



COLORADO FISCAL POLICY INSTITUTE

Justice and Economic Security for *all* Coloradans

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The Earned Income Tax Credit in Colorado

Tax Credits Help Striving Families Become Thriving Families

The Earned Income Tax Credit (EITC) is a federal tax credit that helps low-income working families help themselves. It rewards low- and moderate-income families for their hard work and helps them close the gap between what they earn and what they need to get by and get ahead. Columbia University's National Center for Children in Poverty found the EITC reduces poverty among young children by nearly 25%.

The EITC can make a significant difference for hardworking families. For Tax Year (TY) 2006, it is worth as much as \$4536 to families. For example, a single parent raising two children and earning \$14,500 is eligible for an EITC refund of \$4,536 – a 31% increase in family income. Many qualifying families are also eligible for the Child Tax Credit, as much as \$1000 per child this year.

Workers access the benefits of the EITC by filing a tax return. Workers who qualify can get back some or all of the federal withholding they paid throughout the year. They may also get additional cash back from the IRS, because the EITC is a refundable credit. The amount is based on how much people work and the number of qualifying children.

The EITC has a long history of bi-partisan support. Started under President Gerald Ford and expanded by Presidents Ronald Reagan, George H.W. Bush and Bill Clinton, the EITC has become the nation's largest and most effective anti-poverty program. More than 20 states have followed suit and enacted state EITCs. Many states, including Colorado, have made these refundable, like the federal credit.

EITC Helps Colorado Workers Throughout the State

The federal EITC benefits thousands of families in Colorado. In 2004, the most recent year data are available, 259,248 families, almost 13% of Colorado tax filers, claimed the federal EITC. It is claimed equally by Coloradans living in rural, suburban, and urban areas.

\$426 million of EITC went to Colorado workers in TY2004. To put that into perspective, that's more than the total amount of wages and salaries that people in the state's agriculture, forestry, fishing and hunting industries earned all year long (\$349 million in 2004). Or more than salaries and wages paid to people in Colorado's clothing and clothing accessories stores for a full year (\$337 million in 2004).

The local economy is stimulated by the EITC. When families spend their EITC refunds on goods and services, local merchants benefit. Economists estimate that such dollars will be re-spent 3 – 5 or more times within the local economy. The real economic impact of the \$426 million received by families in 2004 may have been as much as \$2.1 billion statewide. At 10% of the federal credit, every year Colorado's state EITC is suspended, roughly \$200 million or more is lost in local economic activity.

The EITC is proven to increase employment among single parents. Only people who work are eligible for the EITC and for workers with very low earnings the size of the credit increases with each additional dollar of earnings, providing an incentive for more work. Studies done by notable economists at Northwestern University, University of North Carolina and the University of Michigan have all concluded that EITC expansions between 1984 and 1996 were responsible for more than half of the large increases in employment among single mothers during that period, particularly for mothers with young children and those with low education levels. A report issued by the Committee for Economic Development, an organization of 250 corporate executives and university presidents, concluded that "The EITC has become a powerful force in dramatically raising employment of low-income women."

EITC lifts families above the FPL and reduces dependency on entitlement and other government programs. Census data show that each year the EITC lifts more than 4 million people out of poverty, including 2.4 million children. Without the EITC the poverty rate among children would have been nearly one-fourth higher.

EITC Can Help Families Meet Practical Needs and Grow Assets

Families use their EITC refunds to pay off debt, invest in education, finance transportation to work and secure decent housing. According to national exit interviews and a local study done by City and County of Denver about its citywide EITC, the most frequent uses of EITC refunds is school clothing, school supplies for children, paying bills and car repair.

EITC refunds can help families build assets if they have access to savings opportunities. Matched savings accounts, often called Individual Development Accounts (IDAs), can be excellent vehicles for helping families convert their EITC refund into an occasion to start or strengthen a habit of savings and financial planning.

Colorado Families and Communities are Missing Out

A design flaw in Colorado's state EITC means that Colorado families lose the EITC when times get tough. Colorado's state EITC is 10% of the federal credit and refundable, but it is only available in years when Colorado has TABOR refunds. Colorado is the only state to restrict its EITC in this manner. It means that when times get tough and the state feels a budget crunch and there are no revenues above the TABOR limit, families that are also feeling the crunch lose the boost when they need it the most. The Colorado EITC has not been available since TY 2001.

Referendum C eliminated TABOR refunds until 2010-11 and during that time the state EITC is unavailable. Recent revenue projections do not predict that the state will have enough revenue above the TABOR limit to fund the State EITC until at least 2013.

When families miss out, so do their communities. Recalling that the EITC can produce an economic ripple 3 to 5 times the size of the credit, Colorado communities are losing up to \$200 million per year, every year the Colorado EITC is suspended.

Colorado lawmakers should give credit where credit is due and restore the state Earned Income Tax Credit.

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The Numbers By County –What’s Not in Your Wallet?

LOST ECONOMIC IMPACT OF STATE EITC

EITC Receipt by County, Colorado, Tax Year 2004

County	All Tax Returns	EITC Returns	Percent EITC	EITC Amount (\$)	10% State Amount (\$)	Lost Impact
Adams	161,646	25,423	16	\$44,880,732	\$4,488,073	\$22,440,366
Alamosa	5,838	1,504	26	\$2,651,044	\$265,104	\$1,325,522
Arapahoe	237,602	26,690	11	\$44,545,482	\$4,454,548	\$22,272,741
Archuleta	5,330	938	18	\$1,561,745	\$156,175	\$780,873
Baca	1,686	340	20	\$582,149	\$58,215	\$291,074
Bent	1,716	433	25	\$769,523	\$76,952	\$384,762
Boulder	129,799	11,657	9	\$15,743,289	\$1,574,329	\$7,871,644
Broomfield	20,218	1,403	7	\$2,049,923	\$204,992	\$1,024,962
Chaffee	7,382	1,115	15	\$1,698,133	\$169,813	\$849,067
Cheyenne	855	134	16	\$242,209	\$24,221	\$121,105
Clear Creek	4,396	432	10	\$613,397	\$61,340	\$306,698
Conejos	2,795	828	30	\$1,537,058	\$153,706	\$768,529
Costilla	1,335	402	30	\$713,290	\$71,329	\$356,645
Crowley	1,190	309	26	\$608,577	\$60,858	\$304,288
Custer	1,704	257	15	\$419,104	\$41,910	\$209,552
Delta	11,854	2,153	18	\$3,465,988	\$346,599	\$1,732,994
Denver	249,770	37,937	15	\$62,389,692	\$6,238,969	\$31,194,846
Dolores	793	145	18	\$229,991	\$22,999	\$114,996
Douglas	104,077	4,863	5	\$7,168,058	\$716,806	\$3,584,029
Eagle	21,327	1,787	8	\$2,543,020	\$254,302	\$1,271,510
El Paso	245,930	34,118	14	\$58,568,368	\$5,856,837	\$29,284,184
Elbert	9,446	779	8	\$1,241,646	\$124,165	\$620,823
Fremont	16,160	2,760	17	\$4,804,875	\$480,488	\$2,402,438
Garfield	20,479	2,333	11	\$3,718,588	\$371,859	\$1,859,294
Gilpin	3,356	242	7	\$316,962	\$31,696	\$158,481
Grand	6,507	719	11	\$987,774	\$98,777	\$493,887
Gunnison	6,741	876	13	\$971,094	\$97,109	\$485,547
Hinsdale	350	55	16	\$70,711	\$7,071	\$35,356
Huerfano	2,719	620	23	\$1,120,894	\$112,089	\$560,447
Jackson	675	114	17	\$181,105	\$18,111	\$90,553
Jefferson	248,171	22,159	9	\$33,909,858	\$3,390,986	\$16,954,929
Kiowa	661	117	18	\$194,897	\$19,490	\$97,449
Kit Carson	3,201	553	17	\$988,619	\$98,862	\$494,310

La Plata	21,869	2,644	12	\$3,780,459	\$378,046	\$1,890,229
Lake	2,818	483	17	\$766,853	\$76,685	\$383,427
Larimer	123,968	12,931	10	\$18,813,077	\$1,881,308	\$9,406,539
Las Animas	5,977	1,210	20	\$2,067,936	\$206,794	\$1,033,968
Lincoln	2,028	354	17	\$617,026	\$61,703	\$308,513
Logan	8,070	1,431	18	\$2,373,493	\$237,349	\$1,186,747
Mesa	57,129	9,021	16	\$15,076,243	\$1,507,624	\$7,538,121
Mineral	391	56	14	\$82,158	\$8,216	\$41,079
Moffat	5,549	800	14	\$1,315,815	\$131,582	\$657,908
Montezuma	10,200	1,959	19	\$3,354,075	\$335,407	\$1,677,037
Montrose	15,597	2,683	17	\$4,731,654	\$473,165	\$2,365,827
Morgan	10,707	2,213	21	\$3,952,819	\$395,282	\$1,976,409
Otero	7,664	2,036	27	\$3,778,280	\$377,828	\$1,889,140
Ouray	2,025	250	12	\$338,110	\$33,811	\$169,055
Park	6,463	725	11	\$1,036,890	\$103,689	\$518,445
Phillips	1,836	283	15	\$486,345	\$48,635	\$243,173
Pitkin	9,109	537	6	\$535,019	\$53,502	\$267,509
Prowers	5,232	1,250	24	\$2,324,466	\$232,447	\$1,162,233
Pueblo	61,226	13,050	21	\$23,373,463	\$2,337,346	\$11,686,732
Rio Blanco	2,620	329	13	\$554,445	\$55,445	\$277,223
Rio Grande	5,150	1,312	25	\$2,396,880	\$239,688	\$1,198,440
Routt	10,694	894	8	\$995,207	\$99,521	\$497,603
Saguache	2,305	746	32	\$1,360,256	\$136,026	\$680,128
San Juan	327	47	14	\$51,212	\$5,121	\$25,606
San Miguel	3,509	349	10	\$384,858	\$38,486	\$192,429
Sedgwick	1,093	191	17	\$296,386	\$29,639	\$148,193
Summit	13,255	1,065	8	\$1,085,917	\$108,592	\$542,958
Teller	10,253	1,254	12	\$2,006,032	\$200,603	\$1,003,016
Washington	1,942	319	16	\$531,111	\$53,111	\$265,555
Weld	89,182	14,175	16	\$25,682,366	\$2,568,237	\$12,841,183
Yuma	3,876	623	16	\$1,110,699	\$111,070	\$555,350
TOTAL	2,037,772	259,418	13	\$426,747,344	\$42,674,734	\$213,373,672

Source: Brookings Institution analysis of IRS data