



ISSUE BRIEF

THE EARNED INCOME TAX CREDIT IN COLORADO: AN OVERVIEW

1) Federal Earned Income Tax Credit

- The *federal EITC* took effect in 1976 under the Ford administration and was made permanent in 1978. It was designed to offset the burden of Social Security and Medicare payroll taxes for low-income working people with children, and to provide work incentives. Low-income families benefit because the credit is refundable, that is, families receive a check from the Internal Revenue Service (IRS) for any credit left over after they've cut their income tax to zero. When the tax credit exceeds the amount of taxes owed, it results in a refund.
- Historically, it has been a bipartisan initiative. The EITC was indexed to inflation and expanded in 1986 under President Reagan. In 1990, under President George H. W. Bush, the EITC experienced its biggest increase when it was almost doubled. The Clinton administration increased the size of the tax credit and also expanded eligibility. In 2001, President George W. Bush expanded eligibility for low-income working taxpayers, and especially for military personnel, and increased benefits for married families with children.

2) Colorado's Earned Income Tax Credit

- The success of the federal EITC in reducing poverty and rewarding work has led to policy diffusion to the state level, with several states enacting complementary EITC programs designed to supplement the after-tax earnings of low- and moderate-income working families. With the exception of Minnesota, state EITCs piggy-back on the federal EITC, using federal eligibility rules and paying a flat percentage of the federal credit. They range from 4% to 45%, depending on family status and composition, but many are set at 15% to 20%.
- The *Colorado EITC* was enacted in 1999 as a refundable credit set at 8.5% of the federal credit, and in 2000 it was expanded to 10% of the federal credit. It is available to Colorado residents only when the state's fiscal year ends with a TABOR surplus. Colorado's EITC has not been available for tax years 2002, 2003, and 2004, since the state did not have a TABOR surplus during those fiscal years.
- When the state EITC is suspended, a larger number of low-income families are forced to pay state income taxes. For example, the suspension of the Colorado EITC for tax year 2002 reduced the state's income tax threshold for a family of four from \$28,700 to \$21,400 - this was the steepest decline in any state's income tax threshold at any time in at least ten years. In 1991, a family of four owed income tax when its income reached 3% above the poverty line. By 2001, Colorado's tax threshold was 59% above the poverty line. In 2002, the threshold dropped to 16 % above the poverty line.

3) Eligibility

- The EITC program has grown into the largest federal anti-poverty program. In 2004, 21 million families, almost all of them families with children, received \$37.5 billion from the EITC, including approximately 250,000 Coloradans who received about \$400 million. Most benefits go to families with children below the poverty line. Combined with the \$10 billion in child tax credits, the EITC brings their combined federal income and payroll taxes down to almost \$0.
- For Tax Year 2004, the Adjusted Gross Income (earned income) eligibility limits for the EITC are:
 - \$34,458 (\$35,458 for married filing jointly) for two or more qualifying children,
 - \$30,338 (\$31,338 for married filing jointly) for one qualifying child, or
 - \$11,490 (\$12,490 for married filing jointly) for no qualifying child.
- The maximum EITC is targeted to families with the highest need:
 - For filers with *two or more children*, the maximum EITC is \$4,300.
 - For filers with *one qualifying child*, the maximum EITC is \$2,604.
 - For filers with *no qualifying children*, the maximum EITC is \$390.

4) Effectiveness

- ***EITC is a particularly important factor in increasing employment, labor supply, and earnings.***
 - Because the EITC enhances net earnings, it increases the employment and earnings of single-parent families and the employment rates of low-skilled workers.
 - EITC creates a marriage reward for the poorest single parents.
 - EITC effectively adds about \$2/hour to the wages of 10 million low-income families with children, and about a \$1.50/hour to the wages of 6 million slightly better-off families.
- ***EITC is the most effective anti-poverty tool.***
 - EITC lifts more families with children out of poverty than any other program.
 - Annually, at least 2.4 million children are above the poverty level because of EITC benefits. 60% of EITC payments go to taxpayers who would be poor without it.
 - EITC is more beneficial for poor families than is the minimum wage.
- ***EITC is a powerful fiscal policy tool that stimulates the economy.***
 - EITC is a “tremendously effective” fiscal stimulus tool that causes a large macroeconomic consumption response. Around 70 % of EITC checks are spent in the month they are received.
 - EITC is “a much more effective fiscal stimulus tool than broad-based tax refunds.
- ***EITC is used by families to pay for basic needs, purchase items for children, and pay off debt.***
 - A 2003 survey of over 300 EITC recipients in Denver revealed that the top priorities for these families were: 1) Pay immediate bills, 2) car repairs, and 3) school clothes for children. Other responses included saving for emergencies, paying for school activities, and buying clothes for work.
 - Other studies indicate that many families use the EITC to pay utility bills, pay rent, purchase clothing and food, make car payments or repair cars, cover moving expenses, buy furniture and household appliances, pay for educational expenses, pay off debt, or set aside savings.
 - Two-thirds of parents who receive the EITC cite expenditures on children as the priority use.
- ***EITC is a particularly important contributor to the recent decrease in welfare use.***
 - EITC is particularly effective in moving non-working welfare recipients into the workforce and its expansions explain 15.8% of the decline in welfare use.
 - EITC reduces welfare use the most among families whose youngest child is 10 or older.

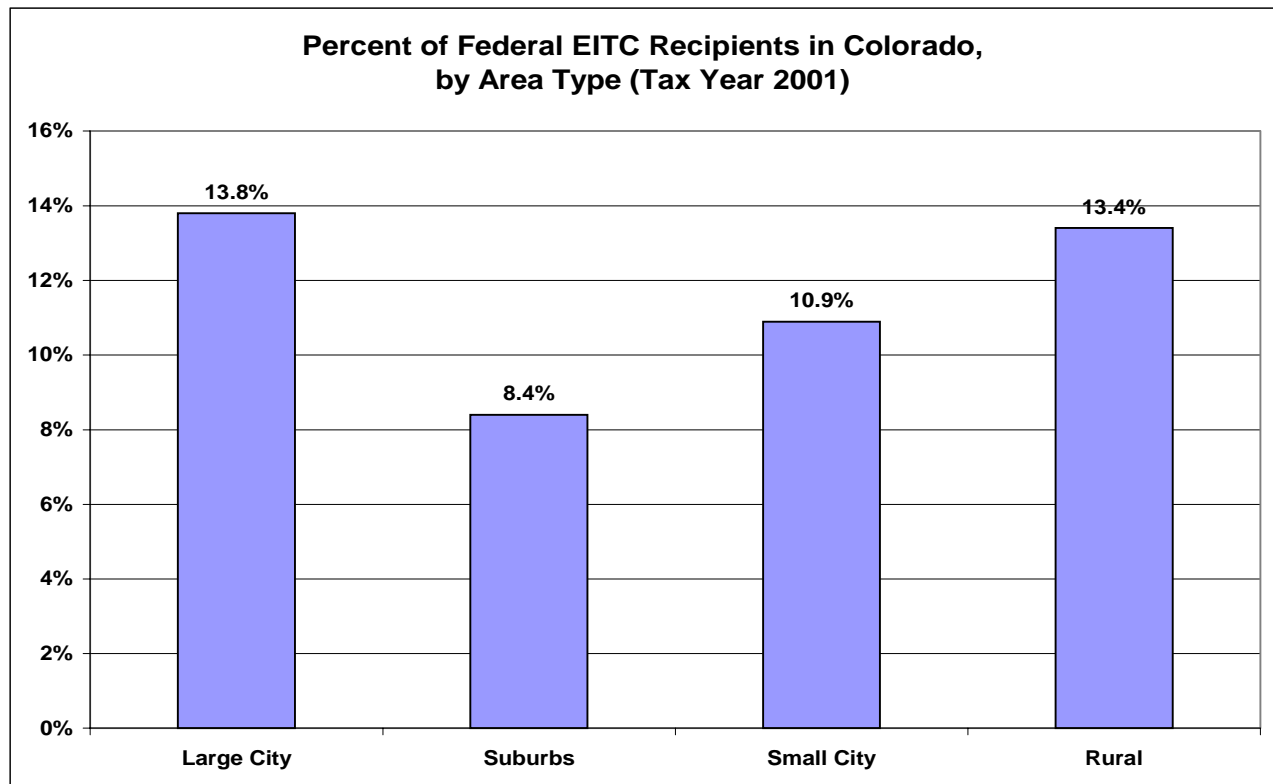
5) EITC Recipients in Colorado

- After four years of decline, the share of Colorado federal income tax filers who received an EITC increased substantially in tax year 2002 due to the economic recession, as the latest data available from the IRS indicate. In 2002, over 243,000 Colorado households, representing about 12.4% of tax filers, received an average federal EITC of \$1,591. Overall, the state received a total of over \$386 million in federal EITC payments.

Table 1: Federal Tax Returns, EITC Recipients & Amounts in Colorado (Tax Years 1997-2002)

	Total Returns	EITC Recipients	EITC Share of Returns	Total EITC Amount	Average EITC
1997	1,850,940	231,538	12.51%	\$322,687,000	\$1,393.67
1998	1,924,193	225,578	11.72%	\$326,383,000	\$1,446.87
1999	1,982,349	218,398	11.02%	\$326,007,405	\$1,492.72
2000	2,017,110	212,710	10.55%	\$318,032,653	\$1,495.15
2001	2,006,059	215,620	10.75%	\$328,535,706	\$1,523.68
2002	1,964,742	243,177	12.40%	\$386,828,805	\$1,590.73

- Large cities and rural areas have the highest *share of EITC recipients* in Colorado, followed by small cities, while the suburbs have the smallest share of EITC recipients.

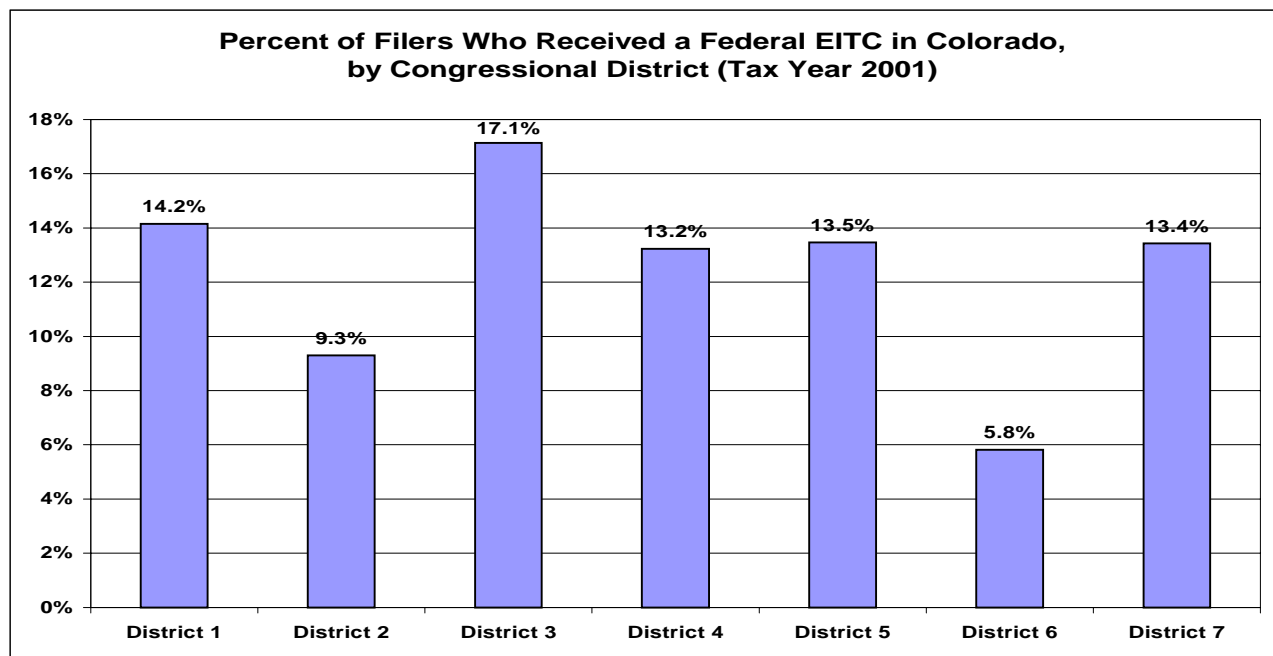


- Congressional District 3 had the largest *number of EITC returns*, followed by Districts 1, 5, 4, 7, 2, and 6. The largest *average EITC* was in District 5 (\$1,647) followed by Districts 3, 4, 7, 1, 6 and 2. The highest average EITC indicates a concentration of EITC recipients with a higher financial need.

Table 2: Federal Tax Returns, EITC Recipients & Amounts by Congressional District (Tax Year 2002)
(See maps of the Congressional Districts in the Appendix)

District	Total Returns	EITC Recipients	Total EITC Amount	Average EITC
District 1	280,565	39,702	\$62,018,185	\$1,562.09
District 2	293,805	27,302	\$39,116,792	\$1,432.74
District 3	280,802	48,125	\$78,707,113	\$1,635.47
District 4	281,449	37,219	\$60,765,306	\$1,632.64
District 5	281,911	37,955	\$62,544,585	\$1,647.86
District 6	272,510	15,859	\$23,278,064	\$1,467.81
District 7	270,385	36,296	\$59,084,708	\$1,627.86

- Congressional District 3 has the largest *concentration of EITC recipients*, followed by Districts 1, 5, 7, 4, 2 and 6. The higher concentration indicates a comparatively higher share of low-income filers.

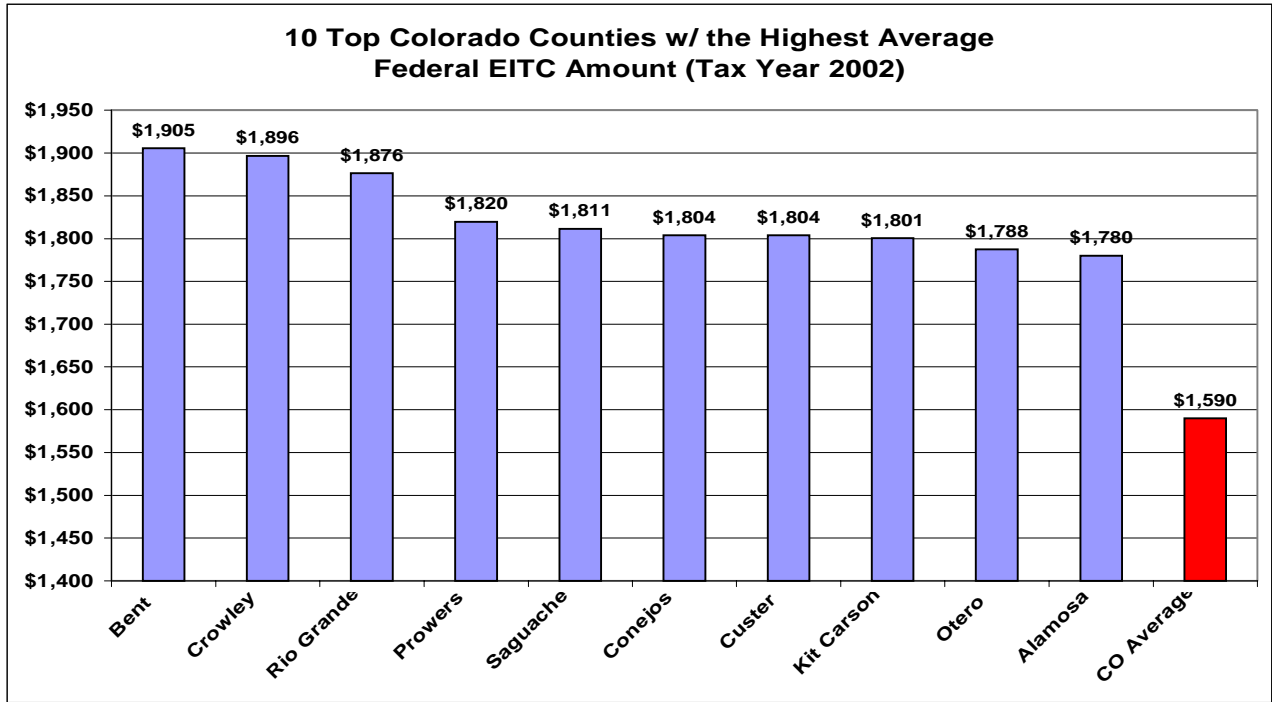


- Denver County has the largest *number of EITC recipients*, followed by El Paso, Adams, and Arapahoe counties.

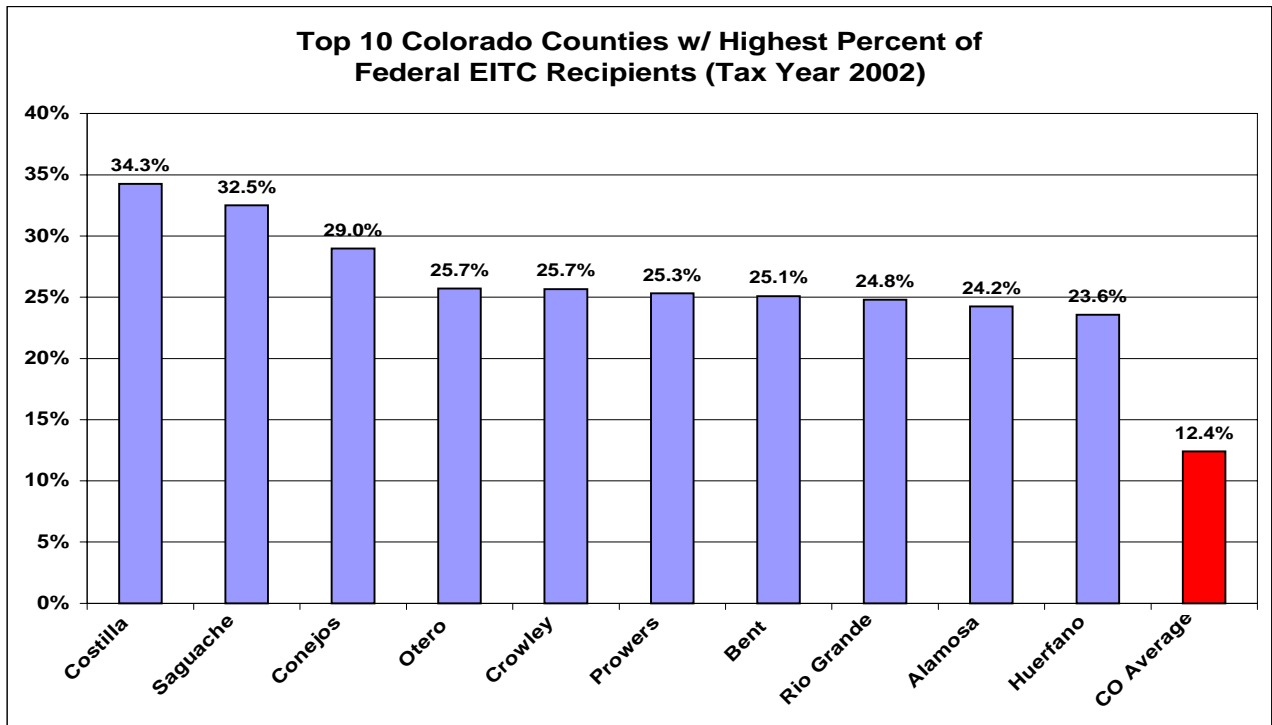
Table 3: Top 10 Colorado Counties w/ Highest Number of EITC Recipients (Tax Year 2002)

	County	EITC Recipients		County	EITC Recipients
1	Denver	37,996	6	Weld	13,477
2	El Paso	32,105	7	Pueblo	12,585
3	Adams	24,374	8	Larimer	11,783
4	Arapahoe	21,433	9	Boulder	9,969
5	Jefferson	19,643	10	Mesa	9,013

- Bent, Crowley, Rio Grande and Prowers counties have the highest *average EITC amount*. These counties have a higher concentration of low-income residents with the highest financial need.



- The counties with the largest *share of EITC recipients* among their federal tax-filing residents are Costilla, Saguache, Conejos, and Custer counties. These counties have the highest share of EITC recipients, which indicates a higher concentration of low-income families in general.



This overview is based on information from the following sources:

Organizations:

- Annie E. Casey Foundation
- Brookings Institution, Metropolitan Policy Program
- Center on Budget and Policy Priorities
- Center for Policy Alternatives
- Center for Policy Research (Syracuse University)
- Citizens for Tax Justice and the Institute on Taxation and Economic Policy
- City and County of Denver, Mayor's Office of Workforce Development
- Colorado Department of Revenue, Taxpayer Service Division
- Colorado Fiscal Policy Institute
- Colorado Legislative Council
- Federal Reserve Bank of Chicago
- Institute for Policy Research (Northwestern University)
- John F. Kennedy School of Government (Harvard University)
- Joint Center for Poverty Research
- State EITC Online Resource Center
- Tax Policy Center - A Joint Venture of the Urban Institute and Brookings Institution
- National Bureau of Economic Research
- National Conference of State Legislatures
- Urban Institute
- U.S. Council of Economic Advisers
- U.S. Department of the Treasury, Internal Revenue Service
- Welfare Information Network

Publications:

- *The Advocate* (Baton Rouge, Louisiana)
- *The American Prospect*
- *Christian Science Monitor*
- *The Denver Post*
- *Journal of Economics*
- *National Tax Journal*
- *Policy Studies Journal*
- *The Quarterly Journal of Economics*
- *Review of Economics & Statistics*
- *Social Work*
- *Understanding poverty* (Harvard University Press, 2000)
- *Tax Policy and the Economy, Volume 12* (MIT Press, 1998)

For a complete list of citations, additional data or more information please contact:

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APPENDIX: DATA, MAPS AND FIGURES

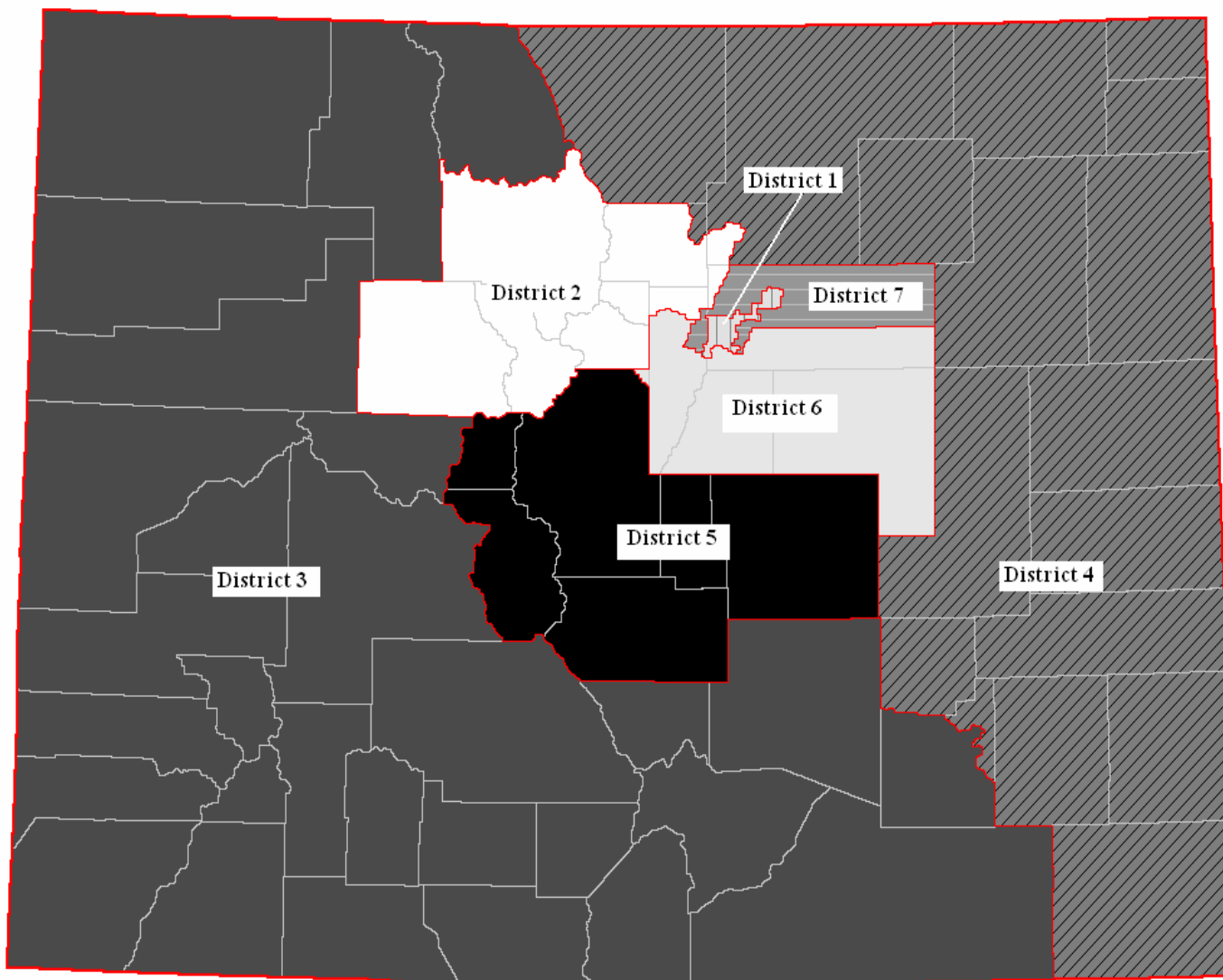
(TAX YEAR 2002)

	County	Total Returns	EITC Recipients	Total EITC Amount	Average EITC	EITC Share of Returns	Share of Total CO EITC Recipients	Share of Total CO EITC Amount
1	Adams	156,925	24,374	\$40,861,648	\$1,676	15.5%	10.02%	10.56%
2	Alamosa	5,861	1,420	\$2,527,278	\$1,780	24.2%	0.58%	0.65%
3	Arapahoe	211,986	21,433	\$33,551,010	\$1,565	10.1%	8.81%	8.67%
4	Archuleta	4,817	930	\$1,498,250	\$1,611	19.3%	0.38%	0.39%
5	Baca	1,763	327	\$549,460	\$1,680	18.5%	0.13%	0.14%
6	Bent	1,738	436	\$830,741	\$1,905	25.1%	0.18%	0.21%
7	Boulder	118,501	9,969	\$13,134,646	\$1,318	8.4%	4.10%	3.40%
8	Broomfield	23,132	1,498	\$2,204,843	\$1,472	6.5%	0.62%	0.57%
9	Chaffee	7,647	1,088	\$1,589,744	\$1,461	14.2%	0.45%	0.41%
10	Cheyenne	848	136	\$219,768	\$1,616	16.0%	0.06%	0.06%
11	Clear Creek	3,019	353	\$460,423	\$1,304	11.7%	0.15%	0.12%
12	Conejos	2,997	869	\$1,567,744	\$1,804	29.0%	0.36%	0.41%
13	Costilla	1,240	425	\$678,422	\$1,596	34.3%	0.17%	0.18%
14	Crowley	1,216	312	\$591,671	\$1,896	25.7%	0.13%	0.15%
15	Custer	4,147	886	\$1,598,165	\$1,804	21.4%	0.36%	0.41%
16	Delta	12,015	2,193	\$3,641,897	\$1,661	18.3%	0.90%	0.94%
17	Denver	259,252	37,996	\$59,732,555	\$1,572	14.7%	15.62%	15.44%
18	Dolores	786	147	\$239,396	\$1,629	18.7%	0.06%	0.06%
19	Douglas	71,368	3,012	\$4,329,892	\$1,438	4.2%	1.24%	1.12%
20	Eagle	20,571	1,699	\$2,421,255	\$1,425	8.3%	0.70%	0.63%
21	El Paso	242,564	32,105	\$53,112,871	\$1,654	13.2%	13.20%	13.73%
22	Elbert	7,988	581	\$933,625	\$1,607	7.3%	0.24%	0.24%
23	Fremont	16,302	2,775	\$4,732,366	\$1,705	17.0%	1.14%	1.22%
24	Garfield	21,743	2,445	\$3,821,752	\$1,563	11.2%	1.01%	0.99%
25	Gilpin	1,077	98	\$137,010	\$1,398	9.1%	0.04%	0.04%
26	Grand	6,421	683	\$909,163	\$1,331	10.6%	0.28%	0.24%
27	Gunnison	6,647	921	\$1,025,678	\$1,114	13.9%	0.38%	0.27%
28	Hinsdale	348	70	\$90,654	\$1,295	20.1%	0.03%	0.02%
29	Huerfano	2,787	657	\$1,095,568	\$1,668	23.6%	0.27%	0.28%
30	Jackson	680	122	\$195,363	\$1,601	17.9%	0.05%	0.05%
31	Jefferson	249,786	19,643	\$28,879,390	\$1,470	7.9%	8.08%	7.47%
32	Kiowa	662	108	\$175,934	\$1,629	16.3%	0.04%	0.05%
33	Kit Carson	3,388	589	\$1,060,537	\$1,801	17.4%	0.24%	0.27%
34	La Plata	18,983	2,385	\$3,270,325	\$1,371	12.6%	0.98%	0.85%
35	Lake	2,852	469	\$760,420	\$1,621	16.4%	0.19%	0.20%

	County	Returns	EITC	EITC Amount	Average EITC	EITC Share of Returns	Share of Total CO EITC Recipients	Share of Total CO EITC Amount
36	Larimer	122,496	11,783	\$17,106,740	\$1,452	9.6%	4.85%	4.42%
37	Las Animas	6,108	1,279	\$2,132,050	\$1,667	20.9%	0.53%	0.55%
38	Lincoln	2,139	349	\$609,337	\$1,746	16.3%	0.14%	0.16%
39	Logan	8,288	1,392	\$2,310,399	\$1,660	16.8%	0.57%	0.60%
40	Mesa	55,881	9,013	\$14,533,678	\$1,613	16.1%	3.71%	3.76%
41	Mineral	410	59	\$93,767	\$1,589	14.4%	0.02%	0.02%
42	Moffat	5,783	842	\$1,347,339	\$1,600	14.6%	0.35%	0.35%
43	Montezuma	10,138	2,025	\$3,429,341	\$1,694	20.0%	0.83%	0.89%
44	Montrose	15,253	2,703	\$4,559,234	\$1,687	17.7%	1.11%	1.18%
45	Morgan	10,936	2,198	\$3,727,370	\$1,696	20.1%	0.90%	0.96%
46	Otero	8,046	2,070	\$3,700,130	\$1,788	25.7%	0.85%	0.96%
47	Ouray	1,660	195	\$230,849	\$1,184	11.7%	0.08%	0.06%
48	Park	5,953	677	\$978,270	\$1,445	11.4%	0.28%	0.25%
49	Phillips	1,986	309	\$516,462	\$1,671	15.6%	0.13%	0.13%
50	Pitkin	7,971	446	\$388,320	\$871	5.6%	0.18%	0.10%
51	Prowers	5,477	1,387	\$2,523,743	\$1,820	25.3%	0.57%	0.65%
52	Pueblo	61,882	12,585	\$21,856,216	\$1,737	20.3%	5.18%	5.65%
53	Rio Blanco	2,622	356	\$610,381	\$1,715	13.6%	0.15%	0.16%
54	Rio Grande	5,089	1,262	\$2,367,970	\$1,876	24.8%	0.52%	0.61%
55	Routt	10,339	970	\$1,120,557	\$1,155	9.4%	0.40%	0.29%
56	Saguache	2,510	816	\$1,477,975	\$1,811	32.5%	0.34%	0.38%
57	San Juan	347	54	\$63,772	\$1,181	15.6%	0.02%	0.02%
58	San Miguel	3,578	364	\$388,695	\$1,068	10.2%	0.15%	0.10%
59	Sedgwick	1,149	206	\$325,290	\$1,579	17.9%	0.08%	0.08%
60	Summit	13,087	990	\$1,005,571	\$1,016	7.6%	0.41%	0.26%
61	Teller	10,321	1,200	\$1,924,296	\$1,604	11.6%	0.49%	0.50%
62	Washington	1,894	329	\$516,922	\$1,571	17.4%	0.14%	0.13%
63	Weld	87,216	13,477	\$23,365,164	\$1,734	15.5%	5.54%	6.04%
64	Yuma	4,126	687	\$1,189,503	\$1,731	16.7%	0.28%	0.31%
	TOTAL	1,964,742	243,177	\$386,828,805	\$1,591	12.4%	N/A	N/A

Source: Bell Policy Center analysis of data from Brookings Institution Metropolitan Policy Program, EITC Series data, and from the U.S. Internal Revenue Service.

MAP 1



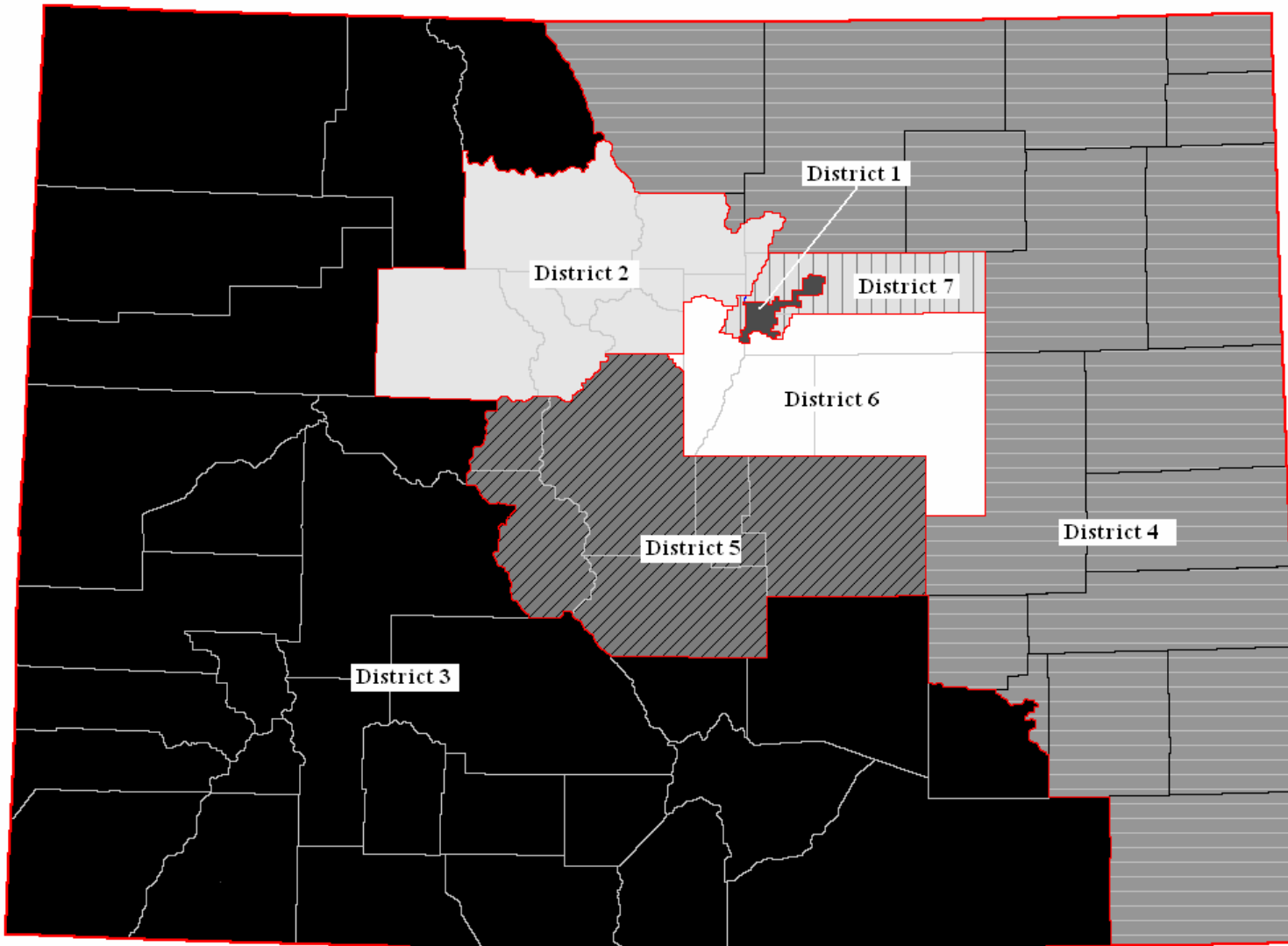
THE EITC IN COLORADO

Average EITC Amount by Congressional District (Tax Year 2002)

District 5	\$1,647
District 3	\$1,635
District 4	\$1,632
District 7	\$1,627
District 1	\$1,562
District 6	\$1,467
District 2	\$1,432

Source: Bell Policy Center analysis of data from Brookings Institution Metropolitan Policy Program, EITC Series Internal Revenue Service data.

MAP 2



THE EITC IN COLORADO

Total EITC Returns by Congressional District (Tax Year 2002)

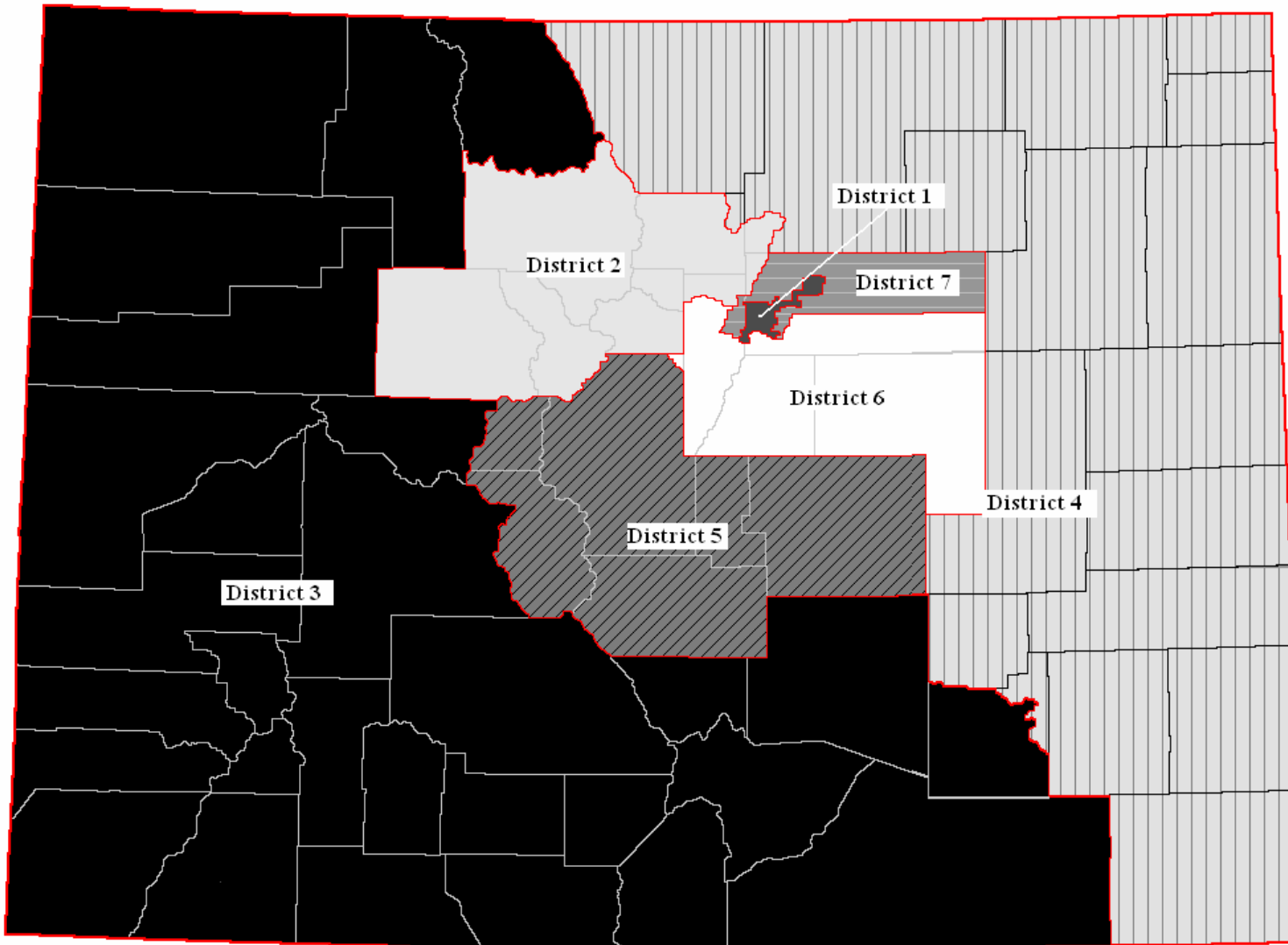
District 3	48,125
District 1	39,702
District 5	37,955
District 4	37,219
District 7	36,296
District 2	27,302
District 6	15,859

Source: Bell Policy Center analysis of data from Brookings Institution Metropolitan Policy Program, EITC Series Internal Revenue Service data.

MAP 3

THE EITC IN COLORADO

EITC Returns as a Share of Total Returns by Congressional District (Tax Year 2002)

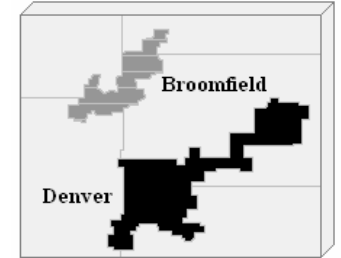
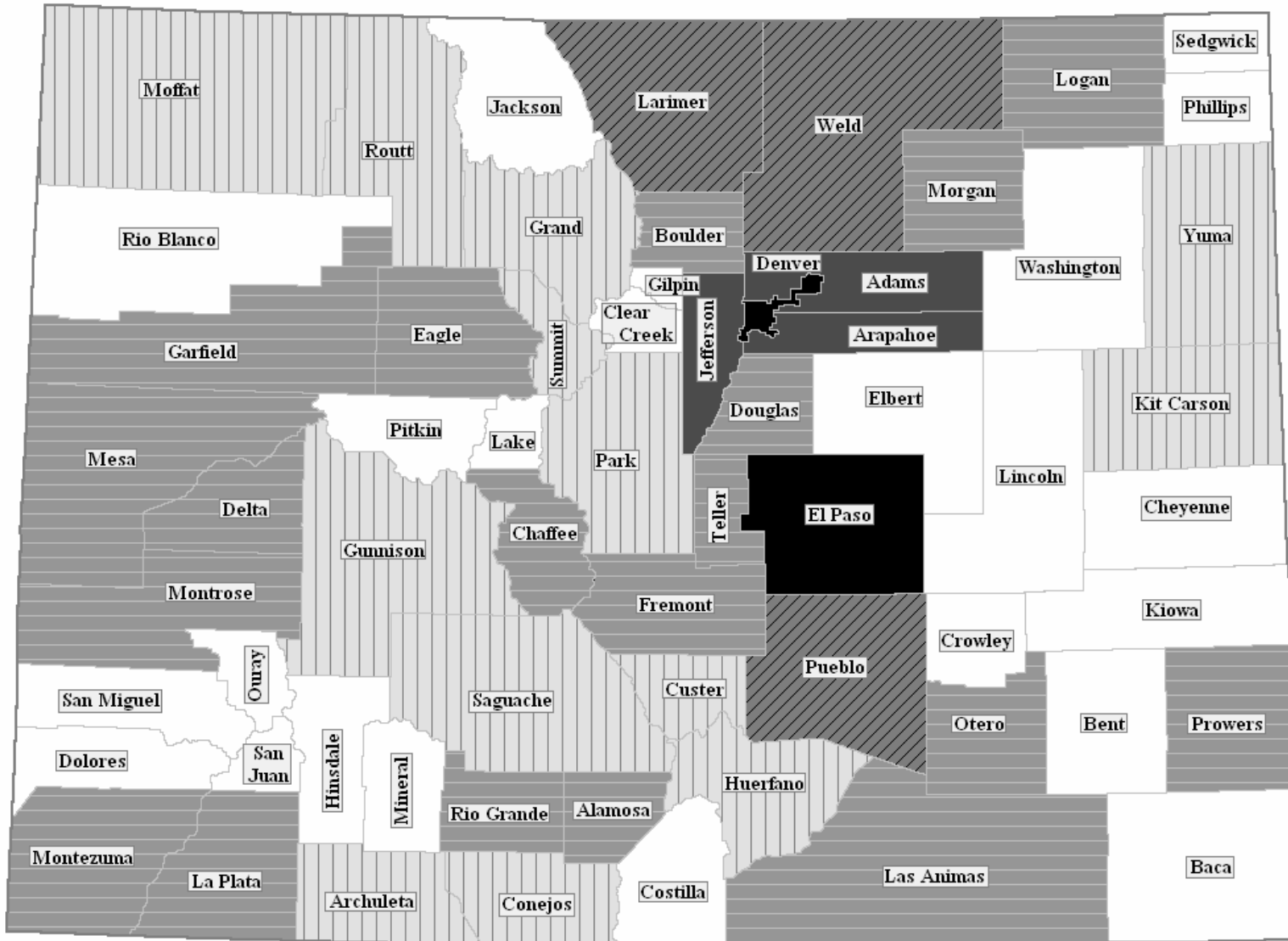


District 3	17.1%
District 1	14.2%
District 5	13.5%
District 7	13.4%
District 4	13.2%
District 2	9.3%
District 6	5.8%

Source: Bell Policy Center analysis of data from Brookings Institution Metropolitan Policy Program, EITC Series Internal Revenue Service data.

MAP 4

THE EITC IN COLORADO

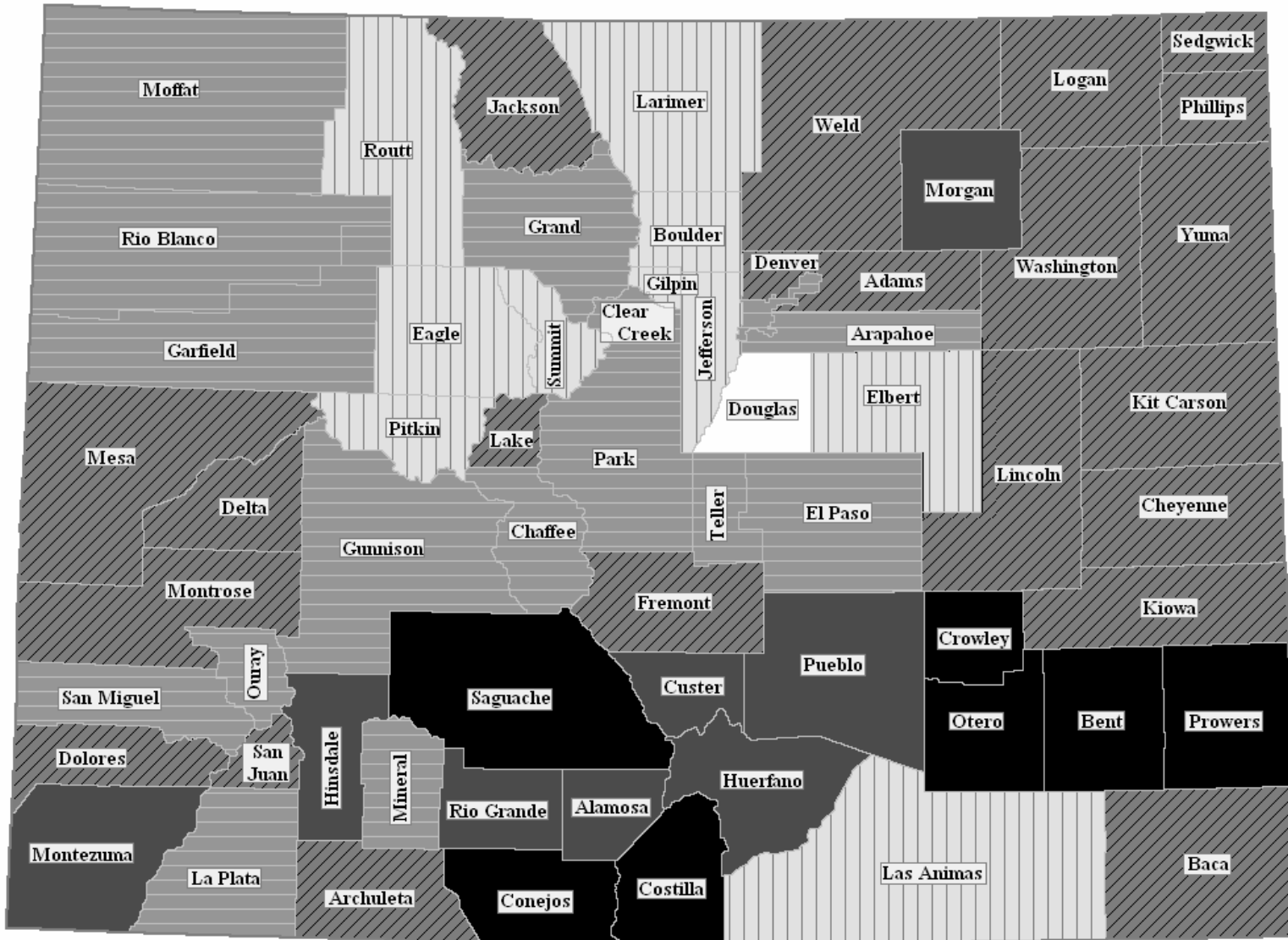


Total Number of EITC Returns by County (Tax Year 2002)

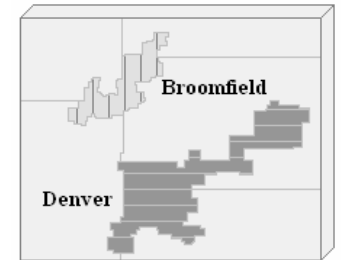
More than 30,000	
15,000 – 30,000	
10,000 – 15,000	
1,000 – 10,000	
500 – 1,000	
Less than 500	

Source: Bell Policy Center analysis of data from Brookings Institution Metropolitan Policy Program, EITC Series Internal Revenue Service data.

MAP 6



THE EITC IN COLORADO

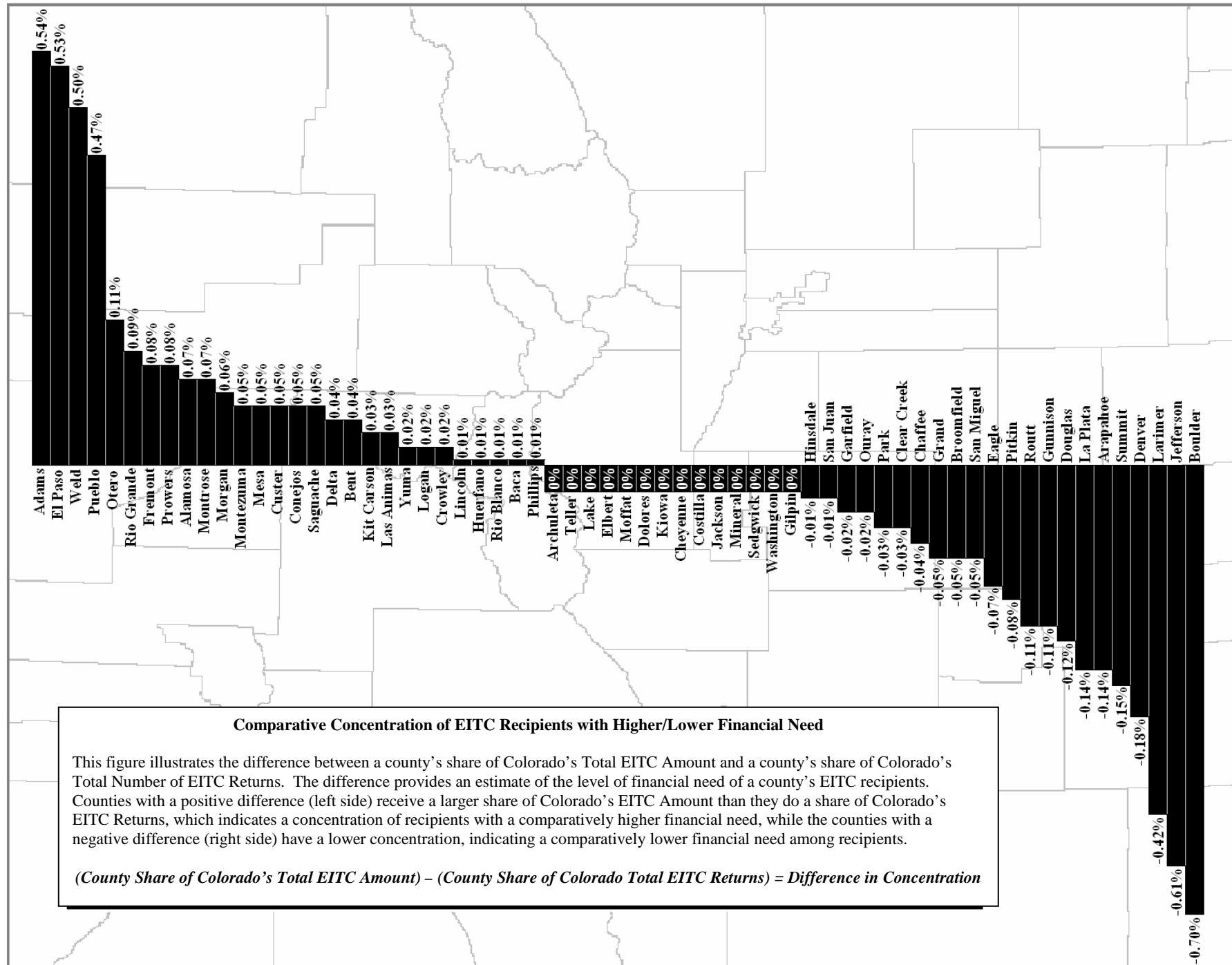


EITC Returns as a Share of Total Returns by County (Tax Year 2002)

More than 25%	
20 - 25%	
15 - 20%	
10 - 15%	
5 - 10%	
Less than 5%	

Source: Bell Policy Center analysis of data from Brookings Institution Metropolitan Policy Program, EITC Series Internal Revenue Service data.

FIGURE 1



Comparative Concentration of EITC Recipients with Higher/Lower Financial Need

This figure illustrates the difference between a county's share of Colorado's Total EITC Amount and a county's share of Colorado's Total Number of EITC Returns. The difference provides an estimate of the level of financial need of a county's EITC recipients. Counties with a positive difference (left side) receive a larger share of Colorado's EITC Amount than they do a share of Colorado's EITC Returns, which indicates a concentration of recipients with a comparatively higher financial need, while the counties with a negative difference (right side) have a lower concentration, indicating a comparatively lower financial need among recipients.

(County Share of Colorado's Total EITC Amount) – (County Share of Colorado Total EITC Returns) = Difference in Concentration