TAXES

Colorado Business Taxes

Colorado provides a competitive business tax structure that rewards investment and innovation. With very low taxes at the state level, and a wide range of local tax structures, Colorado offers almost unlimited choices to meet the needs of all types of businesses. Under Amendment One, passed by the voters of Colorado in 1992, a constitutional limit was placed on both revenues and expenditures of state and local governments. Without voter approval, both are limited to the increase in inflation plus the population growth rate.

TABOR & Referendum C

The Taxpayer's Bill of Rights (TABOR), passed in 1992, limited spending increases to population growth plus inflation. Large surpluses, reaching $927 million in 2000, resulted from a lengthy economic expansion. State government alone has refunded over a billion dollars to Colorado taxpayers, and enacted permanent tax cuts in the state income and sales taxes. At the same time, voter-mandated funding increases to education, demands for transportation projects and other programs strained the budgets beyond capacity.

In 2005, Colorado voters approved Referendum C, which allows the State to retain all revenue it collects. This measure is in effect for five years, and allows the State to fund mandated growth in education and Medicaid spending, as well as providing funding for transportation and other State programs.

Under the provisions of Referendum C, the State will retain $5.63 billion from FY 2005-06 through FY 2009-10. Therefore, there will not be a TABOR surplus during this five-year period. However, a TABOR refund of $56.4 million is expected in FY 2010-11.

Source*: Office of State Planning and Budgeting, June 2007*
http://www.state.co.us/gov_dir/govnr_dir/ospb/econ.html#cep

Corporate Income Tax

Colorado's corporate income tax rate is a flat 4.63 percent. It is assessed on Colorado net income, defined as the corporation's federal taxable income, with some modifications. This corporate income tax rate is among the lowest in the nation. Colorado ranks 41st nationally in per capita corporate income tax revenue. Collections in 2005 totaled $68 per capita, compared to a national average of $130 for corporate income tax revenue.

Per Capita State Corporate
Net Income Tax Revenue, 2005
(Selected States)

State	*Per Capita*	*National Rank*
California	$240	6
Minnesota	$182	9
Illinois	$171	10
New Mexico	$126	19
North Dakota	$120	20

State	*Per Capita*	*National Rank*
Arizona	$118	21
Nebraska	$113	24
Oregon	$100	29
Kansas	$90	35
Utah	$76	40
U.S. Average	**$130**	**N/A**
Colorado	**$68**	**41**

Source: Morgan Quitno Corporation, State Rankings-2007

Colorado's Method of Apportioning Income

Colorado is unique among states in that two alternative apportionment formulas have been adopted which allow the taxpayer to choose the method that produces the **lesser** tax liability. The taxpayer can make a decision annually on whether to use the standard three-factor formula or a special two-factor formula.

- The three-factor formula averages the corporation's wages, property, and sales in Colorado and compares that average to total wages, property, and sales to determine what proportion of its profits will be taxed.
- The two-factor formula averages property and sales in Colorado only, and compares that average to the total property and sales.

The three-factor formula, commonly referred to as the Multi-state Tax Commission formula, was adopted in 1968. At the same time, the legislature determined that the two-factor formula should remain as an option.

Colorado is currently considering a move to a single-factor sales apportionment method.

There are also a number of corporate income tax credits including an investment tax credit, and various enterprise zone tax credits. A number of credits are contingent upon the existence of a state budget surplus.

Unitary Taxation

Colorado has a liberal "water's edge" system of unitary taxation rather than a "worldwide" one. Specifically, foreign corporations, as well as "80/20" corporations, i.e., corporations with 80% of their property and payroll outside the U.S., are not included in a Colorado income tax return. Corporations doing business in Colorado, as well as other states, must apportion to Colorado that part of their net income derived from sources within Colorado. These corporations may choose to utilize either the Colorado Income Tax Act or the Multi-State Tax Compact. The Tax Act apportions income according to percentages of property owned and the gross receipts in Colorado versus nationwide. The Tax Compact adds the payroll in Colorado versus nationwide as an additional factor.

A Colorado unitary return can include domestic corporations that meet certain objective criteria to measure an affiliated group or corporation. These include overlapping directorships and corporate officers, use of patents, logos, copyrights, etc., and relationships concerning long-term debt, sales, and administrative services among the group.

Colorado has a statutory provision that allows the filing of a consolidated return in lieu of separate returns for those members of an affiliated group that would otherwise be required to file a separate Colorado tax return.

Sales and Use Taxes

Colorado's 2.9 percent sales or use tax on goods purchased by a business that are not intended for resale is the lowest among the 45 states that collect sales tax. Services are not taxed, only sales of non-food items. Use taxes substitute for sales taxes in cases where an item is purchased for consumption in Colorado from a source outside Colorado or other circumstances where a sales tax was not paid.

State Sales Tax Exemptions: Purchases of manufacturing equipment or machine tools of over $500 are exempt from state sales and use tax. Component parts, fuels and electricity, ink and newsprint, aircraft parts used in general maintenance, interstate long distance telephone charges, farm equipment and machinery, and packaging materials are also exempt from state sales and use tax. Pollution control equipment may be eligible for a refund of state sales tax contingent upon a state budget surplus.

State Sales Tax Refund for Biotechnology: State sales and use taxes paid on the sale, storage, use or consumption of tangible personal property to be used in Colorado directly and predominantly in research and development of biotechnology is refundable.

Legislation passed in 2001 allows for a 50 percent sales & use tax refund on tangible personal property used for research and development in any industry in years when there is a revenue surplus.

For additional information on Sales and Use Taxes please see the state of Colorado's Department of Revenue web site: http://www.revenue.state.co.us/

Unemployment Taxes

An employer's unemployment insurance tax liability is based on the taxable wage base, which is the first $10,000 of each worker's wages. If covered for the first time, the tax rate will be 1.7 percent of the wage base rate, plus an annually computed surtax. For calendar year 2007, the surtax is 0.22 percent, plus a solvency surcharge of 0.6 percent, for a total of 2.52 percent. After twelve months the employer is eligible for a calculated rate.

Specific information on the tax rate for a business can be obtained from the Colorado Department of Labor and Employment Unemployment Insurance Tax Branch at (303) 381-9100, or on the web www.coworkforce.com/UIT

Workers' Compensation

Workers' compensation insurance is provided by over 200 private insurance companies and the State Compensation Insurance Fund, d.b.a. Pinnacol Assurance, an independent political subdivision of the state which operates as a workers compensation insurance company. The fund is a permanent, selfsustaining, nonprofit service organization operated for the benefit of its policyholders and their employees. Over one-third of Colorado employers have Pinnacol insurance. Other carriers insure another 51 percent of companies, and 13 percent are self-insured. Self-insurance is an option, available by special permit specifying strict financial and loss control standards, for companies employing 300 or more Colorado employees.

Major workers' compensation reforms have resulted in effective cost containment. Workers' compensation costs for 2007 are expected hold steady at 2006 levels. Workers'compensation loss costs have experienced a 28 percent cumulative decrease since 2000, and have increased only once since 1992. Reforms have saved Colorado employers well over $100 million in premiums alone, with total savings calculated at $1.5 billion when benefits from fraud prevention and safety programs are included. Within the United States, Colorado ranks in the middle for overall workers' compensation costs.

For more information on workers' compensation, please see Department of Labor & Employment, Workers' Compensation web site at http://www.coworkforce.com/dwc/

Property Taxes

The State of Colorado does not impose property taxes on businesses; local governmental units assess property taxes primarily to fund public school operations and local government services.

The statewide average of local mill levies in 2006 was 73.480 mills. Commercial and industrial property is assessed for property tax purposes at 29 percent of market value. Cities or counties in state-designated Enterprises Zones have the option of providing an incentive payment to new companies. This incentive cannot exceed the difference in property taxes after development less the property taxes prior to Zone designation. Local governments have the option to negotiate up to 50 percent rebate or credit on their portion of personal property tax as an economic development incentive

Personal property (machinery and equipment) used in commercial and industrial operations is also assessed at 29 percent of actual value, based on replacement cost, expected economic life of the asset and other factors. Business personal property with an economic life of one year or less, or with acquisition cost of $250 or less, is exempt. Businesses with total business personal property valued at less than $2,500 are exempt.

Computer and telecommunications equipment have new, accelerated depreciation schedules and reduced residual values.

The "Economic Recovery Act" passed in June 2002 extends the life span of business personal property tax incentive agreements negotiated by cities, counties, or school districts from four to ten years, giving local communities greater leverage to attract top-notch companies. This bill also increased the maximum amount of time to 10 years that companies in terminated former Enterprise Zone areas may have to use "grandfather" extensions of their Enterprise Zone tax credits.

For more information on property taxes in Colorado, see the Department of Local Affairs web site: http://dola.colorado.gov/dpt/state_assessed/index.htm

Inventory Taxes

Inventory taxes are not assessed in Colorado and there is no franchise tax.

Severance Taxes

Colorado levies a tax upon the severance from the earth of metallic minerals and energy resources based upon the gross income of the extraction operation or upon the amount extracted. This is a graduated tax that ranges from 2 percent for income under $25,000 to 5 percent for income of $300,000 and over. Very small operations are exempt. A credit is allowed against severance tax equal to 87.5 percent of all ad valorem taxes paid or assessed during the tax year.

Investment Tax Credits

The Colorado Tax Equity Act, signed into law during the 1987 legislative session, reinstates the Colorado Investment Tax Credit. With a maximum credit up to $1,000 per year, for tax years beginning on or after January 1, 1998, based on 10 percent of what the Federal Investment Tax Credit would have been had such credit not been restricted by the Tax Reform Act of 1986. Excess credits may be carried forward up to three years.

Enterprise Zone Tax Credits

Enterprise Zones are geographic areas designated to promote economic development. Eighteen such zones and sub-zones have been designated in Colorado. They cover most rural areas of the state with the exception of the ski area/resort counties. There are also urban zones designated to attract investment and jobs to selected areas. Enterprise Zones offer the following advantages to businesses locating or expanding within their boundaries:

- A $500 tax credit for each new full-time employee.
- In Enhanced Rural Enterprise Zones, portions of regular EZs that meet stricter economic distress criteria, an additional $2,000 tax credit per new employee hired, plus an additional $500 per employee hired in value-added agricultural processing business. (Effective January 1, 2003).
- A $200 tax credit during the first two years of operations for each full-time employee covered by health insurance.
- An additional $500 tax credit for each employee hired for agricultural processing or manufacturing.
- A 3 percent investment tax credit for equipment purchased and used within the zone.
- A 3 percent tax credit for expenditures on research and development.
- A 25 percent tax credit of qualified expenditures up to $50,000 to rehabilitate buildings which are at least 20 years old and have been vacant for two or more years.
- A 25 percent tax credit up to $100,000 for private contributions to local zone administrators for enterprise zone development projects. In June 2002, the state extended the tax credit to non-profit “community development” projects which help implement each enterprise zone’s local economic development plan.
- A 10 percent tax credit for qualified job training within the enterprise zone.

New Aviation Development Zone

Effective January 2, 2006, Colorado aircraft or aircraft parts manufacturers located within designated Aviation Development Zones can claim a $1,200 tax credit against Colorado income taxes for each new full-time employee. Companies must employ at least 10 full-time employees to be eligible.

Major Sales Tax Exemptions:

- Manufacturing equipment or machine tools over $500 purchased in one calendar year
- Machinery and equipment used for production of electricity from renewable sources [effective May 23, 2007]
- Component parts
- Fuels and Electricity
- Packaging Materials
- Aircraft parts used in general maintenance
- Interstate long distance telephone charges
- Ink and Newsprint
- Farm Equipment and Machinery
- Tangible Personal Property Used in Biotech Research & Development **(refund, not exemption)**

Colorado Personal Taxes

Income

Individual income taxes in Colorado are a flat rate of 4.63 percent of *federally adjusted taxable income*, with some modifications. Local governments in Colorado do not assess income taxes.

Sales Taxes

The State of Colorado levies a 2.9 percent sales tax on all non-food retail sales. Cities, counties, and special districts are permitted to collect additional local sales tax by public referendum. Various special districts may impose additional sales taxes, including the Regional Transportation District in the Denver metro area and Mass Transit districts in Pitkin and Summit counties, the Cultural Facilities District and the Major League Baseball Stadium District, Jefferson County Open Space, and several others. Combined sales tax rates average about 6.5 percent statewide, but vary by specific location. Exact rates can be found at
www.revenue.state.co.us/PDF/drp1002.pdf

Property Taxes

Residential property is assessed at 7.96 percent of market value in 2007 (it fluctuates from year to year due to a statutory formula that specifies shares of revenue from commercial versus residential property). The mill levy, which is the tax rate on each dollar of assessed valuation, varies within the state. For FY 2006-2007, the average total mill levy for the state was 73.480 mills. This figure includes counties, municipalities, school districts, and other special districts. Mill levies for cities and counties in Colorado can be found in the Colorado Economic and Demographic Information System (CEDIS), which is

maintained by the Department of Local Affairs on their web site:
http://dola.colorado.gov/dpt/state_assessed/index.htm

Occupational Taxes

A handful of Colorado cities assess occupational privilege taxes on employees earning over a certain amount per month. All persons who work in the City and County of Denver and earn more than $500 per month are assessed a monthly occupational tax of $5.75 and their employers pay an additional $4.00 per month per employee. Greenwood Village, Aurora, Glendale and Sheridan have similar taxes, with salary bases ranging from $250 to $750, and taxes per employee per month in the $2 - $5 range, matched by their employers.

Comparative Data – Colorado and Selected States

Factors such as sales tax exemptions and graduated rates for income tax are recognized to significantly compromise the use of rates as a method of comparison. As a consequence, nationally recognized public interest research groups have adopted the concept of "effective rate," typically measured by sales or income tax paid per $1,000 of personal income. The following tables compare Colorado with neighboring and similar states.

State and Local Government Tax Revenue as a Percent of Personal Income Colorado and Selected States (2007)

State	*State/Local Tax Burden*	*Rank*
Arizona	10.3%	31
California	11.5%	12
Colorado	**10.4%**	**30**
Idaho	10.1%	35
Kansas	11.2%	15
Minnesota	11.5%	11
Nebraska	11.9%	9
New Mexico	9.8%	40
Oregon	10.0%	37
Utah	10.7%	27
Washington	11.1%	16
Wyoming	9.5%	42
U.S. Avg.	*11.0%*	*N/A*

Source: Tax Foundation 2007