



ISSUE BRIEF
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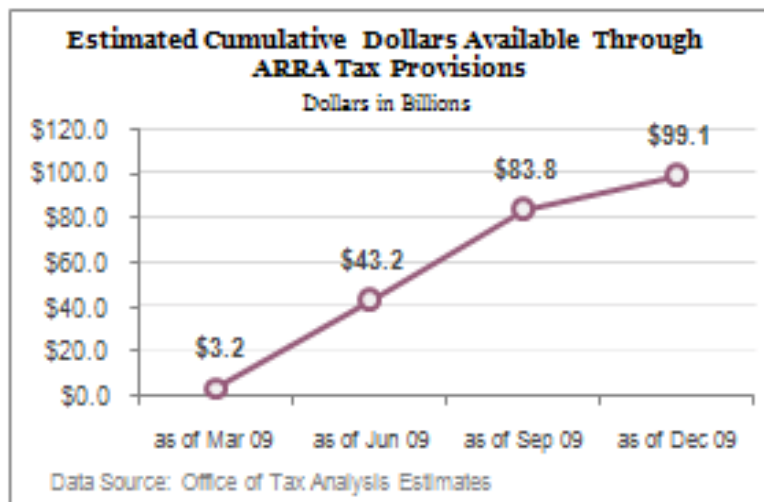
The economic impact of the Making Work Pay tax credit in Colorado

The Making Work Pay tax credit is the single-largest provision among a range of tax benefits that are part of the federal American Recovery and Reinvestment Act of 2009, commonly known as the Recovery Act. The Making Work Pay credit has yielded dramatic benefits for Colorado, this report finds, including \$751 million in economic activity throughout the state and 5,473 new jobs.

Chief tax provisions of the Recovery Act

The Recovery Act (the American Recovery and Reinvestment Act, or ARRA) was designed to spur economic activity, encourage investment in long-term economic growth, and create new jobs and save existing ones. ARRA also implemented expansive levels of accountability and transparency in government spending.

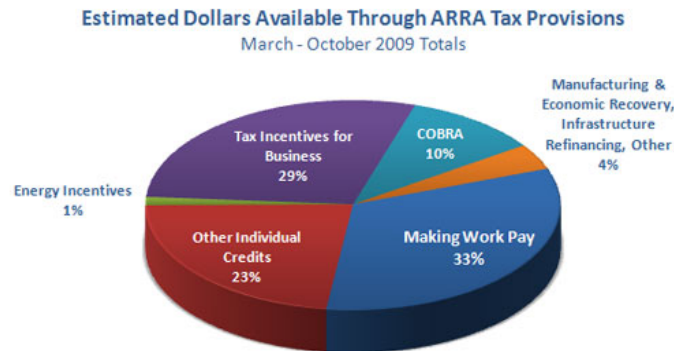
One of the main ways ARRA will help American families is through tax benefits and tax incentives for individuals and businesses. ARRA provides a total of \$787 billion in funding, including \$288 billion in tax cuts and benefits for millions of working families and businesses nationwide. To date, only \$99.1 billion of the funding has been paid, leaving the majority of ARRA dollars to provide tax benefits on the 2009 tax return and in the 2010 tax year.



Source: www.recovery.gov

ARRA money designated for tax purposes is divided among incentives and credits that target individuals and businesses of all kinds and across all income brackets.

The chart below shows the portion of ARRA tax dollars devoted to each target area as of October 2009.



Source: www.recovery.gov

About two-thirds of ARRA tax dollars benefited individuals in the form of credits, incentives and health care aid. The remaining one-third creates business and development incentives across an array of sectors including manufacturing, energy and infrastructure.

Making Work Pay

Two-thirds of ARRA's \$288 billion in tax-related dollars has been allocated toward aiding families and individuals across all income brackets. Roughly 33 percent of ARRA tax benefits had been paid through the "Making Work Pay" tax credit.

Developed to benefit workers nationwide, Making Work Pay is a refundable tax credit of up to \$400 for working individuals with incomes less than \$75,000 and up to \$800 for working families with incomes of less than \$150,000 (filers with higher incomes may be eligible for a partial credit). The amount of the credit will be computed on the employee's 2009 and 2010 income tax returns. For most people who receive paychecks that are subject to withholding, the credit will be handled by their employers and may result in an increase in take-home pay. For people who do not have taxes withheld by an employer, such as independent contractors, the credit can be claimed on the 2009 and 2010 tax returns.

Additionally, in 2009 and 2010, the credit is refundable. That means low-income workers will get a credit equal to 6.2 percent of their earned incomes, even if that amount is greater than their tax liabilities.

In total, the Making Work Pay credit is estimated to benefit 110.7 million taxpayers nationwide. The credit has also kept an estimated 1.6 million people from falling into poverty, including 500,000 children.

What has the Making Work Pay credit done for Colorado?

The Making Work Pay credit was designed to put money in the pockets of working taxpayers, and it gave a tax break to virtually every working Coloradan. As an added benefit, these tax breaks were spent by taxpayers, generating the jobs and output shown below as a result. In total,

the Making Work Pay credit created an estimated \$751 million in economic activity in Colorado, and 5,473 jobs. (See methodology section for more about the source of these figures.)

Colorado

- Put \$715 million into the pockets of Colorado workers
- Generated an estimated economic benefit of \$750.6 million
- Created an estimated 5,473 jobs across the state

Top Colorado industries affected, by employment

1. Dining
2. Healthcare
3. Real estate
4. Wholesale and retail

Detailed industry breakdown of employment generated by the Making Work Pay credit

Industry	Total induced employment
Food services and drinking places	575
Offices of physicians, dentists, and other health practitioners	326
Private hospitals	244
Real estate establishments	242
Wholesale trade businesses	192
Retail Stores - General merchandise	180
Nursing and residential care facilities	169
Retail Stores - Food and beverage	167
Retail Non-stores - Direct and electronic sales	154
Private household operations	142

Source: Colorado Fiscal Policy Institute analysis

The Making Work Pay credit in select Colorado counties

A look at a handful of counties shows the Making Work Pay credit had a profound local economic impact, generating jobs and economic output.

Adams County

- Estimated MWP credit = \$ 59,248,597
- Total resulting economic output = \$50,568,664
- Resulting employment = 391

Denver County

- Estimated MWP credit = \$ 85,010,889
- Total resulting economic output =\$85,010,889
- Resulting employment = 541

El Paso County

- Estimated MWP credit = \$ 78,738,833
- Total resulting economic output =\$63,262,060
- Resulting employment = 537

Mesa County

- Estimated MWP credit = \$22,085,809
- Total resulting economic output =\$19,362,784
- Resulting employment = 162

Pueblo County

- Estimated MWP credit = \$19,395,424
- Total resulting economic output =\$14,294,393
- Resulting employment = 134

Weld County

- Estimated MWP credit = \$31,683,902
- Total resulting economic output =\$25,088,680
- Resulting employment = 226

Economists agree the Recovery Act's positive effect has been felt throughout the nation. The tax provisions of the stimulus are an example of the benefit, and their effects have been profound in Colorado. Nearly all of the state has been touched by these benefits. To date, more than 3.8 million Colorado families have been helped by stimulus tax funding, and the majority of the funds have yet to be distributed. In addition, an estimated 70,000 Coloradans have been lifted above the poverty line and millions will continue to benefit from tax assistance such as the Earned Income Tax Credit, the Additional Child Tax Credit and Making Work Pay credit in 2010.

The Making Work Pay Credit is just one example of these far-reaching tax benefits, which afford economic support and fiscal relief for families and businesses in nearly every industry and across all income brackets. The Making Work Pay credit has provided \$715 million in tax relief for Coloradans. As a result, this statewide income boost created an estimated \$751 million in economic activity in Colorado, and 5,473 jobs. While this impact analysis for the Making Work Pay credit is just one measure of the benefit of the stimulus package, it is a powerful one.

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Impact analysis methodology

Regional economic effects of the Making Work Pay credit are generated using the IMPLAN economic impact modeling software. This software uses empirically-derived regional input-output accounting to enable modeling of local economic changes. For more information, see the IMPLAN website (<http://implan.com/v3/>).

At the state level, the reported Making Work Pay total is distributed among households by income level, using household demographic data. The resulting household income change is modeled.

Estimates of county-level Making Work Pay allocations are derived using county shares of the state labor force. These tax-credit allocations are then distributed among households and modeled.

The fact that local output figures are lower than the county-level credits is not an indication the Making Work Pay credit was a losing investment at the county level. Indeed, all economic output and employment generated by the credit are an induced, added benefit. The Making Work Pay credit was designed to put money in the pockets of working taxpayers. As an added benefit, these tax breaks were spent by taxpayers, generating the jobs and output shown above as a result. The credit amount exceeds the output amount at the county level because taxpayers spent their tax windfall money in other counties as well as their own. At the state level, the resulting economic output is greater than the tax credit, because most resident purchases are made in state, allowing the “multiplier effect” of the spending to prevail over “leakages” out of state.