



FACT SHEET

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From the Colorado Fiscal Policy Institute

EARNED INCOME TAX CREDIT

WHAT IS THE EARNED INCOME TAX CREDIT (EITC)?

The Federal EITC was implemented in 1975 to offset the effects of federal payroll taxes on low-income families. The EITC is a tax credit for working families that earn below a specified yearly wage. The credit offsets the taxpayer's income tax liability, or if the taxpayer does not have an income tax obligation, the credit is an income tax refund. The amount of the credit depends on the size of the family and the level of Adjusted Gross Income (AGI).

COLORADO EITC

The Colorado EITC was implemented in 1999 (HB99-1183) as a refundable credit affecting 1999 taxes equal to 8.5% of the Federal credit. In 2000, HB00-1049 changed the EITC to equal 10% of the federal credit.

TABLE 1 shows the number of Federal and State EITC claims by Colorado taxpayers from 1999 to 2002 and the average amount of each claim.

Tax Year	Federal EITC		State EITC	
	Claims	Amount/Claim	Claims	Amount/Claim
1999	220,922	\$1,489.21	200,233	\$130.45
2000	215,964	\$1,490.98	195,596	\$154.66
2001	219,334	\$1,504.55	210,264	\$156.03
2002	247,647*	\$1,587.13*	225,358**	\$158.71**

Sources: CO Dept. of Revenue; Center on Budget and Policy Priorities (CBPP)
 *2002 Fed. Est. based on preliminary figures for Tax Year 2002 (CBPP)
 **2002 State Est. based on preliminary figures for Tax Year 2002 (CBPP);
 assumptions: CO maintains 1.04% share of total US EITC claims; 91% of those who claim Federal EITC also claim State EITC.

FUNDING FOR THE EITC

Colorado currently funds the state Earned Income Tax Credit with excess revenues collected under the constitutional TABOR limit. In order to fund the EITC each year, the state must collect excess revenue up to a predetermined threshold amount and thus trigger the implementation of the credit. Colorado did not collect enough excess revenues to fund the state EITC for Tax Years 2002 or 2003.

POSSIBLE CHANGES TO THE STATE EITC

Changes to the state EITC could include the following:

- Increase the amount of the state EITC. This would require legislation increasing the percentage of the federal credit used to calculate the amount of the state credit.

TABLE 2 shows the actual costs of the state EITC at 8.5% and 10% of the federal credit and estimated costs if the state EITC were increased to 12%, 15% and 20% of the federal credit.

State EITC Rate	1999	2000	2001	2002	2005
8.5%	\$26.12	-	-	-	-
10%	-	\$30.25	\$32.8	\$35.8*	\$37.1**
12%	-	-	-	\$42.9*	\$44.5**
15%	-	-	-	\$58.9*	\$55.6**
20%	-	-	-	\$78.6*	\$74.1**

Sources: 1999-2001 (shaded): Actual Cost from CO Department of Revenue
 *2002 estimates based on preliminary figures for Tax Year 2002 (CBPP);
 assumption: 91% of those who claim Federal EITC claim State EITC.
 **2005 estimates based on IRS, Budget of US Gov. FY 2005, CBPP;
 assumptions: CO maintains 1.04% share of total US EITC claims; 91% of those who claim Federal EITC also claim State EITC.

- Make the EITC permanent and not dependent on excess revenues under TABOR. Funding the state EITC using the TABOR surplus means the credit is temporary and may or may not exist in any given year. If the state EITC were funded through the State General Fund appropriations, the state EITC would be permanent and available every year.

HOW MUCH IS THE EITC WORTH?

The EITC is available to certain taxpayers who worked during the tax year for which they are claiming the credit. The amount of the credit is based on the household Adjusted Gross Income (AGI) on the Federal tax form and the number of children the taxpayer has. The amount of the credit increases as income increases to a certain point, and then decreases and phases out as income continues to increase. Each year the value of the EITC is adjusted for inflation. **TABLE 3** shows the value of the Colorado Federal and State EITC for tax year 2003 at various incomes. Note that for families with children, those who benefit the most fall into the \$7,500 - \$14,500 AGI range. **TABLE 4** shows the maximum AGI in each category at which a taxpayer can claim the EITC as well the value of the federal and state credits.

TABLE 3: FEDERAL EITC BENEFITS FOR TAX YEAR 2003 AT VARIOUS INCOME LEVELS						
Federal Credit for Workers Raising						
Income	No Children		1 Child		2 or More Children	
	Not Married	Married	Not Married	Married	Not Married	Married
\$500	\$40	\$40	\$179	\$179	\$210	\$210
\$1,000	\$78	\$78	\$349	\$349	\$410	\$410
\$1,500	\$117	\$117	\$519	\$519	\$610	\$610
\$2,000	\$155	\$155	\$689	\$689	\$810	\$810
\$2,500	\$193	\$193	\$859	\$859	\$1,010	\$1,010
\$3,000	\$231	\$231	\$1,029	\$1,029	\$1,210	\$1,210
\$3,500	\$270	\$270	\$1,199	\$1,199	\$1,410	\$1,410
\$4,000	\$308	\$308	\$1,369	\$1,369	\$1,610	\$1,610
\$4,500	\$346	\$346	\$1,539	\$1,539	\$1,810	\$1,810
\$5,000	\$382	\$382	\$1,709	\$1,709	\$2,010	\$2,010
\$5,500	\$382	\$382	\$1,879	\$1,879	\$2,201	\$2,201
\$6,000	\$382	\$382	\$2,049	\$2,049	\$2,410	\$2,410
\$6,500	\$347	\$382	\$2,219	\$2,219	\$2,610	\$2,610
\$7,000	\$322	\$382	\$2,389	\$2,389	\$2,810	\$2,810
\$7,500	\$283	\$360	\$2,547	\$2,547	\$3,010	\$3,010
\$8,000	\$245	\$322	\$2,547	\$2,547	\$3,210	\$3,210
\$8,500	\$207	\$283	\$2,547	\$2,547	\$3,410	\$3,410
\$9,000	\$169	\$245	\$2,547	\$2,547	\$3,610	\$3,610
\$9,500	\$130	\$207	\$2,547	\$2,547	\$3,810	\$3,810
\$10,000	\$92	\$169	\$2,547	\$2,547	\$4,010	\$4,010
\$10,500	\$54	\$130	\$2,547	\$2,547	\$4,204	\$4,204
\$11,000	\$16	\$92	\$2,547	\$2,547	\$4,204	\$4,204
\$11,500	\$0	\$54	\$2,547	\$2,547	\$4,204	\$4,204
\$12,000	\$0	\$16	\$2,547	\$2,547	\$4,204	\$4,204
\$12,500	\$0	\$0	\$2,547	\$2,547	\$4,204	\$4,204
\$13,000	\$0	\$0	\$2,547	\$2,547	\$4,204	\$4,204
\$13,500	\$0	\$0	\$2,547	\$2,547	\$4,204	\$4,204
\$14,000	\$0	\$0	\$2,499	\$2,547	\$4,142	\$4,204
\$14,500	\$0	\$0	\$2,420	\$2,547	\$4,037	\$4,204
\$15,000	\$0	\$0	\$2,340	\$2,499	\$3,931	\$4,142
\$15,500	\$0	\$0	\$2,260	\$2,420	\$3,826	\$4,037
\$16,000	\$0	\$0	\$2,180	\$2,340	\$3,721	\$3,931
\$16,500	\$0	\$0	\$2,100	\$2,260	\$3,615	\$3,826
\$17,000	\$0	\$0	\$2,020	\$2,180	\$3,510	\$3,721
\$17,500	\$0	\$0	\$1,940	\$2,100	\$3,405	\$3,615
\$18,000	\$0	\$0	\$1,860	\$2,020	\$3,299	\$3,510
\$18,500	\$0	\$0	\$1,780	\$1,940	\$3,194	\$3,405
\$19,000	\$0	\$0	\$1,700	\$1,860	\$3,089	\$3,299
\$19,500	\$0	\$0	\$1,621	\$1,780	\$2,984	\$3,194
\$20,000	\$0	\$0	\$1,541	\$1,700	\$2,878	\$3,089
\$20,500	\$0	\$0	\$1,461	\$1,621	\$2,773	\$2,984
\$21,000	\$0	\$0	\$1,381	\$1,541	\$2,668	\$2,878
\$21,500	\$0	\$0	\$1,301	\$1,461	\$2,562	\$2,773
\$22,000	\$0	\$0	\$1,221	\$1,381	\$2,457	\$2,668
\$23,000	\$0	\$0	\$1,061	\$1,221	\$2,246	\$2,457
\$24,000	\$0	\$0	\$901	\$1,061	\$2,036	\$2,246
\$25,000	\$0	\$0	\$742	\$901	\$1,825	\$2,036
\$26,000	\$0	\$0	\$582	\$742	\$1,615	\$1,825
\$27,000	\$0	\$0	\$422	\$582	\$1,404	\$1,615
\$28,000	\$0	\$0	\$262	\$422	\$1,193	\$1,404
\$29,000	\$0	\$0	\$102	\$262	\$983	\$1,193
\$30,000	\$0	\$0	\$0	\$102	\$772	\$983
\$31,000	\$0	\$0	\$0	\$0	\$562	\$772
\$32,000	\$0	\$0	\$0	\$0	\$351	\$562
\$33,000	\$0	\$0	\$0	\$0	\$140	\$351
\$34,000	\$0	\$0	\$0	\$0	\$0	\$140

Credits calculated based on Internal Revenue Service Parameters

TABLE 4: MAXIMUM ALLOWABLE INCOME AND CREDITS FOR FEDERAL AND COLORADO STATE EITC, TAX YEAR 2003				
Family	Maximum Allowable Income*	Maximum Federal Credit	Maximum State Credit	Maximum Colorado State Credit IF EITC Credit Were Available for Tax Year 2003
Single / No Children	\$11,230	\$382	\$0	\$38.20
Married / No Children	\$12,230	\$382	\$0	\$38.20
Single / 1 Child	\$29,666	\$2,547	\$0	\$254.70
Married / 1 Child	\$30,666	\$2,547	\$0	\$254.70
Single / 2+ Children	\$33,692	\$4,204	\$0	\$420.40
Married / 2+ Children	\$34,692	\$4,204	\$0	\$420.40

*Maximum Income at which taxpayer can claim EITC