

**CPEC**  
CENTER FOR TAX POLICY

# TAXPAYER REPORT

Vol. XLIX, No. 1  
April, 2002

## **Trends in State Revenue Collections, 1995 - 2000: Colorado vs. US**

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### **INTRODUCTION**

Recently CNN reported that the state of Minnesota experiences swings in economic activity that are wider than those of the nation overall. That is, when economic times are good, Minnesota's economy outperforms the average of the nation and when economic times are bad, Minnesota's economy lags behind. Such information about one's state can prove useful for managing economic policy and for better understanding and anticipating future economic events at the state level. This CPEC Center for Tax Policy publication, the first in a series that will be updated annually, compares changes in Colorado state revenue collections to changes in the same revenue categories for all the states in the nation overall<sup>1</sup>. Although state revenue collections are not the only means of comparing economic activity, they do provide a snapshot of the health of the economy in a particular state. Generally, stronger economies with greater economic activity produce increases in the rate of growth of revenue collections at the state level.

An examination of the following time series of revenue changes reveals that, in terms of state revenue collections, Colorado outperformed the nation overall in times of economic growth and retained strength as state revenue collections nationwide began to experience downturns between 1998 and 1999. However, the data on revenue changes between 1999 and 2000, the last years available for this report, suggest that Colorado's economy began to underperform the nation in revenue collections by the end of 2000. On major tax categories, the nation experienced an increase in growth rates of revenue collections between 1999 and 2000 while Colorado experienced a decrease. Whether this is a trend that will continue through the end of 2001 remains unknown, as the Census Bureau data to perform such calculations is not yet available. However, if this downturn in Colorado in 2000 is the beginning of a longer trend, it would be consistent with recent observations of the Colorado economy and job market which acknowledge that both recession and recovery come later to Colorado than to other states in the nation due to Colorado's relatively light reliance on manufacturing as the basis of the state's economy<sup>2</sup>.

What follows in this report is a series of graphs for each major tax and one major fee category collected at the state level. The graphs represent a time series of percentage changes in

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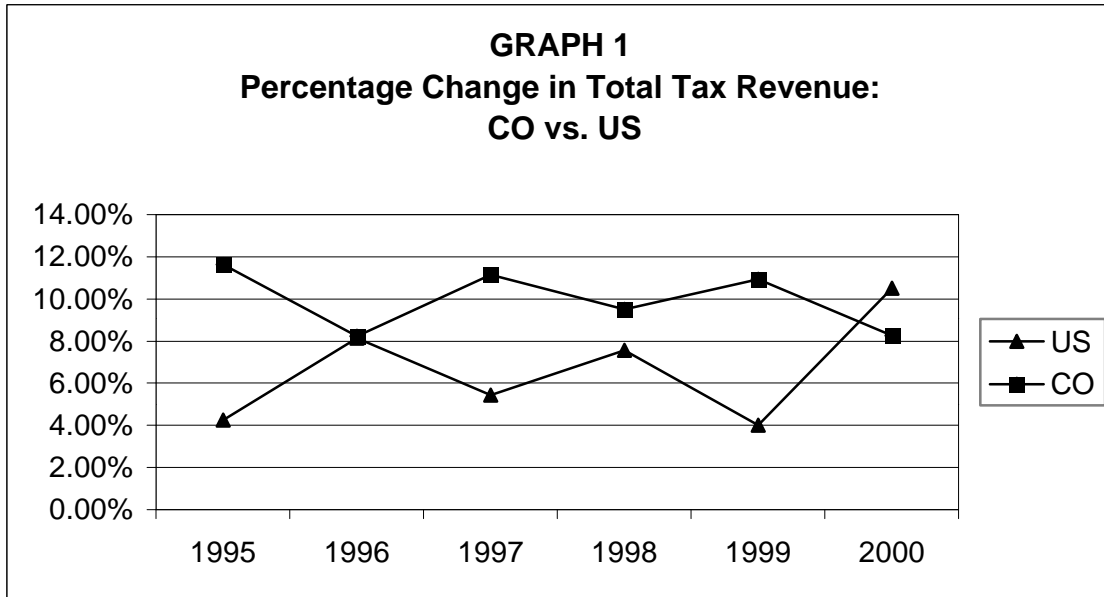
<sup>1</sup> The data for this report is from the United States Census Bureau's reporting on quarterly revenue collections state by state and for the nation overall. The raw data is available at <http://www.census.gov/govs/www/qtax.html>. All graphical presentations herein are from CPEC Center for Tax Policy calculations of the percent changes in annual revenue collections. Quarter by quarter comparisons are not appropriate due to the potential timing differences state by state in revenue collections.

<sup>2</sup> From the comments of Tucker Hart Adams, U.S. Bank in Denver as quoted in *The Denver Post's* March 7, 2002 article Job losses top U.S. rate.

revenue collections between the current and previous year<sup>3</sup>. For example, in the graphs, the points listed for 1995 represent the percentage change in the revenue collection for that source between 1994 and 1995. The last year for which a full year of data was available was 2000. Therefore, the last point in the time series represents the change between 1999 and 2000.

**TOTAL TAX COLLECTIONS<sup>4</sup>**

Graph 1 demonstrates Colorado's position relative to the nation overall in the percentage change in total tax revenue collections at the state level.



As Graph 1 demonstrates, Colorado appears to trend counter-cyclically with the nation overall. That is, as the growth rate in total tax revenue collections in Colorado is increasing, the combined rate for all the states in the nation is decreasing and visa versa. It is also interesting to note that Colorado's growth rate between 1999 and 2000 once again hit the 5 year low of 8%, not experienced since the 1995 -1996 period. Finally, for the first time since 1994-1995, the earliest year for which there is data, the growth rate in total tax revenue collections in Colorado fell below that of the combined states in the nation.

Interestingly enough, this counter-cyclical pattern does not repeat when growth in particular tax revenues are studied individually rather than in the aggregated fashion as in Graph 1. The following three graphs demonstrate the trends in revenue growth for the three major state level taxes in Colorado, sales tax, individual income tax, and corporate income tax. Although each of these taxes demonstrates a different pattern when Colorado is compared to the nation overall, one possibly concerning consistency exists for all three. As with total tax revenue depicted in

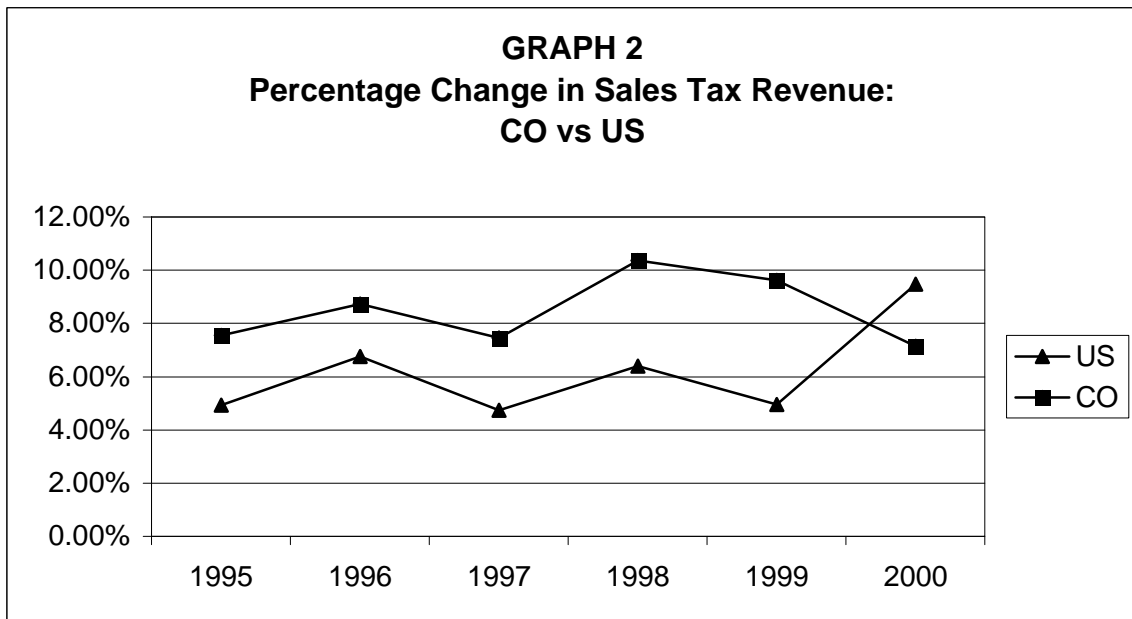
<sup>3</sup> It is important to note that revenue collections can change for a variety of reasons, chief among them changes in economic conditions and changes in policy as it relates to taxes, specifically tax rate changes. It is beyond the scope of this report to identify the reason for changes in the rate of growth of revenue changes. This report simply demonstrates changes in collection rates for the state of Colorado as it compares to the nation overall.

<sup>4</sup> The Census Bureau's treatment of Colorado's TABOR refunds is not clear from the data compiled and reported on the Bureau's web page. As a result, the actual experience for Colorado may be slightly different than that depicted here depending upon whether one considers TABOR refunds to be reductions in revenue collections or expenditure items and depending upon the actual treatment of such refunds by the Census Bureau's data collection procedures.

Graph 1, the period 1999-2000 is the first of the last 5 years for which the growth rate in the revenue from each of the three major state level taxes in Colorado concurrently fell below that of the nation overall. In fact, with the exception of the 1995-1996 period when growth rates in revenue from both the individual and corporate income taxes fell below that of the combined states in the nation, growth rates in Colorado were consistently greater than those for the nation. As noted in the introduction, the data is not yet available to determine whether the overall and individual tax revenue downturns are the beginning of a trend or simply a one-year adjustment for Colorado. The following graphs evaluate growth in tax revenue from the three major state level taxes, sales, individual income, and corporate income taxes.

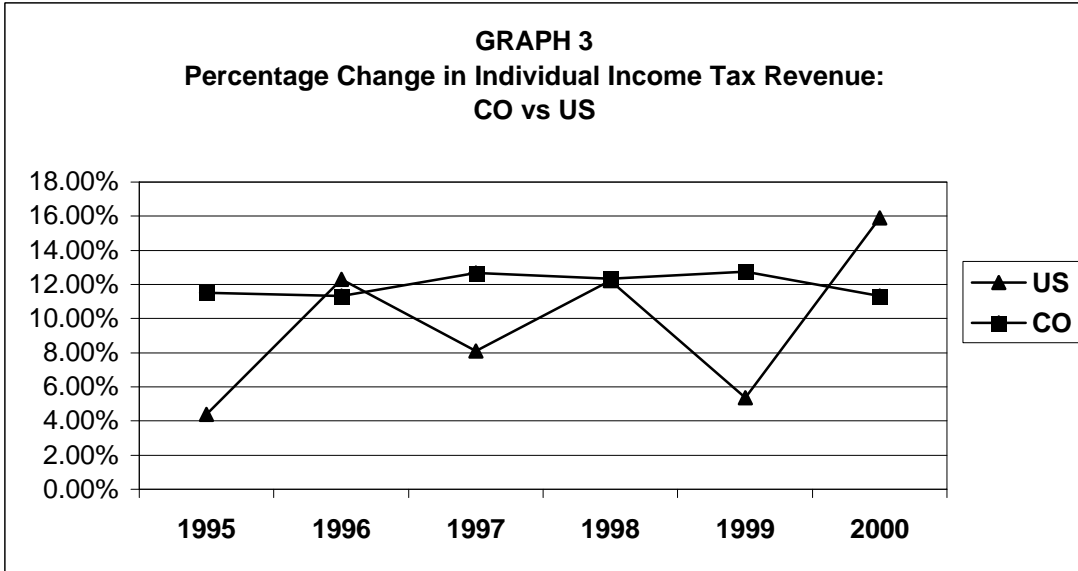
**STATE SALES TAX**

Graph 2 demonstrates Colorado's relative position in the growth of state sales tax revenue. Until the period 1999-2000, Colorado and the other states trended similarly in sales tax revenue growth with Colorado maintaining rates that were consistently between 2 and 4 percentage points above those for the nation overall. Again, as demonstrated in Graph 1 above, the period 1999-2000 saw a break in that trend. For the first time, Colorado experienced growth below that of the nation. It is important to note that in the 1999-2000 period, Colorado still maintained growth rates consistent with earlier periods in the decade, perhaps demonstrating that the major adjustment occurred within the other states and not specifically with Colorado. However, the downturn relative to the nation overall is potentially an issue to be watched.



**INDIVIDUAL INCOME TAX**

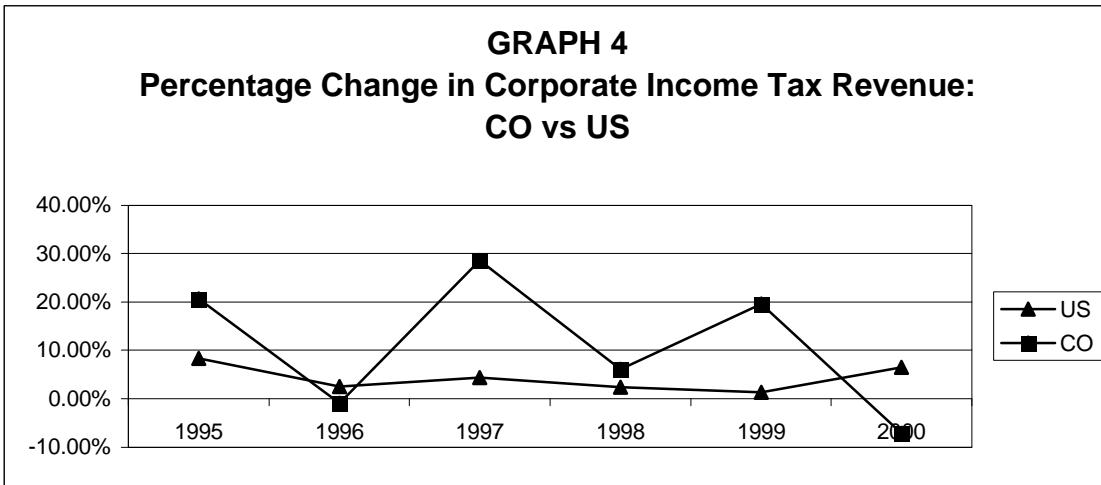
Unlike state sales tax where Colorado demonstrated some volatility in the change in growth rate of revenue collections, the individual income tax revenues grew at almost a consistent 12% rate throughout the 6-year period of this study. This consistency in growth rate was not matched by the nation as a whole. Growth rates in individual income tax revenues were significantly more volatile at the national level than were those for Colorado. Yet, consistent with Colorado's experience with other tax revenues and with the exception of the 1995-1996 period, the 12% growth rate for Colorado consistently exceeded that of the nation until the period 1999-2000. Graph 3 demonstrates the behavior of individual income tax revenues for the years 1994-2000.



Interestingly, Colorado's consistency in growth rates of individual income tax revenues was not matched in the corporate income tax. The next section presents the experience for the corporate income tax.

**CORPORATE INCOME TAX**

Revenue growth in the corporate income tax is one of the most volatile of all Colorado's revenue sources. Unlike the individual income tax where revenue growth in Colorado is relatively stable compared to the nation overall, corporate income tax revenue follows a considerably more volatile path than the nation overall. Graph 4 shows corporate income tax growth.



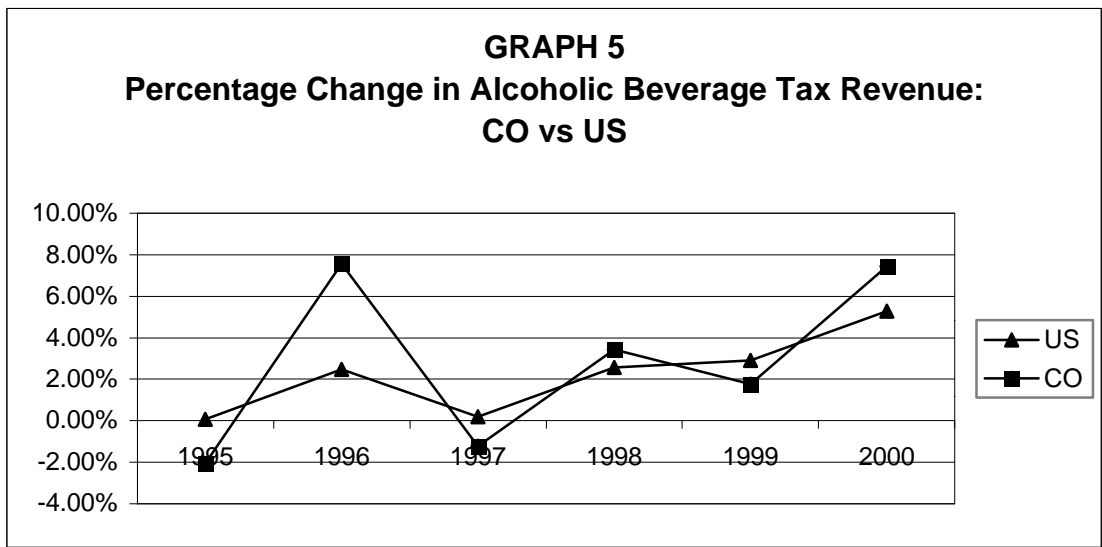
Consistent with the behavior of the other major revenue sources, Colorado achieved growth rates in excess of the nation's with the exception of the blip in 1995-1996 and the reversal that is

observed in all revenue sources in 1999-2000. However, the corporate income tax is the only major revenue source for which Colorado experienced negative growth rates during the period 1994-2000. The nation overall, while generally realizing lower growth rates than Colorado, did not experience any negative growth in this revenue source over the same period. Of the major revenue sources, the corporate income tax is the most volatile for Colorado.

Sales, individual income, and corporate income taxes account for the majority of tax revenue at the state level. However, other taxes provide sources of revenue to states. In the sections that follow, three of the additional taxes, alcoholic beverage, inheritance and gift, and motor fuels are presented in the same comparative form as the previous taxes.

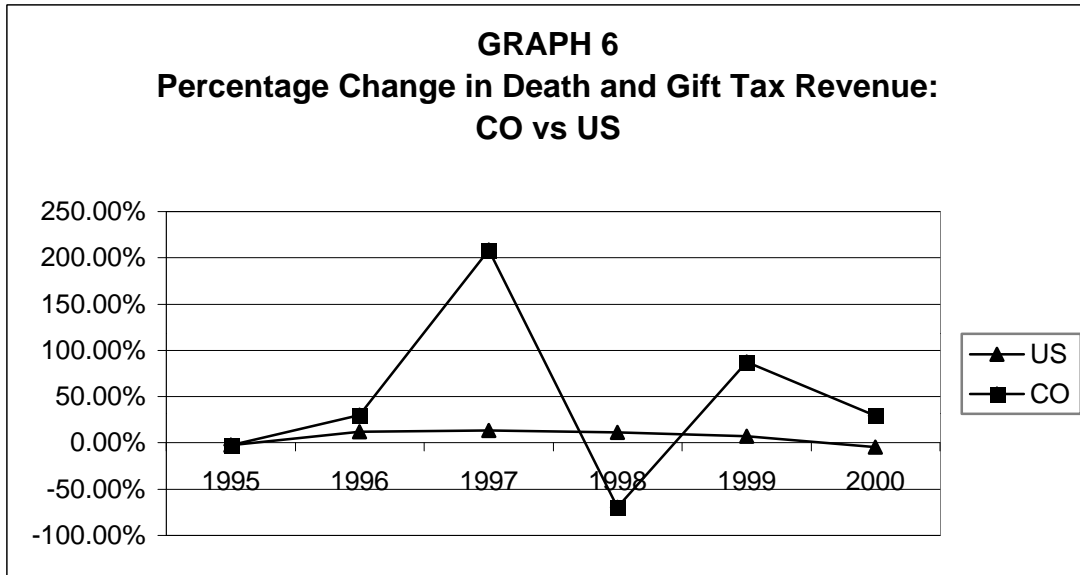
**ALCOHOLIC BEVERAGE TAX**

The tax for which growth rates in revenue in Colorado most closely trend with the US overall is the alcoholic beverage tax. As noted in Graph 5 below, Colorado swings with the nation overall in this tax, although Colorado's swings are larger than those of the combined states in the US. That is, when growth rates in revenue are increasing for the nation, Colorado's are up even more. When this revenue source experiences a smaller growth rate in the US, Colorado experiences an even larger decrease in its growth rate. Furthermore, alcoholic beverage tax revenue is the one that experienced the most pronounced negative growth rates of all the taxes studied in this report. It is also interesting to note that this is one of only two tax revenue sources to experience growth rates in excess of the national rates for the 1999-2000 period.



**DEATH AND GIFT TAX**

The other tax revenue source that experienced growth rates in excess of those of the nation overall in the 1999-2000 period was the revenue from death and gift taxes. These two revenue sources are combined in the Census Bureau data, so they are presented in a combined fashion here. Graph 6 presents the time series for this source of revenue.

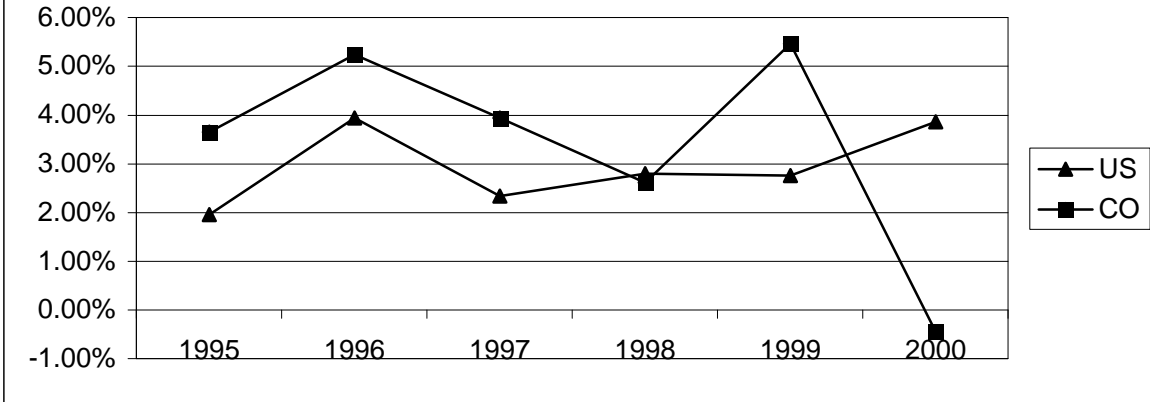


A quick observation of the scale of Graph 6 above reveals the volatility of these taxes as a revenue source for a state. Growth rates for this revenue source varied between a high of just above 200% and a low of approximately -50% over the 6 years studied. No other Colorado revenue source demonstrated such volatility. Interestingly, combined experience for the 50 states demonstrates almost no volatility in revenue growth rates for these taxes. It is, however, entirely possible that death and gift taxes are equally volatile in almost every state when taken individually but that the combined collection growth rates (positive and negative) cancel each other out when the 50 states are combined, leaving the impression that the nation overall experiences no volatility in gift and inheritance taxes as a source of state revenue.

**MOTOR FUEL SALES TAX**

The final tax revenue source studied in this report is the motor fuel sales tax. Unlike the alcoholic beverage and gift and inheritance taxes, motor fuel sales taxes experienced the same reversal in trend in 1999-2000 that was observed with the sales and income taxes above. Until the 1999-2000 period, revenue from motor fuel sales taxes, with the exception of the 1997-1998 period, grew in excess of the rate of growth experienced by the nation overall. 1999-2000 presents a stark reversal of that trend. As depicted in Graph 7 below, revenue growth from this source plummeted relative to the nation, and achieved a negative growth rate for the first time in the study period. Prior to 1997-1998 when Colorado's growth rate equaled that of the nation overall, motor fuel sales tax revenue trended with the nation. In the years since 1998, Colorado appears to trend counter-cyclically with the nation. Again, it is unclear whether this pattern reversal and more importantly the downturn experienced in 1999-2000 is the beginning of a longer trend or simply an aberration.

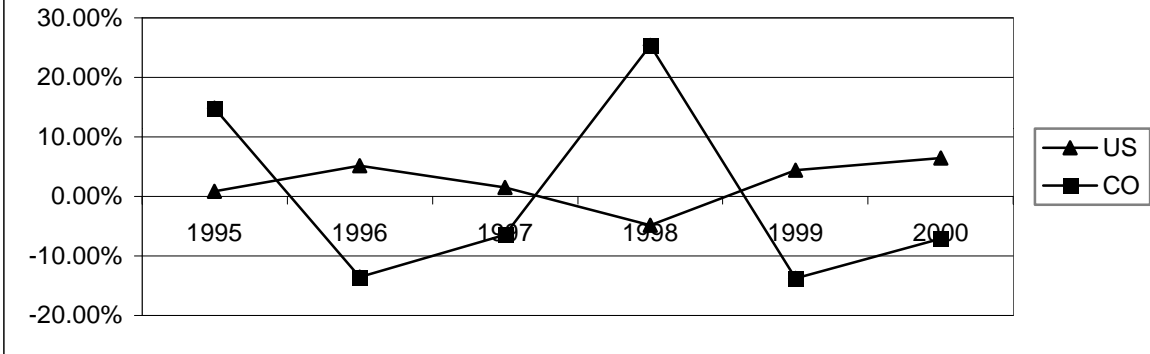
**GRAPH 7**  
**Percentage Change in Motor Fuel Sales Tax:**  
**CO vs US**



**HUNTING AND FISHING LICENSE REVENUE**

The majority of this report has studied growth rates in state revenues whose sources are the major taxes collected at the state level. However, in Colorado and in other states in the nation, fees are becoming an increasingly important source of revenue. Graph 8 below presents data on the growth rates in one of Colorado's major fee revenues, hunting and fishing licenses.

**GRAPH 8**  
**Percentage Change in Hunting and Fishing License Revenue:**  
**CO vs US**



Generally, Colorado appears to trend counter-cyclically with the nation in this revenue source. Compared to most revenue sources from taxes, collections from license fees appear more volatile and most susceptible to negative rates of growth. Between 1994 and 2000, growth rates in this source of revenue were negative 4 times. Consistent with the majority of the tax revenue sources, the period between 1999 and 2000 saw growth rates for Colorado lower than for the nation overall. However, unlike most of the tax sources, the rates for license fees appear to be converging with the nation after 2000 instead of diverging as was the case with most of the tax revenues.

## **CONCLUSION**

This report takes a retrospective view of trends in revenue growth at the state level. Today, most Colorado policy makers recognize the downturn in the state's revenues, so the downturn relative to the nation demonstrated here may not be a surprise. However, the timing of the downturn may provide some insight. Revenue growth in Colorado almost consistently outpaced the nation until the 1999-2000 period, when revenue growth in Colorado began to lag that of the combined experience for the states in the nation overall. The timing of this downturn is earlier than most in Colorado recognized. Future editions of this report will help to better determine whether the 1999-2000 downturn was simply a one-time event or the beginning of a trend for Colorado's economy relative to that of the other states. As this time series is better developed, it will provide a better understanding of Colorado's relative position in revenue growth and perhaps aid in revenue forecasting during future economic cycles.