

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) 2005, it is worth as much as \$4400 to families. For example, a single parent raising two children and earning \$12,200 is eligible for an EITC refund of \$4,400 – a 36% 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. Nearly 20 states, Colorado among them, 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 2003, 256,481 families, almost 13% of Colorado tax filers, claimed the federal EITC. It is claimed equally by Coloradans living in rural, suburban, and urban areas.

\$412 million of EITC went to Colorado workers in TY2003. 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 \$412 million received by families in 2003 may have been as much as \$2 billion statewide. At 10% of the federal credit, Colorado's state EITC could have been generating roughly \$200 million more 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 in 2003, the EITC lifted 4.4 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 means that Colorado families lose the EITC when times get tough. While Colorado's state EITC is 10% of the federal credit and refundable, it is only available in years when Colorado has a budget surplus. Colorado is the only state to tie its EITC to surplus dollars in this manner. It means that when times get tough and the state feels a budget crunch, 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.

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.

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

County	Total EITC 2003	Total Filers 2003	Percent EITC 2003	EITC Amount	State EITC Amount	Potential Lost Economic Impact
Adams	25,688	163,313	15.73	\$43,879,969	\$4,387,997	\$21,939,984.50
Alamosa	1,449	5,818	24.91	\$2,561,728	\$256,173	\$1,280,864.00
Arapahoe	23,098	212,841	10.85	\$37,396,254	\$3,739,625	\$18,698,127.00
Archuleta	927	4,885	18.98	\$1,504,354	\$150,435	\$752,177.00
Baca	319	1,692	18.85	\$535,045	\$53,505	\$267,522.50
Bent	416	1,684	24.70	\$817,438	\$81,744	\$408,719.00
Boulder	11,120	124,193	8.95	\$14,562,034	\$1,456,203	\$7,281,017.00
Broomfield	2,611	37,564	6.95	\$3,810,579	\$381,058	\$1,905,289.50
Chaffee	1,099	7,467	14.72	\$1,645,777	\$164,578	\$822,888.50
Cheyenne	131	856	15.30	\$220,125	\$22,013	\$110,062.50
Clear Creek	372	2,899	12.83	\$469,135	\$46,914	\$234,567.50
Conejos	863	2,956	29.19	\$1,616,083	\$161,608	\$808,041.50
Costilla	386	1,231	31.36	\$637,920	\$63,792	\$318,960.00
Crowley	326	1,201	27.14	\$624,781	\$62,478	\$312,390.50
Custer	267	1,702	15.69	\$428,077	\$42,808	\$214,038.50
Delta	2,188	11,962	18.29	\$3,616,017	\$361,602	\$1,808,008.50
Denver	38,074	247,730	15.37	\$60,399,693	\$6,039,969	\$30,199,846.50
Dolores	163	789	20.66	\$255,241	\$25,524	\$127,620.50
Douglas	4,670	101,464	4.60	\$6,844,078	\$684,408	\$3,422,039.00

County	Total EITC 2003	Total Filers 2003	Percent EITC 2003	EITC Amount	State EITC Amount	Potential Lost Economic Impact
Eagle	1,743	20,202	8.63	\$2,527,658	\$252,766	\$1,263,829.00
El Paso	35,024	242,388	14.45	\$59,282,606	\$5,928,261	\$29,641,303.00
Elbert	531	6,419	8.27	\$856,339	\$85,634	\$428,169.50
Fremont	2,764	15,990	17.29	\$4,770,653	\$477,065	\$2,385,326.50
Garfield	2,539	21,791	11.65	\$3,961,245	\$396,125	\$1,980,622.50
Gilpin	98	1,054	9.30	\$119,758	\$11,976	\$59,879.00
Grand	731	6,424	11.38	\$923,311	\$92,331	\$461,655.50
Gunnison	895	6,501	13.77	\$986,634	\$98,663	\$493,317.00
Hinsdale	63	353	17.85	\$77,171	\$7,717	\$38,585.50
Huerfano	624	2,647	23.57	\$1,095,047	\$109,505	\$547,523.50
Jackson	118	686	17.20	\$187,063	\$18,706	\$93,531.50
Jefferson	21,897	252,214	8.68	\$32,524,626	\$3,252,463	\$16,262,313.00
Kiowa	94	633	14.85	\$165,854	\$16,585	\$82,927.00
Kit Carson	605	3,245	18.64	\$1,098,583	\$109,858	\$549,291.50
La Plata	2,617	21,626	12.10	\$3,707,354	\$370,735	\$1,853,677.00
Lake	501	2,851	17.57	\$788,283	\$78,828	\$394,141.50
Larimer	12,379	121,798	10.16	\$17,774,662	\$1,777,466	\$8,887,331.00
Las Animas	1,239	5,957	20.80	\$2,115,405	\$211,541	\$1,057,702.50
Lincoln	333	2,018	16.50	\$571,188	\$57,119	\$285,594.00
Logan	1,416	8,109	17.46	\$2,322,396	\$232,240	\$1,161,198.00
Mesa	9,211	56,022	16.44	\$14,984,722	\$1,498,472	\$7,492,361.00
Mineral	62	404	15.35	\$92,105	\$9,211	\$46,052.50
Moffat	830	5,594	14.84	\$1,328,491	\$132,849	\$664,245.50
Montezuma	2,000	10,173	19.66	\$3,460,742	\$346,074	\$1,730,371.00
Montrose	2,742	15,272	17.95	\$4,620,244	\$462,024	\$2,310,122.00
Morgan	2,273	10,854	20.94	\$4,006,150	\$400,615	\$2,003,075.00
Otero	2,050	7,788	26.32	\$3,705,333	\$370,533	\$1,852,666.50
Ouray	188	1,715	10.96	\$239,519	\$23,952	\$119,759.50
Park	679	5,893	11.52	\$972,891	\$97,289	\$486,445.50
Phillips	297	1,972	15.06	\$488,060	\$48,806	\$244,030.00
Pitkin	440	7,717	5.70	\$363,417	\$36,342	\$181,708.50
Prowers	1,327	5,313	24.98	\$2,400,989	\$240,099	\$1,200,494.50
Pueblo	12,838	60,949	21.06	\$22,624,557	\$2,262,456	\$11,312,278.50
Rio Blanco	334	2,573	12.98	\$578,593	\$57,859	\$289,296.50
Rio Grande	1,716	6,461	26.56	\$3,263,803	\$326,380	\$1,631,901.50
Routt	939	10,416	9.01	\$1,072,521	\$107,252	\$536,260.50
Saguache	301	1,136	26.50	\$400,987	\$40,099	\$200,493.50
San Juan	55	339	16.22	\$50,052	\$5,005	\$25,026.00
San Miguel	365	3,535	10.33	\$385,174	\$38,517	\$192,587.00
Sedgwick	192	1,100	17.45	\$280,772	\$28,077	\$140,386.00
Summit	1,075	13,299	8.08	\$1,045,698	\$104,570	\$522,849.00
Teller	1,315	10,258	12.82	\$2,102,274	\$210,227	\$1,051,137.00
Washington	319	1,856	17.19	\$537,094	\$53,709	\$268,547.00
Weld	14,163	92,338	15.34	\$24,776,203	\$2,477,620	\$12,388,101.50
Yuma	659	4,015	16.41	\$1,201,611	\$120,161	\$600,805.50