage initiative or deter incentive than if an equal amount of revenue were obtained from a property, gross-receipts, or business license tax. Although this favorable situation is said to pertain especially in the personal income tax, it also is present, to a lesser degree, when the corporate income tax is utilized. The officials of a corporation are probably less likely to be discouraged by an income tax which they can disregard if profits are not earned than when substantial taxes, based upon property or gross revenue, must be paid each year regardless of earnings or losses.

(5) <u>The non-resident argument</u>. Frequently, individuals earn income in one state and live in another. Also corporations doing business in one state may be chartered elsewhere, or the stockholders of a domestic corporation may reside outside the state. Moreover, many corporations conduct both intra and inter-state business. In all of these situations, the income tax, both individual and corporate, is advantageous in that income can be

taxed where earned even though such income goes directly or indirectly to non-resident individuals or corporations. This non-resident consideration has been a principal reason why an increasing number of cities have adopted an income or payroll tax.

(6) Finally, there is the compensatory fiscal policy argument. The income tax injects into the economic system a desirable, automatic counter-cycle effect. Economists and fiscal authorities are just beginning to appreciate this advantageous counter-cycle influence. If the intensity of the "boom and bust" phases of the business cycle can be reduced, a more stable, continuous, and satisfactory level of production and general well-being can be maintained. As income tax collections automatically increase during times of rising prices and inflation, there is some deterring influence upon the development of an unhealthy boom. On the other hand, during a period of falling prices, recession, low production, and pessimism, the automatic shrinkage of the income tax tends to keep the depression from becoming as severe as it perhaps would under a system of more inflexible levies where tax loads continue at very much the same level.

Disadvantages

(1) The complexity of the tax argument. The income tax is not a simple and easy one to calculate. Governments usually require taxpayers largely to calculate their own tax liability. Thus, frequently, considerable time and expense is involved. However, as long as the Federal Government has an income tax the complexity of a state measure may be minimized by coordinating many phases of the state tax with the Federal.

(2) The administrative - difficulty argument. Just as the tax is not easily calculated by the taxpayer, it is not easily administered by the government. Considerable evasion and avoidance undoubtedly occur. Actually,

governments as a rule spend a relatively small amount on administrative expense but this is because usually merely a sample check and a limited audit of returns are undertaken. Fortunately, there appears to be a considerable amount of basic honesty possessed by American taxpayers.

(3) The inequity argument. This is a rebuttal of an argument on the other side. Although it may be rather universally admitted that net income is a fair measure of taxpaying ability and that ability is a good basis for taxation, disagreement arises regarding the proper level of exemptions, tax rates, definition of income, etc. Therefore, any particular income tax law is likely to be considered unfair by at least some groups of taxpayers. A legislative body when fixing the amount of tax exemptions or a particular progression of tax rates is somewhat like a rudderless ship at sea. There is no easily proven best method of deciding what particular features of the law will be most desirable for all. Too often, personal biases, with a conscious or unconscious desire for favoritism toward one group, or prejudice against another, are allowed to motivate the legislative committee which undertakes the drafting of an income tax bill or amendment. Unfortunately this inequity which may creep into an income tax may also, to a lesser or greater extent, be present in other kinds of revenue measured.

(4) The instability of tax-yield argument. The amount of revenue collected from the income tax fluctuates with the level of economic prosperity or depression. Consequently, the tax yield is not easily predicted by budget authorities. This disadvantage is partly overcome by having a diversified tax system so that the income tax will not be the sole source of revenue. Also there is the fiscal policy consideration which argues that fluctuating tax revenue is really desirable if a "boom or bust" appears to be developing, in order that extreme economic fluctuation may be prevented.

(5) The double-taxation argument. It is sometimes thought undesirable and unfair for a state to levy an income tax when the Federal government is also taxing incomes. If both taxes taken together are excessive then inequity will be present and the resulting double taxation will be regrettable. However, if a particular kind of tax is good in principle, and if administration is feasible, there is probably nothing necessarily wrong with more than one level of government utilizing this same tax. Actually, because of the Federal deductibility allowance for state income taxes paid, there is not as much double taxation, especially among the larger income taxpayers as may appear on the surface. This deductibility provision is a kind of Federal subsidy going to those states with income taxes.

(6) The underdeveloped areas argument. The income tax cannot hope to succeed very well in backward and undeveloped areas. Unless there is rather widespread literacy, some general ability in the art of accounting, willingness on the part of taxpayers to accept direct taxation as a self-imposed discipline, industrialized society, or at least agriculture engaged in the production of "cash" crops, or finally, unless there is some accumulation of capital and saving, yield of the income tax will usually prove to be disappointing.

SECTION VI -- INCOME TAX ADMINISTRATION

A. General Procedure

Director of Revenue. Responsibility for administration of the income tax law is vested in the Director of Revenue. The Director has authority to formulate and adopt tax rules and regulations, not inconsistent with provisions of the Act. Such rules and regulations are valid and binding as they relate to a taxpayer.

Examination of Books, etc. The Department of Revenue has power to examine books, papers, records, or memoranda which may have a bearing upon the validity or correctness of an income tax return. If necessary in order to gain desired information, the Department may subpoena a taxpayer or witnesses through application to any Judge of the District Court of the State of Colorado.

Secrecy. All information contained on income tax returns filed with the Department of Revenue must be kept confidential and secret in the Department. This secrecy regarding the nature and identity of individual returns (including corporations) does not preclude the publication of income tax statistics, so classified as to preserve the secrecy of individual returns.

Determination of Tax Liability. Income tax returns are to be examined by the Department of Revenue and the correct amount of the tax determined. As set forth in the law, a complete procedure is prescribed for review of the tax returns and for a final determination of the correct tax liability. This procedure, step by step, is as follows:

1. Examination of the return by the Department of Revenue;
2. "Notice of Deficiency" by registered mail if the department believes there is a deficiency;
3. Within 30 days of date of mailing "Notice of Deficiency" taxpayer

may, in writing, request a hearing;

4. If a hearing is requested, a date for same is fixed by the Director, at which time the taxpayer may present additional evidence and argue his case;
5. Upon the basis of the hearing, the Director makes a final determination of the assessment and notifies the taxpayer within a reasonable time by registered mail;
6. Within 30 days after the mailing of the "Notice of Final Determination" the taxpayer must either pay or appeal to the District Court;
7. The income tax law prescribes the procedure for appeal to the District Court.

Interest and Penalties. Interest - After due date of any tax or deficiency in tax, the unpaid amount of tax liability accumulates interest at the rate of $\frac{1}{2}$ per cent per month which is added to the tax bill.

Penalties - Penalties prescribed in the law in addition to the $\frac{1}{2}$ per cent per month of interest are summarized in Table 28.

Period of Limitation. Unless such time be extended by waiver in writing, signed by the taxpayer and accepted in writing by the Director, assessment of the taxes and penalties, if any, must be made within four years after the filing of the return for the taxable year in question.

Assessments made according to law are valid, and collection may be enforced at any time within six years from date of said assessment.

With some exceptions, no claim for refund or credit is allowed unless application is made within four years from the date of filing the return on account of the tax in question.

In the case of failure to file a return or the filing of a false or fraudulent return with intent to evade tax, the tax may be assessed and collected at any time.

TABLE 28

INCOME TAX PENALTIES

Cause (Civil)	Amount (Whichever Is the Greater)
Return, failed to file	$1.00 or 5% of the tax
When due, voluntarily	$1.00 or 5% of the tax
Demand, Director	$2.00 or 25% of the tax
Fraudulently	$25.00 or 50% of the tax
Willfully	$25.00 or 50% of the tax
False, willfully	$50.00 or 100% of the tax
Assessment paid, beyond time	5% of the tax
Fail to pay, fraudulent	50% of the tax
Negligence assessment	25% of the deficiency
Cumulative	Total of all due

Cause (Criminal)	
Willfully fails:	Not more than:
Make return	one year, $5,000 or both
Keep records	
Supply information	
Willfully fails:	
Account	five years, $10,000 or both
Collect	
Pay Over	
Pay Tax	
Evade Tax	

Source: Regulations, Colorado Department of Revenue.

If the taxpayer, in his return, is deficient in excess of 25 per cent of the correct amount of net income, a deficiency assessment may be made or a proceeding in court commenced for collection of the additional tax at any time within six years after the return was filed.

Warrants for Collection. If an income tax, or portion thereof, is not paid within 60 days after due date the Director of Revenue is directed to issue a warrant directing the sheriff of any county to levy upon and sell at public auction sufficient real and personal property owned within the county by such delinquent taxpayer to pay the tax plus interest and penalties.

B. Returns Filed

Who must file - The following are liable for filing returns:

(1) Individuals. (a) Every resident of Colorado with a gross income of $600 or more, (b) Every individual who was resident in Colorado for part of the year whose gross income exceeds his pro-rated exemption ($50 per month), (c) Every non-resident who received income from Colorado sources, (d) For every decedent whose gross income accrued to date of death was $600 or more, a return must be filed.

(2) Fiduciaries. Every fiduciary with gross income (distributable, or accumulated) of $600 or more.

(3) Corporations. Every corporation which conducts transactions within the state, whether or not such transactions result in net income.

C. Number of Returns

Table 29 and Chart 19 show the number of returns, both taxable and non-taxable, filed in the state for each year since 1939. There has been a constant trend upward in the number of taxable returns. Unusually large increases occurred in 1949 and again in 1952. These increases were largely

TABLE 29

TOTAL STATE INCOME TAX RETURNS FILED BY CALENDAR YEARS 1939-1953

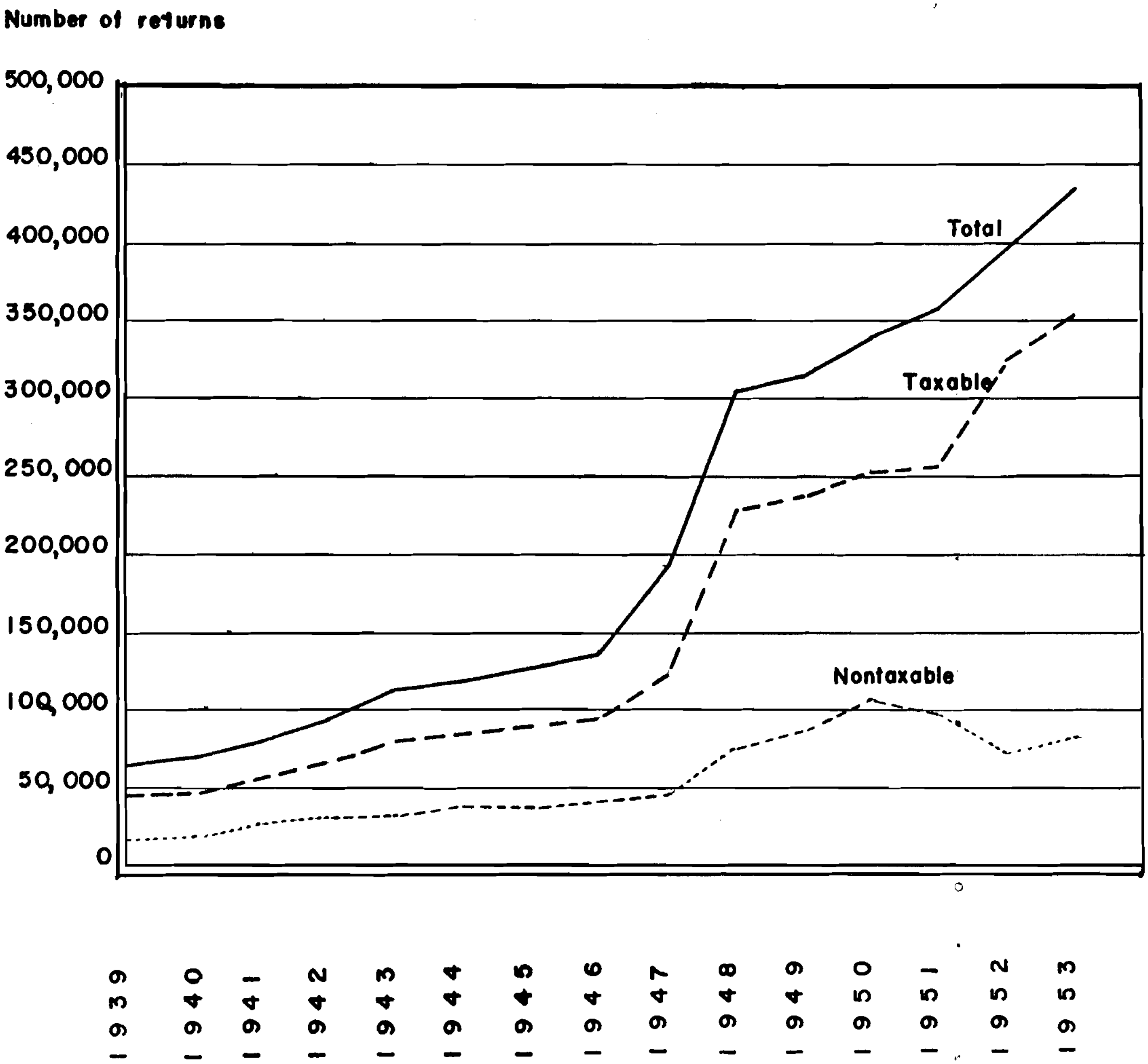
NUMBER OF RETURNS[1]

Year	Taxable	Non-taxable	Total
1939	46,567	18,524	65,091
1940	49,157	19,028	68,185
1941	55,195	24,403	79,598
1942	67,906	27,654	95,560
1943	83,079	28,594	111,673
1944	81,755	37,164	118,919
1945	89,308	37,635	126,943
1946	94,320	40,254	134,524
1947	121,657	42,214	193,871
1948	229,353	73,877	303,230
1949	231,946	83,450	315,396
1950	238,247	102,650	340,897
1951	254,229	98,918	353,147
1952	326,963	71,797	398,660
1953	352,417	81,114	433,531

(1) Excluding partnership returns filed for information only.

CHART 19

TAXABLE, NON-TAXABLE AND TOTAL RETURNS FILED IN COLORADO BY YEARS 1939 — 1953



due to personal exemption reductions which became effective those years. Non-taxable returns increased in number each year until 1950. Since then the number has been somewhat less. Perhaps the recent reduction in number of non-taxable returns is because of the rise in average incomes accompanied by the above mentioned lowering of personal exemptions.

Table 30 gives the number of returns filed by years, classified by individuals, corporations and fiduciaries. Since 1939 there has been almost a seven-fold (684 per cent) increase in individual taxable returns, corporation taxable returns have risen by 160 per cent; while fiduciary taxable returns have increased about 140 per cent. Thus, since the tax measure was first introduced the impact of the tax, especially as it applies to persons (individuals) has changed significantly.

This changing nature of the individual income tax is illustrated in Table 31 and Chart 20 which relate the number of taxpayers to the population of the state. In 1939, the first full year of collections, only 4 per cent of the people (6 per cent of adults) paid an income tax. In contrast, by 1953 almost one-fourth of the people (38 per cent of adults) paid a tax. The change has been due primarily to broadening of the tax base through lowering of exemptions and also to the fact that an upward trend has occurred in the level of incomes, particularly among lower income groups. Therefore, the tax has changed from a levy on the wealthy to a levy on a majority of householders. This broadening of the tax base has increased both the yield and the stability of the tax as a revenue measure.

However, with the ever-increasing number of returns filed with the Department of Revenue, problems of inspection and auditing have multiplied. In 1953, with nearly a half million returns coming into the office the amount of administrative labor required was much more than 15 years earlier when only 65,000 returns needed to be processed.

T A B L E 30

TAXABLE AND NON-TAXABLE STATE INCOME TAX RETURNS FILED BY TYPE OF RETURN, CALENDAR YEARS 1939-1953[1]

Year	Individuals Taxable	Individuals Non-Taxable	Corporations Taxable	Corporations Non-Taxable	Fiduciary Taxable	Fiduciary Non-Taxable
1939	44,152	13,874	1,963	3,867	452	783
1940	46,348	14,700	2,183	3,442	626	886
1941	52,716	20,506	1,969	2,894	510	1,003
1942	64,475	23,878	2,763	2,686	668	1,090
1943	79,038	25,287	3,443	2,133	598	1,174
1944	77,701	33,823	3,540	1,940	514	1,401
1945	84,969	34,306	3,749	1,952	590	1,377
1946	89,675	36,975	4,226	1,889	619	1,390
1947	117,066	39,032	3,881	1,766	710	1,416
1948	224,496	70,273	4,171	2,047	686	1,557
1949	227,139	79,574	4,005	2,247	802	1,629
1950	233,061	98,458	4,291	2,544	753	1,648
1951	248,587	94,694	4,786	2,542	856	1,682
1952	320,805	67,403	5,190	2,569	968	1,819
1953	346,243	75,779	5,099	3,151	1,075	2,184

(1) Partnership returns are also filed (for information only) but are not listed in this table.

TABLE 31

NUMBER OF TAXABLE INDIVIDUAL RETURNS RELATED TO TOTAL STATE POPULATION, BY YEARS, 1939-1953.

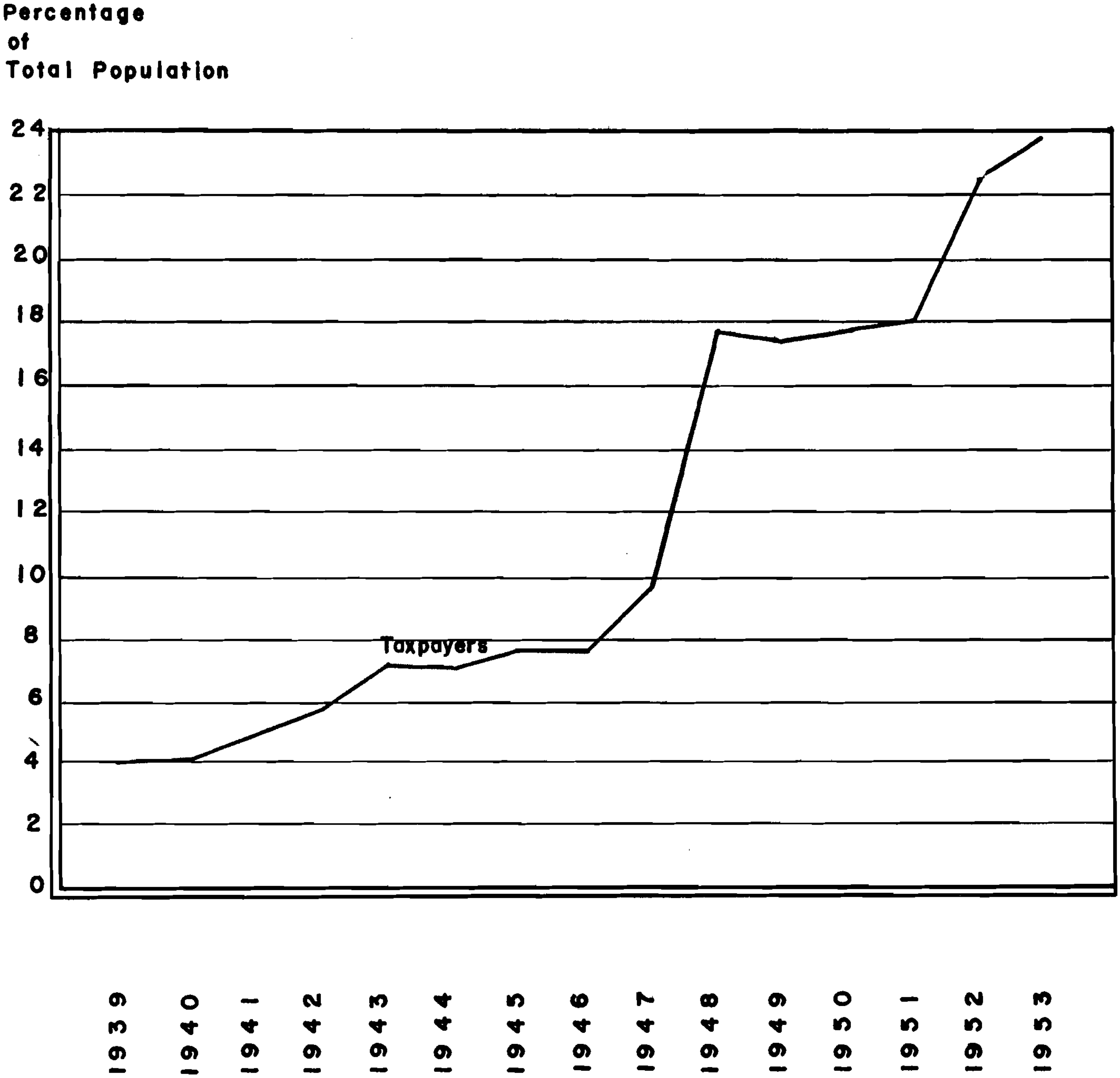
Year	Colorado Population	Individual Taxable Returns	Individual Taxpayers Expressed as Percentage of Population
1939	1,111,000	44,152	4.0
1940	1,130,000	46,348	4.1
1941	1,124,000	52,716	4.7
1942	1,113,000	64,475	5.8
1943	1,153,000	79,038	6.9
1944	1,137,000	77,701	6.8
1945	1,116,000	84,969	7.6
1946	1,203,000	89,675	7.5
1947	1,237,000	117,066	9.5
1948	1,263,000	224,496	17.7
1949	1,295,000	227,139	17.5
1950	1,325,000	233,061	17.6
1951	1,376,000	248,587	18.0
1952	1,427,000	320,805	22.4
1953	1,456,000	346,243	23.8

Source: U. S. Bureau of the Census and Reports of Colorado State Department of Revenue.

CHART 20

NUMBER OF TAXPAYERS EXPRESSED AS PERCENTAGE OF TOTAL POPULATION IN COLORADO

PERSONAL INCOME TAX 1939—1953



D. Administrative Cost

The administrative cost of the Colorado income tax has been reported by the Department of Revenue since the Department was established in 1942. Comparable figures are not available for prior years. Table 32 shows total dollar costs of administrative costs expressed as a percentage of total tax collections. The increase in administrative cost has paralleled very closely the increase in total tax collections as indicated by the percentage column. Since 1942 the cost of collecting each dollar of income tax revenue has ranged from a low of 2.2 cents in 1943 to a high of 3.6 cents in 1945. The average cost for the 12 years was about 2.8 cents.

Another basis for considering the administrative cost of the income tax is to relate total cost to the number of taxable returns. This is a fair basis for measuring administrative efficiency. However, it has shortcomings. The cost of processing returns varies according to kind of return, kind of income, etc. Nevertheless, the administrative cost per taxable return is considered a fair basis for comparing one year with another. Table 33 shows the cost per taxable return by years since 1942. It should be noted that cost figures are for fiscal years while returns filed are by calendar years. The average cost per return rose from $1.41 in 1942 to $2.00 in 1947; since then the cost has deviated but slightly from $1.80 per return. During these years, general prices, wages, etc. have risen in the state and nation. Consequently, the cost of $1.80 in 1953 is very favorable as compared with $1.41 in 1942 and with an over-all average for all years of $1.83.

TABLE 32

ADMINISTRATIVE COST RELATED TO TAX COLLECTIONS, COLORADO

INCOME TAX, BY FISCAL YEARS, 1942-1953

Year	Income Tax Collections	Income Tax Administrative Cost	Percentage Adm. Cost To Total Collections
1942	$ 4,327,795	$ 96,243	2.22
1943	5,636,333	124,040	2.20
1944	6,547,834	176,882	2.70
1945	6,238,848	227,180	3.64
1946	7,089,274	232,892	3.29
1947	8,634,796	243,637	2.82
1948	11,682,199	373,033	3.19
1949	17,064,672	427,820	2.51
1950	17,495,008	436,478	2.49
1951	19,002,355	461,942	2.43
1952	20,255,644	538,945	2.67
1953	19,173,261	632,869	3.30
Total	$143,148,019	$3,971,961	2.77

Source: Reports, Colorado State Department of Revenue.

T A B L E 33

ADMINISTRATIVE COST PER TAXABLE RETURN, COLORADO INCOME TAX, 1942-1953.

Year	Income Tax Administrative Cost (1)	Total Taxable Returns (2)	Administrative Cost Per Taxable Return
1942	$ 96,243	67,906	$1.41
1943	124,040	83,079	1.49
1944	176,882	81,755	2.16
1945	227,180	89,308	2.54
1946	232,892	94,320	2.47
1947	243,637	121,657	2.00
1948	373,033	229,353	1.63
1949	427,820	231,946	1.84
1950	436,478	238,247	1.83
1951	461,942	254,229	1.82
1952	538,945	326,963	1.65
1953	632,869	352,417	1.80
Total	$3,971,961	2,171,180	$1.83

(1) Fiscal Year
(2) Individual, Corporate and Fiduciary Taxable Returns. Calendar years.

Source: Calculated from reports of Colorado State Department of Revenue.

SECTION VII -- SPECIAL CONSIDERATIONS RELATING TO THE COLORADO INCOME TAX

A. The Surtax

Colorado's surtax on income is applied upon an entirely different principle from the surtax utilized by the Federal Government. The latter has a surtax on net taxable income after personal exemptions and is principally for the purpose of making the income tax rates more steeply progressive. On the other hand, Colorado's surtax is a special 2 per cent flat rate on income in the form of interest and dividend payments after a fixed exemption ($600, currently), the latter having no relationship to the level of personal exemptions. Interest and dividend payments are often referred to as being income from intangibles and the surtax is frequently called an intangible income tax.

Purpose of the Surtax. At the time the income tax law was enacted in 1937, all intangible personal property in Colorado was made exempt from taxation under the property tax. This legally freed approximately one billion dollars of intangible wealth from any property (mill levy) tax liability. However, prior to 1937, most of this wealth had escaped taxation anyway through the failure of assessors to place the property upon tax rolls. Regular property tax rates were considered confiscatory because of being as high or often higher than the total income from the intangibles.

It was decided to levy a 2 per cent surtax (in addition to a normal tax after exemptions) on all income from intangibles, as part of the new income tax law of 1937. Thus, there was substituted, a moderate tax (based upon income) for the very heavy tax (based upon property) which was being repealed.

Surtax Amendments Since 1937. A $200 intangible income exemption was permitted beginning in 1942. This exemption was increased to $600 in 1951.

The reason for this exemption was the belief that without it, many small income receivers primarily dependent upon interest and dividend payments, notably retired old people, would unduly suffer.

The effects of amendments since 1937 as they pertain to intangible income may be seen in Table 34. If we assume that intangibles (stocks, bonds, mortgages, etc.) yield an average return of 4 per cent, the table indicates that average property tax liability prior to 1937 amounted to $87\frac{1}{2}$ per cent of average income. This was indeed confiscatory. However, the surtax (1937-42) without an exemption, reduced this liability to 2 per cent, making the tax $4, for example, on intangibles worth $5,000. Effect of the subsequent exemptions ($600 by 1951) was to exempt $15,000 worth of stocks and bonds (assuming a 4 per cent yield) from any surtax.

TABLE 34

CHANGING SURTAX LIABILITY SINCE 1937

Value of Intangibles	Amount of Income (1)	Under Property Tax Prior To 1937 (2)	Surtax 1937-42 (3)	Surtax 1942-51 (4)	Surtax Since 1951 (5)
$ 5,000	$ 200	$ 175	$ 4	$ 0	$ 0
10,000	400	350	8	4	0
20,000	800	700	16	12	4
50,000	2,000	1,750	40	36	28
100,000	4,000	3,500	80	76	68

(1) Assuming a 4% average yield
(2) Assuming an average rate of 35 mills. This was the average rate in 1936, it has since increased.
(3) No exemption was permitted.
(4) $200 exemption.
(5) $600 exemption.

Present Status of Surtax -- Number of Returns. Table 35 shows the proportion of individual taxable returns filed in 1951 and 1952 which contained some surtax liability. In 1951, when the exemption was $200, one out of nine taxpayers, paid a surtax. However, in 1952 (exemption $600) only one out of every 18 paid a surtax. These 17,897 surtaxpayers represented a small proportion indeed of the adult population of Colorado. The tax applies to natural persons only. There is no surtax imposed on income from intangibles received by trusts, estates, corporations or partnerships.

Surtax Revenue. The surtax is currently yielding about $1,000,000 of revenue annually. This is only about 5 per cent of total state income tax receipts. The effect of changes made in 1952 as compared with 1951 (latest figures available) is shown in Table 36. The average payer of surtaxes had surtaxable income (interest and dividends) of $3,064 as shown by returns filed in 1952. Thus, he was a taxpayer of considerable intangible wealth. The Revenue Department has estimated this wealth on an income capitalized basis of 4 per cent. The results are shown in Table 37. The 1952 returns show an estimated total capital wealth (intangibles) of about $1.4 billion which represents an average of $76,599 of intangible wealth per taxpayer.

Surtax Unique to Colorado. Among the 11 states in the West with income taxes, Colorado is the only one levying a special (additional) tax on intangible income. However, among these 11 states only four legally exempt intangibles from the property tax. The situation is shown in Table 38.

TABLE 35

INDIVIDUAL TAXABLE RETURNS FILED IN 1951 AND 1952 SHOWING NUMBER PAYING SURTAXES (COLORADO).

	1951 (1)	1952 (2)
Individual Taxable Returns	248,587	320,805
Surtaxable Returns	29,521	17,879
% surtaxable to Total	11.8	5.6

(1) For income earned in 1950.
(2) For income earned in 1951.

Source: Colorado State Department of Revenue.

TABLE 36

SURTAX COLLECTIONS REPORTED ON TAXABLE INDIVIDUAL INCOME TAX RETURNS, FILED IN CALENDAR YEARS 1951 AND 1952.

	SURTAX COLLECTIONS		NET SURTAXABLE INCOME	
Year	Amount	Average Per Return	Amount	Average Per Return
1951 (1)	$1,253,596	$42.46	$62,679,798	$2,123
1952 (2)	1,095,617	61.28	54,780,860	3,064

(1) A $200 exemption. Also allowed was a 20% reduction of surtax liability.
(2) A $600 exemption. No allowance for 20% reduction.

Source: Research and Statistics Section, Income Tax Division, Colorado Department of Revenue.

TABLE 37

CAPITALIZATION OF NET SURTAXABLE INCOME AT FOUR PER CENT ON SURTAXABLE RETURNS FILED IN 1951 AND 1952

		Estimated Capital	
Year	Number of Surtaxable Returns	Total	Average Per Return
1951	29,521	$1,566,663,300	$53,069
1952	17,879	1,369,521,500	79,599

Source: Research and Statistics Section, Income Tax Division, Colorado Department of Revenue.

TABLE 38

INCOME TAX STATES OF THE WEST WITH AND WITHOUT INTANGIBLE PROPERTY TAX EXEMPTION, 1954.

State	Intangible Property Tax Exemption(1)	Surtax
Arizona	No	No
California	Yes	No
Colorado	Yes	Yes
Idaho	No	No
Kansas	No	No
Montana	No	No
New Mexico	No	No
North Dakota	No	No
Oklahoma	No	No
Oregon	Yes	No
Utah	Yes	No

(1) Relative to property tax.

Source: State Tax Guide 1954, Commerce Clearing House.

Advantages and Disadvantages of Surtax. Advantages of the surtax probably include the following: (1) Additional revenue is obtained for the general fund, although currently, such collections are only about $1,000,000 annually. (2) The tax is a replacement for property tax exemptions of intangible wealth, although the $600 exemption of intangible income largely nullifies this replacement advantage. (3) It is sometimes contended that income from investments as contrasted with income in the form of wages and salaries, represents additional taxpaying ability. At one time the Federal law recognized this principle. This may be some justification for the surtax on interest and dividends, although it does not explain why the tax is not also imposed on rental income.

The disadvantages probably include the following: (1) Exemptions are now so high that the tax probably represents class legislation singling out a few in the state who must pay the surtax. (2) The tax adds to the complexity of the income tax, both for the taxpayer and for the Revenue Department administering the tax.

B. The Personal Exemption Issue

The amount of personal exemption permitted in Colorado for the taxpayer, spouse and dependent has changed several times in the past. Also there is considerable difference of opinion among the states (judged by existing legislation) regarding the proper level of exemptions.

There were two principal reasons in the minds of lawmakers for permitting income tax personal exemptions when such legislation was first enacted. First, there was the belief that a certain minimum income should be retained by an individual, without taxation, so as better to assure the obtaining of the bare essentials of life. Secondly, personal exemptions were considered necessary from the administrative standpoint. Without such arrangement it was contended that the cost would be prohibitive of collecting small amounts from numerous people with very small incomes, many of whom would pay only a few cents in taxes.

Over the years, as tax rates have risen and as the need for public revenue has increased, it has appeared practicable and advisable to lower personal exemptions. The Federal government has led in this development. As a consequence, personal exemptions are currently at their lowest average level in history. The Federal exemption is $600 per taxpayer, spouse and dependent. This exemption is also the amount now permitted in seven states including Colorado.

However, the Federal income tax is in the process of being lightened and one proposal receiving considerable support is that the exemption be raised at least $100 per person. Should the Federal government raise by $100 the exemption for a taxpayer, spouse, and dependent, there are certain to be requests for raising the exemption similarly in Colorado. Calculation of the state tax liability is very much simplified when a state law corresponds to the Federal especially as it pertains to the definition of taxable income and personal exemptions.

If Colorado should consider raising personal exemptions by $100, a natural concern of the General Assembly would pertain to the revenue effect of such a change. What would be the effect upon total tax receipts if exemptions were raised $100? This estimated effect is shown in Table 39. According to the calculations, on the basis of collections in 1953, there would be a reduction in total revenue from the normal individual income tax of about $900,000.

Individually, the advantage of this tax reduction would vary according to the number of exemptions and with the amount of one's net taxable income. Generally, the amount of reduction would increase from a few cents on the lowest incomes (those already paying only a few cents in taxes) to a top of $8 per exemption for those with incomes reaching into the highest tax bracket (over $11,000). All taxpayers whose incomes would be over $11,000 regardless of how much, would receive the same tax reduction -- $8 per exemption. Thus, the principal advantage, relatively, from raising personal exemptions would go to individuals in the lower brackets of income.

C. The Split - Income Proposal

In several legislative sessions of the past, some consideration has been given to a proposal to permit a husband and wife to divide the total family income into two halves when determining the personal income tax. Such arrangement has always been possible in the community property states. Thus, until the Federal government allowed the split-income method of calculating the Federal income tax, the community property states had an advantage relative to Federal tax liability. By dividing the total income into two halves the surtax rates of the higher brackets of income could be avoided or at least reduced. The Federal change was made in 1948 and since then there has been equal treatment throughout the country concerning the Federal income tax. Thus, community property is no longer a live issue as it pertains to Federal taxation.

However, there has been some continuing interest in changing the state tax laws so as to permit a husband and wife to use the split-income method for calculating the state income tax. Apparently as yet only one income tax state, Oregon, has followed the lead of the Federal government by adopting such change. Thus, for state tax purposes dividing property states: Arizona, California, Idaho, Louisiana, New Mexico, and Oklahoma. If Colorado

T A B L E 39

COLORADO PERSONAL INCOME TAX ESTIMATED REDUCTION IN REVENUE IF PERSONAL

BASIS OF

1953

Adjusted Gross Income Class	Number of Returns	Average Adjusted Gross Income	Average Net Taxable Income(1)	Total Collections Normal Tax
700 - 749	1,347	735		$ 929
750 - 999	6,816	870		10,156
1,000 - 1,249	7,518	1,113		19,923
1,250 - 1,499	8,425	1,397		34,206
1,500 - 1,999	20,946	1,761		112,270
2,000 - 2,499	31,349	2,251		236,371
2,500 - 2,999	35,277	2,762		355,239
3,000 - 3,499	38,740	3,299		451,708
3,500 - 3,999	35,688	3,754		507,126
4,000 - 4,499	28,765	4,239		458,802
4,500 - 4,999	25,401	4,740		504,718
5,000 - 5,999	27,312	5,439		703,557
6,000 - 6,989	15,686	6,462		543,363
7,000 - 7,999	9,274	7,446		443,019
8,000 - 8,999	6,071	8,665	4,482	430,009
9,000 - 9,999	3,815	9,456	5,230	333,278
10,000 - 10,999	2,696	10,473	5,819	289,658
11,000 - 11,999	1,776	11,502	6,405	242,175
12,000 - 12,999	1,447	12,535	7,004	231,477
13,000 - 13,999	1,052	13,458	7,981	216,228
14,000 - 14,999	945	14,605	8,613	230,300
15,000 - 19,999	2,796	17,285	10,182	949,913
Over 20,000	3,277(2)			3,518,665

(1) Figures for income levels below $8,000 were not available; consequently
to the standard tax table and by assuming standard deductions.
(2) For these taxpayers, the average reduction in tax (assuming three exemptions)

Source: Information relating to number of returns, total collections, average
of Revenue.

EXEMPTIONS WERE RAISED $100 PER TAXPAYER, SPOUSE AND DEPENDENT, ON THE COLLECTIONS IN 1953.

Ave. Number of Exemp- tions Per Return	Additional Deduction Assuming $100 Addi- tional Per Exemption	Average Net Taxable Income Less Additional Exemption Amount(1)	Average Tax Per Return Assuming $100 Addi- tional Per Exemption	Total Collections Assuming $100 Addi- tional Per Exemption	Estimated Loss of Revenue Due To Additional $100 Per Exemption
1.17	$117		$000.00	$000,000	$ 929
1.08	108		000.00	000,000	10,156
1.15	115		1.50	11,277	8,646
1.30	130		2.40	20,220	13,986
1.33	133		4.14	86,716	25,554
1.59	159		5.40	169,285	67,086
1.84	184		7.78	274,455	80,784
2.18	218		9.78	378,877	72,831
2.37	237		12.33	440,033	67,093
2.76	276		14.53	417,955	40,847
2.76	276		18.33	465,600	39,118
3.00	300		23.25	635,004	68,553
3.00	300		34.35	538,814	4,549
3.00	300		47.40	439,587	3,432
3.00	300	4,182	60.37	366,506	63,503
3.00	300	4,930	78.30	298,714	34,564
3.00	300	5,519	96.51	260,461	29,197
3.00	300	6,105	116.20	206,371	35,804
3.00	300	6,704	140.16	202,812	28,665
3.00	300	7,681	184.70	194,304	21,924
3.00	300	8,313	217.50	205,538	24,762
3.00	300	9,882	312.45	873,610	76,303
3.00	300			3,420,355	98,310
				Total	$916,596

estimates of revenue loss were made for these income brackets by referring would be $24 -- the current maximum rate of 8 per cent times $300.

exemptions and average net taxable income obtained from Colorado Department were to adopt the aplit-income proposal, the resulting change in tax liability for married couples is shown in Table 40. In order to gain from splitting income, the net taxable income (income after all deductions and exemptions) would need to be in excess of $1,000. The table indicates that a progressively increasing tax reduction would occur for taxpayers as income increases until a maximum of $488 reduction (based on 1954 tax law) would occur at the $25,000 level of net taxable income. Beyond the $25,000 level the reduction would continue at $488. Percentage-wise the tax savings would increase from a 14 per cent reduction on a $1,500 net taxable income to 51 per cent on a $15,000 income, after which the percentage tax savings would decline.

An important question pertaining to the split-income proposal is what effect would the tax reduction have upon the total state tax yield. This revenue effect is estimated in Table 41.

There would be no effect upon taxes paid by single individuals. A liberal estimate of the proportion of single as contrasted with married taxpayers is one-fourth of the total. This estimate was obtained by using national data. Also, through sample checking, it was learned that adjusted gross incomes below $3,000 would be affected to a negligible degree only. Consequently, they may be disregarded. The table indicates that an estimated loss of normal income tax revenue would be about $2,700,000 on the basis of tax returns as they were in 1952.

In summary, the following conclusions may be made: (1) By adopting the split-income method, Colorado's law would follow more closely the pattern of the Federal law; however, this change would not simplify the calculation of the state tax. (2) There would be a reduction in tax liability for married couples with adjusted gross income above $3,000. This reduction

TABLE 40

EFFECT OF THE SPLIT-INCOME PROPOSAL ON TAX LIABILITY OF MARRIED COUPLIES, SELECTED INCOME BRACKETS, BASED UPON THE COLORADO LAW OF 1954.

Net Taxable Income (1)	Colorado Normal Tax Liability 1954	Tax Liability Assuming Split-Income Calculation	Amount of Tax Reduction in Dollars	Per Cent Reduction
1,000	$ 8	$ 8	$ --	----
1,500	14	12	2	14%
2,000	20	16	4	20
2,500	28	22	6	21
3,000	36	28	8	22
4,000	56	40	16	28
5,000	80	56	24	30
7,500	176	102	74	42
10,000	320	160	160	50
15,000	712	352	360	51
20,000	1,112	640	472	42
25,000	1,512	1,024	488	32
30,000	1,912	1,424	488 (2)	26

(1) After all deductions and exemptions.
(2) Any level of net taxable income above $22,000 would have a reduction of the same amount -- $488.

TABLE 41

ESTIMATED EFFECT OF THE SPLIT-INCOME PROPOSAL ON TOTAL NORMAL TAX REVENUE IN COLORADO, BASED UPON 1952 RETURNS.

Adjusted Gross Income	Estimated No. Married Couple Returns (1)	Ave. Net Taxable Income (2)	1952 Ave. Normal Tax (2)	Split Income Estimated Average Normal Tax	Average Revenue Loss Due To Split Income	Estimated Total Revenue Loss Due To Split Income
3,000- 4,000	52,745	$ 1,370	$ 12	$ 11	$ 1	$ 52,745
4,000- 5,000	33,831	1,900	19	15	4	135,324
5,000- 6,000	17,507	2,500	28	22	6	105,042
6,000- 7,000	9,957	3,360	44	33	11	109,527
7,000- 8,000	4,346	4,000	56	40	16	69,536
8,000- 9,000	3,471	4,629	75	50	25	86,775
9,000-10,000	2,318	5,218	96	60	36	83,448
10,000-11,000	1,822	6,005	121	72	49	89,278
11,000-12,000	1,324	6,686	152	86	66	87,384
12,000-13,000	994	7,301	174	98	76	75,544
13,000-14,000	828	8,351	233	120	113	93,564
14,000-15,000	662	8,713	255	129	126	83,412
15,000-20,000	2,152	10,643	379	181	198	407,096
20,000-25,000	994	13,807	624	296	328	326,032
25,000-30,000	621	16,594	845	433	412	255,852
30,000-40,000	637	20,217	1,141	656	485	308,945
40,000-50,000	295	26,134	1,547	1,059	488	143,960
Above 50,000	440				488 (3)	
					TOTAL	$2,728,184

(1) 3/4 of the total returns in each bracket are estimated as being submitted by married couples.
(2) According to State Department of Revenue figures.
(3) Each level of income in upper brackets has some revenue loss -- $488.

would be greatest percentage-wise for the middle income brackets -- those around $10,000 to $15,000 adjusted gross income. (3) The estimated revenue reduction to the state would be about $2,700,000 on the basis of collections in 1952.

D. The Gross Income Tax Proposal

It has been suggested in several legislative sessions of the past that Colorado might well consider a gross income tax. Whether or not such a tax would become a substitute for either the net income tax or the retail sales tax or merely supplement both is of course uncertain. Actually a gross income tax, at least to the extent that it applies to business income, is really a form of general sales taxation.

Nature of Gross Income Tax. The gross income tax, in its comprehensive form, places a tax (usually proportional rate) upon the gross income (without deductions) of all individuals, corporations and unincorporated businesses. It is sometimes called a multiple stage tax. By making no deductions or exemptions and by applying the tax upon every state of business and production the revenue yield can be made extremely productive -- perhaps five times as productive as a retail sales tax with a corresponding tax rate.

However, jurisdictions utilizing the gross income tax usually confine the levy in several ways. It may apply to certain types of businesses only (Arizona); or, it may be restricted to individuals and corporations (Indiana). Another variation is to confine the tax to gross payrolls and unincorporated businesses (Philadelphia and many other cities in Pennsylvania and Ohio).

Extent of Gross Income Taxes. The dividing line is not always clear between gross income taxes and several other forms of general sales and gross receipts taxes. However Table 42 lists the states which are usually classified as applying gross income taxes.

Three of the six states (Arizona, Indiana, and New Mexico) have a comprehensive gross income tax with no separate retail sales tax. The other three states (Michigan, Washington, and West Virginia) utilize both revenue measures. It may be noted in all cases that the tax yield is very significant, amounting to 50 per cent or more of total state revenue in Indiana, Washington and West Virginia.

City Gross Income Taxes

A fairly recent development of the tax has occurred in a number of American cities. Most of the city gross income taxes are confined to levies on gross income in the form of wages, salaries and receipts of unincorporated business. These city taxes are found principally in the states of Pennsylvania and Ohio but are spreading elsewhere.

Legal Status of a Gross Income Tax in Colorado. The occupational gross income tax on business (the type most frequently applied by other states) has been classified by the courts, along with the general sales tax, as an excise. Therefore, should Colorado decide to adopt this form of taxation, there is a possibility that 85 per cent of receipts would be earmarked by the old-age pension constitutional amendment. However, a law might be drafted, as was done in the case of the service tax (since repealed), which could avoid the earmarking provision.

TABLE 42

STATES WITH GROSS INCOME TAXES SHOWING REVENUE YIELD AS A PERCENTAGE OF TOTAL TAXES COLLECTED, 1953.

State	Basis of Tax	Yield	Yield as a Percentage of Total State Tax Revenue
Arizona	Manufacturing, Mining, etc. and Retail Business	$ 24,379,000	32.7%
Indiana	Individuals and Corporations	142,401,000	50.0
Michigan	Business Receipts	271,766,000 (1)	46.6
New Mexico	Occupational	26,176,000	37.2
Washington	Occupational	139,036,000 (1)	52.3
West Virginia	Occupational	64,728,000 (1)	52.2

(1) Includes sales tax revenue, as the Census Bureau considers both taxes belong to same family of taxes.

Source: State Tax Collection, 1953, U. S. Bureau of the Census.

TABLE 43

STATES APPLYING THE WITHHOLDING LEVY TO NONRESIDENT INCOME, 1953

Arizona	Iowa	New York
California	Kansas (1)	Oregon
Colorado	Kentucky	Vermont
Delaware	Maryland	

(1) Partial withholding only.

Source: State Tax Guide, 1953, Commerce Clearing House.

E. State Income Tax Withholding

Tax Withholding Elsewhere. Various European countries have had a long and apparently successful experience with income tax withholding. Tax withholding refers to "collection at the source." In other words, a tax is collected from the payers of income rather than from the payees. For example, taxes on wages are collected from the employer rather than the employee, on rent, from the tenant rather than the landlord, on interest, from the debtor rather than the creditor and on dividends, from the corporation rather than the stockholder. Some European countries have extended the application of collection at the source more fully than other countries. One of these is England where a very comprehensive system of tax withholding has long been utilized.

During the Second World War, our Federal government initiated a plan of tax withholding relative to wages and salaries. Since then, substantial support has developed for an extension of withholding to interest and dividends. However, as yet the Federal law still confines collection at the source to the tax on wages and salaries. However, the tax on other income is collected on a partially current basis, directly from the taxpayer, through advance estimate declarations and quarterly payment of taxes as they accrue.

Also, a number of states have inaugurated tax withholding. The first such development among the states was in the form of withholding the tax from income going to nonresidents. The principal reason for this kind of collection at the source was to reduce tax evasion -- it is difficult to collect a tax from nonresidents even though the income is earned within a state. Table 43 shows the states (11 in number) which currently are applying the withholding principle to nonresident income.

The most recent state development has been to withhold the income tax or a portion thereof, from all wages and salaries earned in the state. This payroll deduction application of the tax has been patterned after the Federal plan of tax withholding. There are now six states with income tax laws requiring collection of the tax, on wages and salaries, from employers. These states, showing the dates when laws were first enacted, are listed in Table 44.

The table also shows various methods applied in calculating the amounts of tax withholding among the six states. Three states (Vermont, Delaware and Kentucky) attempt to withhold the entire amount of the tax liability of individuals. This system, even when tax tables are employed, causes a considerable number of complications and does not really prevent the overpayment of taxes nor the need for frequently making refunds. Oregon requires 1 per cent and Arizona .5 per cent of wages and salaries as the amount to be withheld as taxes. Colorado has developed still another method. Here 4 per cent of the amount withheld for Federal taxes must be deducted for the state income tax. The Colorado plan is simple and should minimize over-payments and refunds. It promises to be the best all-around method of withholding taxes and may set a pattern for other states to follow.

In addition to the payroll deduction applied by the Federal government and by six states, there are numerous cities collecting their income tax (really a gross income tax) through the device of tax withholding. Most of these cities (several hundred) are in Pennsylvania and Ohio. A city's tax withholding plan is simplified, in most cases, because the tax is levied on gross income with few if any deductions permitted and with no exemptions allowed.

TABLE 41

STATES WITH PAYROLL DEDUCTION PROVISIONS, PERSONAL INCOME TAX, 1954

State	Date When Adopted	Amount of Withholding
Oregon	1948	1% of wages and salaries.
Vermont	1951	Estimated total tax on wages and salaries.
Delaware	1952	Estimated total tax on wages and salaries.
Colorado	1954	4% of amount withheld for Federal Income Tax.
Arizona	1954	$\frac{1}{2}$ of 1% of wages and salaries.
Kentucky	1954	Estimated total tax on wages and salaries.

Source: State Tax Guide, 1954, Commerce Clearing House.

Should the Colorado Withholding Tax on Payrolls be Extended? It has been proposed that the state should withhold taxes at the source from all income including dividends, interest, rent and royalties. Otherwise, it is argued, there is discrimination against wages and salaries. Perhaps a theoretically ideal arrangement would require the development of a completely comprehensive system. However, several foreign countries have had but limited success in achieving this goal after years of experience. Moreover, the Federal government, even with its relatively high tax rates, has not as yet found it advisable or expedient to extend tax withholding beyond wages and salaries. Perhaps there is no great injustice in confining withholding of the tax to wages and salaries, at least while experience is being obtained, as most income receivers are dependent upon wages and salaries for either all or else part of total earnings. According to Department of Commerce data, approximately two-thirds of total national income is normally in the form of wages and salaries.

However, one possible compromise solution to the problem might be to adopt the Federal plan of self-declaration of revenue with quarterly payments of taxes, other than those on wages and salaries, as the taxes accrue.

Arguments For and Against Tax Withholding. Various considerations have induced states to inaugurate the payroll deduction method of income tax collection. These considerations include several claimed advantages of tax withholding as follows: (1) It is argued that tax avoidance and evasion are reduced; thus, collection of revenue is said to increase and the tax to become more equitable generally because of being administered more uniformly. This claimed reduction in evasion is said to apply especially to migratory workers, to nonresidents and to small income receivers. Also, it is argued that because there is less time elapsing between the receiving of income and the paying of the tax, widespread evasion by many individuals also may be reduced. (2) Tax withholding puts collections on a current basis. This arrangement yields additional revenue the first year of its introduction, but also perhaps some additional revenue thereafter, as previously mentioned, due to less evasion and avoidance of the tax. Also the current basis of tax collection tends to keep taxpaying ability from getting "cold" due to passage of time. (3) It is argued that tax withholding is really a convenience for taxpayers. They pay by installments instead of a lump sum at the end of the year.

Those who are opposed to income tax withholding usually present several arguments as follows: (1) Collection at the source is said to be too expensive for a state successfully to administer. It is argued that the paper work required relative to collection of the tax in small amounts is not worthwhile. Moreover, it is pointed out that many refunds at the end of the year are required. (2) Employers are said to be put to an unnecessary expense and inconvenience because of being required to withhold the tax.

(3) It is argued that payrolls should not be singled out for tax withholding as this is discrimination; while a comprehensive system of withholding would be impracticable. A partial remedy for this difficulty might be the adoption of self-declaration of total income with quarterly tax payments. (4) Finally, an objection to the withholding of taxes is the fear that tax-payers may lose a sense of tax consciousness. In other words, because the tax tends to become a "hidden" tax, individuals may not realize that they are paying it. Objection from this standpoint is mainly the fear that if taxpayer-opposition were to become diminished, tax rates could be too easily raised.

It appears to the writer that states now utilizing the tax withholding plan have had insufficient experience with it to demonstrate either failure or success. However, the two states with longest experience, Oregon and Vermont, appear to be reasonably well satisfied with the program's operation.

F. Income Tax on Oil and Natural Gas

In 1953 the Colorado General Assembly enacted, as part of the existing state income tax, an amendment to the law placing a levy upon the gross income obtained from the production or extraction of crude oil and natural gas from petroleum deposits located in Colorado.

Tax Rates. Tax rates are as follows:

Gross Income	Rate
Under $25,000	2%
$25,000-100,000	3%
$100,000-300,000	4%
Over $300,000	5%

Ad valorem taxes paid during the taxable year on gas and oil, leaseholds and royalties, except taxes on equipment and facilities used in producing gas and oil, are allowed as a credit against the tax due.

Collection of the Tax. Producers or first purchasers must withhold 3 per cent from royalties. The tax is due with annual returns, while amounts withheld are due quarterly. Credits are given for amounts withheld.

During the fiscal year ending June 30, 1954, total tax collections from the production of oil and natural gas amounted to $2,871,000. This was somewhat greater than the official estimate of annual revenue to be expected from the tax made at the time the measure was enacted. However, a large portion of the tax revenue was paid under protest by oil companies contending that the tax was being collected unconstitutionally. Apparently the issue, before it is settled, will require a decision in the courts.

Oil and Gas Tax a Severance Tax. The tax on gross income from the production of oil and natural gas in Colorado is actually a severance tax as classified by most American states. Consequently, because of its special aspects and due to the fact that the revenue measure is not an income tax in the ordinary sense, the Legislative Council expects later to publish a special report on the oil and gas production tax.

G. The Federal Income Tax Deductibility Issue

Taxpayers in Colorado are permitted reciprocal deductions relative to their Federal and state income taxes. In other words, the Federal tax may be deducted from adjusted gross income for state tax purposes while the state tax may be deducted from adjusted gross income for Federal tax purposes. The national government extends its deductibility feature uniformly to taxpayers in all states having income taxes regardless of whether or not the states reciprocate. About half the income tax states, including Colorado, do reciprocate, while the other half do not. (See Table 45). It may be observed that Delaware, Massachusetts, South Carolina, and Wisconsin limit the amount of deduction permitted, while Oregon permits a full deduction

T A B L E 45

PROVISIONS RELATING TO DEDUCTION FOR FEDERAL INCOME TAXES

State	Allow Deduction for Federal Income Taxes		State	Allow Deduction for Federal Income Taxes	
	Corp.	Indiv.		Corp.	Indiv.
Alabama	Yes	Yes	Missouri	Yes	Yes
Arizona	Yes	Yes	Montana	Yes	Yes
Arkansas	No	No	New Hampshire	---	No
California	No	No	New Mexico	Yes	Yes
COLORADO	YES	YES	New York	No	No
Connecticut	No	---	North Carolina	No	No
Delaware	---	Yes (1)	North Dakota	Yes	Yes
District of Columbia	No	No	Oklahoma	Yes	Yes
Georgia	Yes	Yes	Oregon	No	Yes
Idaho	Yes	Yes	Pennsylvania	No	---
Iowa	Yes	Yes	Rhode Island	No	---
Kansas	Yes	Yes	South Carolina	No	Yes (3)
Kentucky	Yes	Yes	Tennessee	No	No
Louisiana	Yes	Yes	Utah	Yes	Yes
Maryland	No	No	Vermont	No	No
Massachusetts	No	Yes (2)	Virginia	No	No
Minnesota	Yes	Yes	Wisconsin	Yes (4)	Yes (5)
Mississippi	No	No			

(1) Limited to $300.
(2) Limited to Federal taxes actually paid on business income.
(3) Limited to $500.
(4) Limited to 10% of net income.
(5) Limited to 3% of net income.

Source: State Tax Guide, 1954, Commerce Clearing House.

for individuals but denies any deduction for corporations.

<u>Advantages and Disadvantages of Permitting No Deduction for Federal Income Tax</u>. It has been argued that those states which do not permit reciprocal deduction of the income tax have certain advantages over those states which do. The possible advantages and disadvantages of the unilateral as opposed to the reciprocal arrangement are listed below:

(1) State income tax revenue increases without a corresponding increase of total tax liability for income taxpayers in the state. This is because the amount of Federal income tax liability is reduced as the state tax increases. The effect upon both revenue and tax liability for selected income levels is shown in Tables 46 and 47. It may be seen that in the higher brackets extra revenue may be obtained, in effect, with "twelve to fifteen cent" dollars.

(2) Another claimed advantage of unilateral deductibility is that a regressive tax rate is thus avoided. When Federal taxes are deducted from income before calculating the state tax (reciprocal deductibility), the relatively large deductions from the larger incomes make the state effective rate actually regressive. In other words the effective rate declines as the income increases. This situation for Colorado is shown in Table 48. Although Colorado law provides for income tax rates advancing to a maximum of 10 per cent (less 1/5 in 1954) on incomes over $11,000, the table indicates that effective tax rates advance to a maximum of about 4 per cent on $20,000 incomes and then decline to 2 per cent on $1,000,000 incomes.

(3) Finally, it is argued that with the unilateral arrangement not only is a greater amount of state revenue obtained but yields are said to be more stable. This is because the level of state revenue is less dependent upon what particular Federal rates happen to be from year to year.

The principal argument against denying the right to deduct Federal

TABLE 46

COMBINED FEDERAL AND STATE INCOME TAX LIABILITY IN COLORADO, SHOWING EFFECTS OF UNILATERAL AND RECIPROCAL DEDUCTIBILITY[1]

Net Income[2]	Federal Tax Assuming No State Income Tax	Effective Rate (Per Cent)	With Reciprocal Deductions[3] Federal	Colorado	Combined	Effective Rate (Per Cent)
$ 3,000	$ 360	12.0	$ 358	15	$ 373	12.4
5,000	759	12.2	752	44	796	15.9
20,000	4,910	24.6	4,603	786	5,389	26.9
100,000	51,239	51.2	47,442	3,767	51,209	51.2
1,000,000	764,928	76.5	749,469	20,208	769,677	77.0

Assuming Unilateral Deduction[4]

	Federal	Colorado	Combined	Effective Rate (Per Cent)
$ 3,000	$ 356	$ 18	$ 374	12.4
5,000	749	52	801	16.0
20,000	4,563	1,016	5,579	27.9
100,000	46,233	7,416	53,649	53.6
1,000,000	699,172	79,416	778,588	77.9

(1) Married couple in Colorado with no dependents. The Federal and Colorado rates and exemptions are for 1954.
(2) Net income before exemptions and before deduction for income taxes.
(3) The Federal income tax deductible from net income for state income tax calculation and vice versa an algebraic equation with 2 unknowns is utilized in making calculations.
(4) This would be the situation if Colorado discontinued permitting deduction of Federal income tax.

income taxes is that although incomes are taxed regressively by the state (under reciprocal provisions), if state and Federal taxes combined are considered, the effective rate on incomes is progressive (Table 46). Thus, there is frequently the objection expressed that by removing the reciprocal provision, the total effective rate becomes too high on the middle and upper levels of income.

Estimated Additional Revenue If Federal Income Tax Deduction Were To Be Dropped. Should additional state revenue be required in the future, dropping the Federal income tax deduction for the state tax might well be considered along with other alternative revenue proposals.

On the basis of actual tax collections in the calendar year 1953, additional revenue estimates for the personal income tax are shown in Table 49. Calculations in the table were made for the various income levels. The procedure followed was to calculate the average net taxable income before and after deduction of the Federal income tax (columns 4 and 8). The Colorado normal income tax was then calculated upon the basis of each tax base (before and after the Federal deduction) (see columns 5 and 9). After multiplying each set of figures by the number of returns filed (columns 6 and 10), the estimated additional normal tax revenue was calculated (column 11). This total additional of $8,131,187 for all income levels is a surprisingly large a mount. As Federal taxes were reduced 10 per cent, beginning January 1954, the estimate of $8,131, 187 should be revised downward by 10 per cent for the current period (1954). Of course other factors affecting both Federal and state tax liabilities in the current period in contrast with 1953 could change the reliability of the estimate.

Also to be included in the calculation of additional revenue if the Federal income tax deduction were discontinued is the estimate of additional

T A B L E 47

ESTIMATED ADDITIONAL STATE REVENUE AND ADDITIONAL TAX LIABILITY IF FEDERAL INCOME TAX DEDUCTION WERE DROPPED, SELECTED INCOME LEVELS FOR MARRIED COUPLE WITH NO DEPENDENTS (COLORADO, 1954)

Net Income (1)	Additional (2) State Revenue	Additional (2) Tax Liability	Net Cost to Taxpayer Per $ Additional Revenue
$ 3,000	$ 3	$ 1	33¢
5,000	8	5	62¢
20,000	230	190	82¢
100,000	3,649	440	12¢
1,000,000	59,208	8,911	15¢

(1) Before exemptions and before deduction for income taxes.
(2) Calculated from Table 46.

T A B L E 48

EFFECTIVE RATE OF COLORADO STATE INCOME TAX BY SELECTED INCOME LEVELS, 1954

Net Income (1)	Colorado Tax	Effective Rate
$ 3,000	$ 15.52	.52%
5,000	44.48	.89%
20,000	786.00	3.9 %
100,000	3,767.00	3.8 %
1,000,000	20,208.00	2.0 %

(1) Net income of married couple with no dependents. Net income before deduction for Federal taxes or personal exemptions.

Source: Previous table.

TABLE 49

COLORADO PERSONAL INCOME TAX: ESTIMATED ADDITIONAL REVENUE IF FEDERAL INCOME TAX DEDUCTION WERE DROPPED, BASED UPON COLLECTIONS IN CALENDAR YEAR 1953.

Adjusted Gross Income Class (1)	1953 Number of Returns (2)	1953 Average Adjusted Gross Income (2)	1953 Average Net Taxable Income (2)(5)	1953 Average Normal Tax Per Return (2)	1953 Total Collections Normal Tax
I	II	III	IV	V	VI
1,500- 1,999	20,946	$ 1,761		$ 5.36	$ 112,270
2,000- 2,499	31,349	2,251		7.54	236,371
2,500- 2,999	35,277	2,762		10.00	355,239
3,000- 3,499	38,740	3,299		11.66	451,708
3,500- 3,999	35,688	3,754		14.21	507,126
4,000- 4,499	28,765	4,239		15.95	458,802
4,500- 4,999	25,401	4,740		19.87	504,718
5,000- 5,999	27,312	5,439		25.77	703,587
6,000- 6,999	15,686	6,462		34.64	543,363
7,000- 7,999	9,274	7,446		48.00	443,019
8,000- 8,999	6,071	8,665	4,482	71.00	430,009
9,000- 9,999	3,815	9,456	5,230	87.00	333,278
10,000- 10,999	2,696	10,473	5,819	107.00	289,658
11,000- 11,999	1,776	11,502	6,405	136.00	242,175
12,000- 12,999	1,447	12,535	7,004	160.00	231,477
13,000- 13,999	1,052	13,458	7,981	206.00	216,228
14,000- 14,999	945	14,605	8,613	244.00	230,300
15,000- 19,999	2,796	17,285	10,182	340.00	949,913
20,000- 24,999	1,010	22,707	13,432	591.00	597,011
25,000- 29,999	685	27,430	15,652	786.00	538,410
30,000- 39,999	792	34,000	19,084	1,044.00	826,848
40,000- 49,999	316	41,467	23,343	1,368.00	432,288
50,000- 59,999	164	54,542	26,955	1,632.00	267,648
60,000- 69,999	99	65,112	30,366	1,938.00	191,862
70,000- 79,999	54	74,937	34,897	2,305.00	124,470
80,000- 89,999	47	84,751	36,733	2,541.00	119,427
90,000- 99,999	31	92,356	46,471	3,226.00	100,006
100,000-149,999	56	120,882	47,896	3,307.00	185,192
150,000-199,999	10	175,439	81,127	6,038.00	60,380
200,000-249,999	3	216,126	40,784	2,774.00	8,322
250,000-299,999	2	272,145	77,565	5,717.00	11,434
300,000-399,999	3	333,812	80,648	5,996.00	17,988
400,000-499,999	1	441,653	96,513	7,233.00	7,233
500,000-749,999	3	574,840	74,563	5,477.00	16,431
750,000-999,999	1	891,922	177,537	13,715.00	13,715
Total					$10,757,876

(1) Incomes below $1500 are not included as additional revenue would be insignificant.
(2) Data obtained from Colorado Department of Revenue.
(3) Obtained by adding average net taxable income (column 4) and average Federal
(4) Obtained by subtracting column 6 from column 10.
(5) For incomes below $8,000 figures were not available, therefore calculations

Average Federal Income Tax(2)(5)	Ave. Net Taxable Income Before Federal Tax Deduction(3)	Estimated Average Colo. Normal Tax if No Federal Tax Deducted	Estimated Total Normal Tax Collections if No Federal Deductions	Estimated Additional Normal Tax Collections if No Federal Deductions
VII	VIII	IX	X	XI
	$ 787	$ 6.30	$ 131,960	$ 19,690
	1,072	8.87	278,065	41,694
	1,382	12.57	443,432	88,193
	1,661	15.93	617,128	165,420
	1,957	19.48	695,202	188,076
	2,159	22.55	648,650	189,848
	2,610	29.75	755,680	250,962
	3,135	38.71	1,057,247	353,690
	3,872	54.00	847,044	303,681
	4,739	74.00	686,276	243,257
1,274	5,756	104.00	631,384	201,375
1,442	6,672	139.00	530,285	197,007
1,723	7,542	178.00	479,888	190,230
2,219	8,624	235.00	417,360	175,185
2,311	9,315	276.00	399,372	167,895
2,386	10,367	344.00	361,888	145,660
2,984	11,597	440.00	414,480	184,180
3,713	13,895	624.00	1,744,704	794,791
5,534	18,966	1,829.00	1,847,290	1,250,279
8,936	24,588	1,479.00	1,013,115	474,705
10,677	29,761	1,893.00	1,499,256	672,408
15,494	38,837	2,699.00	852,884	420,596
20,056	47,011	3,273.00	536,772	269,124
25,704	56,070	3,998.00	395,802	203,940
27,734	62,651	4,523.00	244,242	119,772
36,566	73,299	5,376.00	252,267	132,840
35,316	81,787	6,055.00	187,705	87,699
59,062	106,958	8,069.00	451,864	266,672
79,783	160,910	12,385.00	123,850	63,470
128,200	168,984	13,031.00	39,093	30,771
139,380	216,945	16,867.00	33,734	22,300
224,401	305,047	23,916.00	71,748	53,760
312,115	408,628	33,082.00	33,082	25,849
365,602	440,165	35,605.00	106,815	90,384
561,299	738,836	59,499.00	59,499	45,784
			18,889,063	8,131,187

income tax (column 7).

were made without them.

yield of the income tax on corporations. This estimate is obtained more easily. As the Colorado tax rate is not progressive but uniform (4 per cent in 1954), all that is necessary is to multiply the amount of Federal income taxes paid by Colorado corporations by this rate of 4 per cent. Unfortunately, the latest Federal figures for corporations is 1949. However, calculations based upon taxes in 1949 are shown in Table 50.

TABLE 50

COLORADO CORPORATION INCOME TAX: EFFECT OF FEDERAL INCOME TAX DEDUCTION

Federal Corporation Income taxes paid in 1949	$57,340,000[2]
4% (Colorado rate)[1]	.04
Estimated additional Revenue	$ 2,293,000.00

(1) Disregarding the rate of 6% on financial institutions.

(2) Statistics of Income for 1949, Part II. U. S. Treasury Department.

Thus the estimate of additional revenue for the current year (1954) is as follows:

From individual income tax	$8,000,000
Less 10%	800,000
	$7,200,000
From corporation income tax	2,300,000
TOTAL	$9,500,000