



CORPORATE INCOME TAXES

by Keshia Duncan

Colorado adopted a corporate income tax in 1937, and is one of 45 states to levy this tax. Corporate income tax is levied on all businesses where income comes directly from Colorado sources. In FY 2011-12, the state of Colorado generated \$439 million in corporate income tax revenue for the state’s General Fund. This *issue brief* discusses the general process for determining Colorado’s corporate income tax, the amount of revenue collected, and how the tax compares with surrounding states.

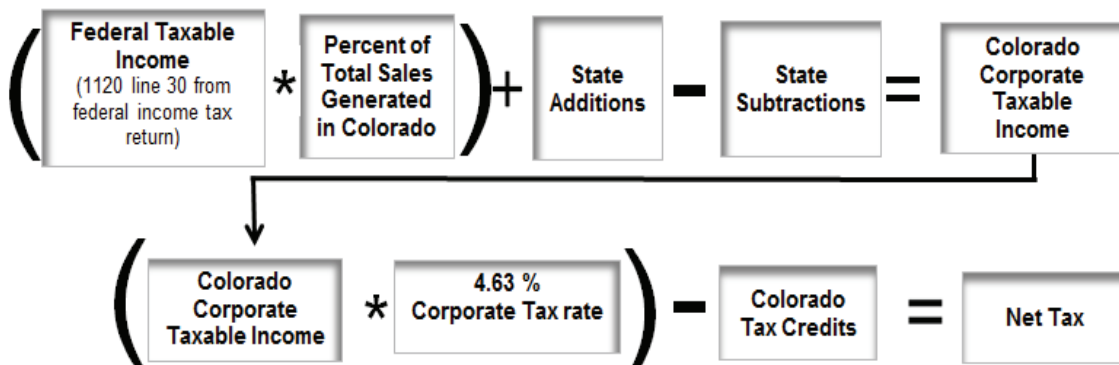
Calculating Corporate Income Tax

Corporate income, first imposed in 1937, was taxed at a flat rate until 1980. Graduated corporate income tax rates were implemented from 1981 until 1992. The flat rate returned in 1993, and Colorado’s corporate income tax rate is currently 4.63 percent. Many businesses in the state generate all of their income in

Colorado and are taxed on this income. Business income for multi-state corporations and partnerships is taxed in Colorado based on the ratio of a company’s sales in Colorado to its total sales.

Figure 1 illustrates the general process for calculating Colorado’s corporate income tax. Colorado utilizes current federal taxable income as the starting point for determining state taxable income. The portion of the corporation’s total taxable income that is taxable in Colorado is determined by the proportion of its total income generated by sales in Colorado. This portion of federal taxable income is then adjusted by any qualified state deductions and additions. For example, if there are any items included in the federal taxable income that are not subject to a Colorado tax, such as federal interest income, the taxpayer is eligible to subtract the interest income from their federal taxable income.

Figure 1
Process for Calculating Corporate Income Tax in Colorado

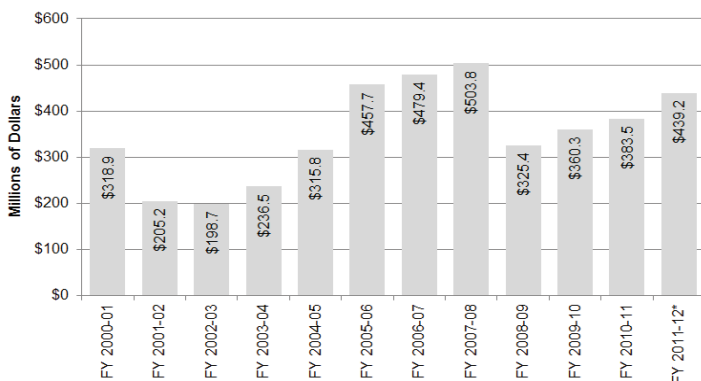


After these adjustments, Colorado levies a flat 4.63 percent income tax against state taxable income. Finally, state tax credits can be used to offset tax liabilities, such as investment tax credits and enterprise zone tax credits.

Corporate Income Tax Collections

Corporate income tax collections are highly volatile and dependent on overall economic conditions. Figure 2 provides information on historical corporate income tax collections from FY 2000-01 through FY 2011-12. Corporations have the ability to carry forward net operating losses for up to 20 years to offset their future corporate tax liability, which also contributes to the volatility.

Figure 2
Corporate Income Tax Collections



Source: Colorado State Controller's Office.

*FY 2011-12 data are preliminary.

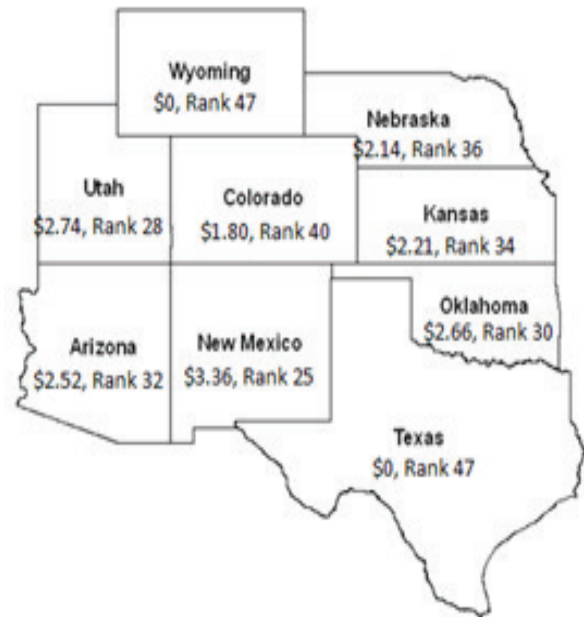
State corporate income tax revenue is deposited in the state General Fund. Based on the September 2012 forecast, Legislative Council Staff expects corporate income tax to make up 5 percent of General Fund revenue in FY 2012-13.

Corporate Income Tax Compared With Other States

Colorado is one of 45 states to have a corporate income tax. Of these, 31 states and the District of Columbia have a flat tax rate, while 14 other states have a graduated tax dependent on income levels. Nevada, South Dakota, Texas, Washington, and Wyoming do not impose a corporate income tax. Figure 2 shows the tax

liability per \$1,000 of personal income and the rank of the states neighboring Colorado.

Figure 3
State Corporate Tax Revenue Per \$1,000 of Personal Income, FY 2010-11*



*A higher rank represents higher corporate tax collections. Rank 47 is the last rank and indicates no corporate income tax is collected.

Table 1 shows the range of corporate income tax liability per \$1,000 of personal income in the United States. The state's tax burden of \$1.80 per \$1,000 of personal income was 44.6 percent below the average of \$3.25 for all the states levying corporate income tax. The state tax burden per \$1,000 of personal income ranked the state 10th lowest in the nation.

Table 1
State Corporate Income Tax Revenue Per \$1,000 of Personal Income, FY 2010-11
(Maximum, Minimum and Average)

Maximum	Alaska	\$22.82
Minimum	5 States (NV, TX, SD, WA, WY)	\$0
Colorado		\$1.80
Average		\$3.25

Source: U.S. Census Bureau, State and Local Government Finances