



The Bell Policy Center

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BELL POLICY CENTER URGES STATE LEGISLATURE TO EXPAND STATE EARNED INCOME TAX CREDIT (EITC) AND MAKE IT PERMANENT

DENVER, CO....The Bell Policy Center, along with a broad coalition of nonprofit organizations, is calling on the state legislature to expand Colorado's Earned Income Tax Credit (EITC) and make it permanent by supporting House Bill 05-1232. Today, the House Finance Committee will consider the bill "Concerning the Earned Income Tax Credit," which is sponsored by Rep. Betty Boyd (D) and Sen. Ken Kester (R).

According to Bell Policy Analyst Spiros Protopsaltis, "Historically, the EITC has been the most effective way to help working poor families move out of poverty. It has enjoyed broad bipartisan support on the national level and in several other states, including Colorado. But in Colorado, the EITC is only available when there is a TABOR surplus. This means that working families are losing this critical assistance when they need it most-during an economic downturn such as the one we've experienced over the last three years."

The bill will incrementally increase the amount of Colorado's EITC from 10 percent of the federal EITC to 20 percent and make it a permanent tax credit for hundreds of thousands of low- and moderate-income working families.

The attached table provides detailed EITC information for each county on 1) Total Federal Income Tax Returns Filed, 2) Total Number of EITC Recipients, 3) Total EITC Amount Received, 4) Average EITC Amount Received, 5) EITC Returns as a Share of Total Federal Income Tax Returns.

The Bell has recently published an issue brief that highlights the history, design, effectiveness and impact of the federal EITC in Colorado, and provides detailed county-level data that describes the impact of the EITC on working families.

Key findings:

- The federal EITC was created in 1976 under President Ford to offset the burden of payroll taxes for low-income working families and to provide work incentives, and has been expanded under presidents Reagan, Bush, Clinton and Bush.
- The EITC is the most effective anti-poverty program, lifting 2.4 million children and more working families out of poverty than any other program.
- The EITC is particularly effective in moving non-working welfare recipients into the workforce and reducing welfare use.
- The EITC increases employment and earnings of low-income families with children, especially single-parent families, and effectively adds about \$2.00 per hour to their earnings.



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- By fueling consumption, the EITC is a tremendously effective fiscal stimulus tool and is much more effective than broad-based tax refunds.
- Families use the EITC to pay for basic needs, such as to buy items for their kids and to pay off debt.
- In 2002, over 243,000 Colorado households, or about 12.5% of income tax filers, received an average federal EITC of \$1,590. Overall, in 2002, Coloradoans received over \$385 million in federal EITC payments.
- Large cities and rural areas have the highest share of EITC recipients in Colorado.
- The success of the federal EITC in reducing poverty and rewarding work led 17 states to create complementary EITC programs designed to supplement the after-tax earnings of low- and moderate-income working families. State EITCs piggy-back on the federal EITC, using federal eligibility rules and paying a flat percentage of the federal credit. Many are set at 15% to 20% of the federal EITC.
- Colorado's EITC was adopted in 1999 at 8.5% of the federal EITC and expanded to 10% in 2000. However, 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.
- In tax year 2001 - the last year that Colorado's EITC was available - 200,000 working families received an average credit of \$158, for a total of over \$31 million.

Supporting organizations: 9to5 National Association of Working Women - Colorado, All Families Deserve a Chance (AFDC) Coalition, Bell Policy Center, Colorado Center on Law and Policy, Colorado Coalition for the Homeless, Colorado Fiscal Policy Institute, Colorado NOW, Colorado Progressive Coalition, Colorado Social Legislation Committee, Colorado Women's Agenda, Denver Women's Commission, Energy Outreach Colorado, Lutheran Advocacy Ministry, Metro Denver Homeless Initiative, Project Wise, Stride, Women's Lobby of Colorado.