

Bill to Restore the STATE Earned Income Tax Credit

“Give credit where credit is due....”

Bill Sponsor: Rep. John Kefalas

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What would the bill do?

The bill seeks to restore funding for a refundable tax credit to Colorado’s low income working families. The credit would be based on the Federal Earned Income Tax Credit. The state credit would be equivalent to 10% of the federal credit. (So if a family receives a \$3,000 EITC from the Feds, they would get an additional \$300 from the state.) In tax year 2004, the Federal EITC paid nearly \$430 million in tax refunds to over 259,000 Colorado taxpayers. The average tax credit was \$1,645.

Who would it help?

The bill would provide an economic boost by pumping an estimated (for 2008) \$52 million into the state economy. It would also provide tax refunds to 259,000 low income Colorado taxpayers, and that money would immediately enter the local economies throughout the state.

Why a state EITC is good policy

Because EITC encourages people to work. You can’t get EITC unless you’ve earned wages and paid payroll taxes on them. In addition, EITC helps the local economy, because low income families use the money to meet immediate needs like buying groceries and school supplies or to pay for car repairsⁱ. Finally, studies have shown that during the last recession, the federal EITC outpaced unemployment insurance and TANF in helping low income families make up for job and income losses.ⁱⁱ

Do other states do this?

Yes, 22 other states and the District of Columbia have a state EITC. They are: Delaware, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, Rhode Island, Vermont, Virginia, Wisconsin.

In a nutshell

This is a simple program, which has proved itself over the years to be an efficient, effective poverty fighter. In fact, the Federal EITC annually lifts over four million people out of poverty, half of whom are children.

How are we going to pay for it?

Our bill proposes to use Federal TANF block grant money, and some funds from the Unemployment Insurance account, to fund the state EITC for the next 2 years. Two triggers have been set up to ensure the integrity of the UI, and a repayment mechanism has been set up in the bill so that after 2 years (after Ref C ends) the money will begin being repaid to the UI account. After 2010 the tax credit will be funded as tax credits are usually funded: an offset to state revenue.

ⁱ Sherrie L.W. Rhine and others, “Householder Response to the Earned Income Tax Credit: Path of Sustenance or Road to Asset Building?” (New York: Federal Reserve Bank of New York, 2005)

ⁱⁱ Brookings Institution, Alan Berube, *The New Safety Net: How the Tax Code Helped Low-Income Working Families During the Early 2000s*, February 2006.

Colorado Organizations Supporting state EITC bill

9to5, National Association of Working Women
All Families Deserve a Chance Coalition
The Alliance of Professional Women
The Bell Policy Center
Capitol Hill United Ministries
Center for Policy Entrepreneurship
Colorado AAUW
Colorado ACORN
Colorado Black Women for Political Action
Colorado Coalition Against Sexual Assault
Colorado Coalition for Girls
Colorado Center for Law & Policy
Colorado Fiscal Policy Institute
Colorado Community Action Association (Blackhawk)
Colorado Organization for Latina Opportunity and Reproductive Rights (COLOR)
Colorado Progressive Action
Colorado Progressive Coalition
Colorado Society for Clinical Social Workers
Colorado Women's Agenda
CPC Pueblo
Cross Community Coalition
CWEE Center for Work Education and Employment
Denver Asset Building Coalition (DABC)
Denver Urban Ministries
Denver Women's Commission
Energy Outreach Colorado
Gary-Williams Energy Corp
Hunger for Justice: Interfaith Voices Against Poverty
Latina Initiative
Lutheran Advocacy Ministry -- CO
Metro CareRing
National Association of Social Workers—Colorado Chapter
OWL-The Voice of Midlife and Older Women
Project Self-Sufficiency- (Larimer County)
Project WISE
Rural Community Resource Center
Rocky Mountain SER Denver Head Start
Senior High Rise Foodbank
Women and Family Action Network (Women's FAN)
Women's Foundation of Colorado
Women's Lobby of Colorado