



**Earned Income Tax Credit as First TABOR Refund Mechanism  
HB 10-1002  
February 8, 2010**

There is a growing body of evidence that **State EITCs have a significant economic stimulus impact. Leading national economists agree that** putting money into the hands of low and middle income families who will spend the money quickly is one of the best ways to ensure economic growth.

- **Chad Stone, Chief Economist** at the Center on Budget & Policy Priorities states, “The quickest, most effective way to bolster demand is to put money in the hands of people who will spend it quickly – namely, people who need it to cover basic expenses such as housing, food and transportation.....each dollar in tax cuts for low and moderate-income families....-will generate more of an increase in demand (for business and products)... Helping struggling families thus isn’t an alternative to preserving and creating jobs; it’s one of the **most effective ways to preserve and create jobs...**”<sup>1</sup>
- **Mark Zandi, Chief Economist for Moody’s Economy.com** and former advisor to Senator John McCain, concurs in testimony he provided to Congress recently that the leading stimulative measures are the ones that place funds into the hands of low and middle income families. He argues that every \$1 given through refundable tax rebates, unemployment insurance benefits or food assistance can generate between \$1.29 and \$1.73 in economic benefit.<sup>2</sup>
- Several recent studies of state and local earned income tax credits demonstrate the stimulative impact that EITCs have in the economy. One study, conducted for the city of San Antonio estimates that for **every \$1 of EITC, an additional \$1.58 in economic activity is generated.** A Baltimore study had similar results.<sup>3</sup>
- The federal and state EITC helps the economy because families who receive those dollars (whether \$450 or \$4,000) use the money to meet immediate needs, like buying groceries and school supplies or to pay for car repairs, rent and healthcare.<sup>4</sup>
- Studies have shown that during the last recession, the federal EITC outpaced unemployment insurance and cash assistance in helping working families make up for job and income losses.<sup>5</sup>

**Restoring the state EITC is good for families, good for the economy and the right thing to do.**

More than a quarter million of the most vulnerable working families were promised a tax break when the Legislature adopted the state EITC in 1999 and increased it in 2000. State income tax rate cuts from 5% to 4.75% and then to 4.63% were partnered with the state EITC to benefit high income earners.

The working families with children, struggling to get by on less than \$40,000 a year, lost their state tax break with the recession of 2001, right when they needed it the most, but high income earners continued to receive the benefits of the two state income tax cuts given when times were good.

EITC working families lost any hope of getting their state tax break back in 2005 when the Legislature passed HB05-1194, which adopted a third state income tax rate cut for high income earners as a new TABOR refund mechanism.

**Now is the time to restore the promise made to these working families and restore the state EITC to its original priority as the first TABOR refund mechanism.**

<sup>1</sup> Stone, Chad. “Assistance for Hard-Pressed Families is One of the Best Ways to Preserve and Create Jobs”, Center on Budget & Policy Priorities, January 9, 2009.

<sup>2</sup> Zandi, Mark. “Written Testimony of Mark Zandi, Chief Economist and Co-Founder of Moody’s Economy.com Before the US Senate Budget Committee,” November 19, 2008, <http://budget.senate.gov/democratic/testimony/2008/Zandi1119081.pdf>

<sup>3</sup> “2004 Update: Increased Participation in the Earned Income Tax Credit in San Antonio”, Texas Perspectives Inc., November 2004, <http://www.sanantonio.gov/comminit/pdf/112604%20EITC.pdf>

<sup>4</sup> 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).

<sup>5</sup> Brookings Institution, Alan Berube, *The New Safety Net: How the Tax Code Helped Low-Income Working Families During the Early 2000s*, February 2006.



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Colorado Senate	Total EITC Filers	Percent EITC to all Tax Filers	Amount	Economic Impact of 10% State EITC	Farm & Small Business Income
District 1 - Brophy	7,877	16%	\$14,571,203	\$2,302,250	2,445
District 2 - Kester	9,081	19%	\$16,777,824	\$2,650,896	2,333
District 3 - Tapia	12,536	22%	\$24,219,964	\$3,826,754	1,969
District 4 - Scheffel	5,330	7%	\$8,627,806	\$1,363,193	2,049
District 5 - Schwartz	9,130	16%	\$15,788,462	\$2,494,577	2,988
District 6 - Whitehead	9,013	14%	\$15,116,540	\$2,388,413	3,181
District 7 - Penry	9,054	14%	\$15,626,738	\$2,469,025	2,095
District 8 - White	5,644	9%	\$8,753,236	\$1,383,011	1,760
District 9 - Schultheis	6,104	9%	\$10,347,000	\$1,634,826	1,646
District 10 - Cadman	9,682	15%	\$17,853,887	\$2,820,914	2,268
District 11 - Morse	10,621	20%	\$19,531,612	\$3,085,995	1,921
District 12 - King K.	9,443	17%	\$17,623,264	\$2,784,476	1,613
District 13 - Renfroe	10,270	17%	\$19,613,986	\$3,099,010	2,137
District 14 - Bacon	5,976	10%	\$8,949,367	\$1,414,000	1,506
District 15 - Lundberg	7,364	11%	\$11,956,399	\$1,889,111	2,275
District 16 - Gibbs	4,418	7%	\$5,665,643	\$895,172	1,792
District 17 - Shaffer B.	6,741	10%	\$11,410,951	\$1,802,930	1,797
District 18 - Heath	4,056	7%	\$4,158,176	\$656,992	1,612
District 19 - Hudak	5,327	9%	\$8,916,954	\$1,408,879	1,420
District 20 - Keller	6,397	11%	\$10,633,741	\$1,680,131	1,498
District 21 - Boyd	6,601	12%	\$11,232,967	\$1,774,809	1,579
District 22 - Kopp	3,517	6%	\$5,319,777	\$840,525	1,254
District 23 - Mitchell	7,528	10%	\$13,225,480	\$2,089,626	1,869
District 24 - Tochtrop	9,314	15%	\$17,018,546	\$2,688,930	1,818
District 25 - Hodge	11,496	17%	\$22,713,511	\$3,588,735	2,315
District 26 - Newell	5,332	9%	\$8,420,011	\$1,330,362	1,297
District 27 - Spence	5,012	7%	\$8,421,181	\$1,330,547	1,716
District 28 - Williams	7,556	12%	\$13,387,060	\$2,115,155	2,016
District 29 - Carroll M.	10,679	21%	\$20,899,708	\$3,302,154	2,075
District 30 - Harvey	3,291	4%	\$5,107,054	\$806,915	1,330
District 31 - Steadman	8,611	14%	\$14,428,119	\$2,279,643	1,720
District 32 - Romer	6,887	11%	\$11,102,770	\$1,754,238	1,646
District 33 - Johnston	11,692	19%	\$22,484,522	\$3,552,554	2,260
District 34 - Sandoval	9,409	21%	\$18,254,579	\$2,884,223	1,771
District 35 - Foster	7,461	11%	\$12,141,190	\$1,918,308	1,913
<b>State Totals</b>	<b>268,450</b>	<b>12%</b>	<b>\$470,299,228</b>	<b>\$74,307,278</b>	<b>66,884</b>

Source: Brookings Institution analysis of income tax data for Colorado, 2006. Economic impact uses \$1.58 as the multiplier.

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