

Examples of Tax Expenditures

Credit

Reduces tax liability dollar-for-dollar. Some credits are refundable, meaning that a credit in excess of tax liability results in a cash refund.

Example: Taxpayers with children under age 13 may receive a credit for a percentage of childcare expenses.



Deduction

Reduces gross income due to expenses taxpayers incur.

Example: Taxpayers may be able to deduct a percentage of the costs they incur for wildfire mitigation.



Income Definition

Excludes income that would constitute part of a taxpayer's gross income.

Example: Employees do not pay taxes on contributions employers make to medical savings accounts.



Exemption

Reduces gross income for taxpayers because of their status or circumstances.

Example: Alcoholic beverages produced for personal consumption are exempt from sales and use taxes.



Tax Rate

Reduces tax rates on some forms of income.

Example: Insurance companies with an office in Colorado may be eligible for lower insurance tax rates.

