



The Bell Policy Center

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Concerning the Earned Income Tax Credit (HB05-1232)

Testimony to the House Finance Committee

by Spiros Protopsaltis • February 17, 2005

My name is Spiros Protopsaltis and I am a Policy Analyst at the Bell Policy Center. The Bell is a nonprofit, public policy organization committed to making Colorado a state of opportunity for all regardless of race or economic background. The Bell seeks to reinvigorate the debate on issues affecting the well-being of families and working adults.

During the past four years the Bell Policy Center has recommended that the Legislature increase the amount of Colorado's Earned Income Tax Credit (EITC) and make it a permanent tax credit.

The Bell Policy Center supports H.B. 1232 to make Colorado's EITC permanent and to expand it incrementally from 10% to 20% of the amount of the federal credit.

To help you more fully understand the value of this credit and how it helps working families in Colorado, the Bell has produced the attached Issue Brief that discusses the history, design, effectiveness and impact of the federal EITC in Colorado, and also provides detailed county-level data that describes the impact of the EITC on working families in your districts.

We would like to share with you four key findings that emerged from our research:

1. The EITC enjoys broad bipartisan support.

- 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 it was expanded under presidents Reagan, Bush, Clinton and Bush.

2. The EITC is a very successful policy.

- 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 reduces welfare by moving non-working welfare recipients into the workforce.
- The EITC increases employment and earnings of low-income families with children and effectively adds about \$2.00 per hour to their earnings.
- 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.

3. The EITC provides meaningful support to Colorado's working families.

- 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.
- 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, Coloradans received over \$385 million in federal EITC payments.
- Large cities (13.8%) and rural areas (13.4%) have the highest share of EITC recipients.



- 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.

4. The suspension of Colorado's EITC increases the tax burden on working families.

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- The suspension of the Colorado EITC means that the income level at which a family of four begins to pay state income taxes declines. For example, for tax year 2002, when the state EITC was suspended, the state's income tax threshold for a family of four decreased 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.

By making the Colorado EITC permanent and increasing its amount, working families will receive meaningful support in making ends meet, and at the same time you will provide a much-needed fiscal stimulus to our economy.

Thank you for the opportunity to share this information with you today. If you have any questions or if you would like to receive additional information on the impact of the EITC in your districts (town or zip code) please call me at 303.297.0456 or email me at spiros@thebell.org