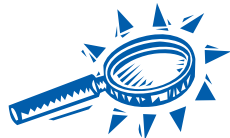




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Blueprint Brief



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Blueprint Brief No. 6

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Expand Colorado's Earned Income Tax Credit

By Rich Jones

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First enacted in 1976 under President Ford, the federal Earned Income Tax Credit (EITC) is one of the nation's most effective poverty-fighting policies. Each year, households with at least 2.4 million children are lifted above the poverty line thanks to EITC benefits. The tax credit effectively adds about \$2 per hour to the wages of low-income working families with children.

Colorado enacted a state Earned Income Tax Credit in 1999 and set it at 8.5 percent of the federal credit. In 2000, legislators increased the rate to 10 percent of the federal credit. However, this credit is available only in years when there is a TABOR surplus. As a result, no one received a state EITC since 2001, and it will not be available until at least 2011.

Both the federal and Colorado EITC are refundable credits. That means families receive a refund check for any credit left over after they have paid their income tax. Taxpayers first figure out how much they qualify for under the federal EITC. They can claim a credit for 10 percent of that amount on their state tax return.

For tax year 2005, the maximum amount of adjusted gross income taxpayers can earn and still qualify for the federal EITC depends on family size and tax filing status. To qualify, a taxpayer or their spouse must be 25 to 64 years old, have a valid Social Security number and receive less than \$2,700 a year in investment income.

Federal EITC earning limits, 2005.

Number of children	Married filing jointly	Other filing status
None	\$13,750	\$11,750
One	\$33,030	\$31,030
Two or more	\$37,263	\$35,263

Military families are also eligible for the EITC. The Bell Policy Center estimated 150,000 military families nationwide, including 3,000 stationed in Colorado, were eligible for the EITC in tax year 2004.¹

The EITC is structured so single parents with two or more children and incomes of \$11,000 to \$14,400 a year, or up to \$16,400 a year for married couples with children, receive the maximum benefit. The credit increases along

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with family income, up to \$11,000 a year. Then, as family income increases above \$14,400 for single parents or \$16,400 for married parents, the credit decreases. It falls to zero when family income hits \$35,263 for single parents or \$37,263 for married parents. The credit is structured the same way for parents with one child and for single and married taxpayers without children.²

In tax year 2004, nearly 250,000 families in Colorado received more than \$411 million in federal Earned Income Tax Credits, for an average credit of \$1,660 per family.³ This is similar to 2003, when more than 256,000 families claimed \$412 million, for an average credit of \$1,607 per family.⁴ More than two out of three Colorado families claiming the EITC in 2004 were working families with incomes less than \$20,000.⁵

A review from tax year 2001 showed 12 percent of the state's taxpayers made EITC claims. In a geographic breakdown, EITC claims came from 14 percent of taxpayers in Colorado's large cities, from 13 of taxpayers in rural areas, from 11 percent of taxpayers in small cities and from 8 percent of taxpayers in suburbs.⁶

Congressional District 3, which takes in Pueblo, the San Luis Valley and the Western Slope, had the largest concentration of EITC recipients, meaning it is an area with a comparatively higher share of low-income tax filers. It was followed in rank order by districts 1, 5, 7, 4, 2 and 6.⁷

Most families that receive an EITC spend the money locally on day-to-day living expenses. A 2003 survey of EITC recipients in Denver found their top priorities for the tax credit were paying for current bills, car repairs and school clothes for their kids.

Because the state EITC is only available in years when there is a TABOR surplus, more than 250,000 low-income working Coloradans missed out on receiving an average state EITC of about \$160 each year since 2001.

✓ Cut taxes for our lowest-paid working families by expanding the state EITC.

Colorado should increase its EITC from 10 percent to at least 20 percent of the federal credit. And it should make the credit available in all years, not just when there is a TABOR surplus.



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Maximum federal EITC different types of families can receive.

Taxpayers with two or more children	\$4,400
Taxpayers with one child	\$2,662
Taxpayers with no children	\$399

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End Notes

¹ "The Earned Income Tax Credit helps military families," Bell Policy Center, April 12, 2005. <http://www.thebell.org/pdf/Military%20EITC%2005-04.pdf>

² 2005 Form 1040 Instructions, Internal Revenue Service, 2005. <http://www.irs.gov/pub/irs-pdf/i1040gi.pdf>

³ "EITC Refunds Top \$411 Million in Colorado", EITC File Electronic News Bulletin, The Piton Foundation, Denver,

Colo., July 27, 2006.

⁴ Brookings Institution calculator shows where EITC recipients live. <http://www.brookings.edu/es/urban/eitc.htm>

⁵ EITC File, Piton Foundation.

⁶ [The Earned Income Tax Credit in Colorado: An Overview](#), The Bell Policy Center, February 2005.

⁷ Ibid.

For more detailed information on the EITC, read the Bell Policy Center's 2005 issue brief, [The Earned Income Tax Credit in Colorado: An Overview](#).