

ISSUE BRIEF
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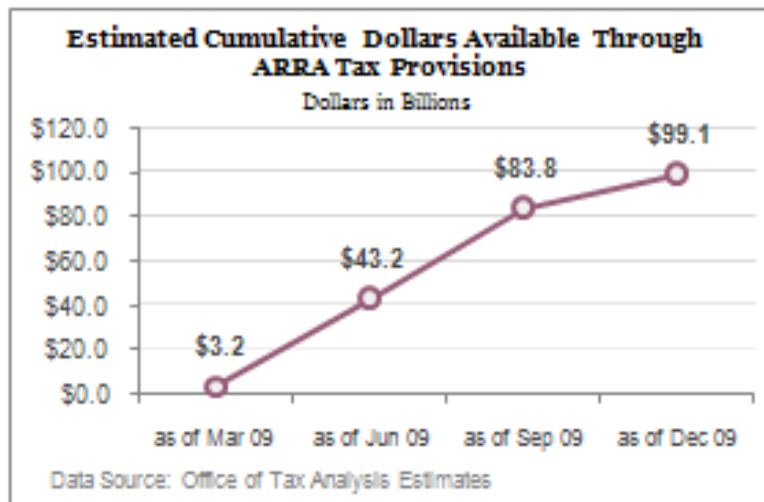
The economic impact of the Earned Income Tax Credit in Colorado

Since its inception more than 35 years ago, the Earned Income Tax Credit has proven to be an essential piece of federal policy to promote work and strengthen families. As the nation's single largest anti-poverty program, the EITC plays a critical role in the viability of working families. The American Recovery and Reinvestment Act of 2009, commonly known as the Recovery Act or ARRA, expanded eligibility for the EITC, providing an important boost to working families struggling through the economic recession. The credit is responsible for an estimated \$577 million in economic output in Colorado and 4,166 jobs as it works its way into the local economy.

Chief tax provisions of the Recovery Act

The Recovery Act was designed to spur economic activity, encourage investment in long-term economic growth, and create new jobs and save existing ones. ARRA also implemented expansive levels of accountability and transparency in government spending.

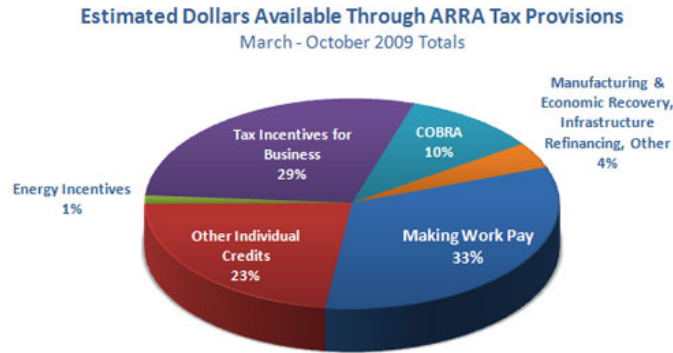
One of the main ways ARRA is helping American families is through tax benefits and tax incentives for individuals and businesses. ARRA provides a total of \$787 billion in funding, including \$288 billion in tax cuts and benefits for millions of working families and businesses nationwide. To date, only \$99.1 billion of the funding has been paid, leaving the majority of ARRA dollars to provide tax benefits on the 2009 tax return and in the 2010 tax year.



Source: www.recovery.gov

ARRA money designated for tax purposes is divided among incentives and credits that target individuals and businesses of all kinds and across all income brackets.

The chart below shows the portion of ARRA tax dollars devoted to each target area as of October 2009.



Source: www.recovery.gov

About two-thirds of ARRA tax dollars benefited individuals in the form of credits, incentives and health care aid. The remaining one-third creates business and development incentives across an array of sectors including manufacturing, energy and infrastructure.

What is the Earned Income Tax Credit?

The Earned Income Tax Credit is a refundable, federal tax credit that benefits low- and middle-income workers.

In 2008, working families with children that had annual incomes of less than \$38,646 (depending on marital status and the number of children) were generally eligible for the EITC. Workers without children who had incomes of less than \$12,880 (again, depending on marital status) could also receive the EITC.

The Recovery Act expanded the EITC for 2009 and 2010. First, ARRA added an additional category of EITC recipients by expanding the credit to families with three or more children. Second, ARRA increased the benefit for married couples filing jointly. Those changes increased the EITC by an average of \$140 per taxpayer and provided married families with three or more children with an average gain of \$1,075.

Before ARRA, an estimated 17 percent of all taxpayers claimed the EITC. After the ARRA expansion of EITC, an additional 7 million people benefitted from the EITC and 887,000 new taxpayers became EITC-eligible.

EITC in Colorado

In 2007, more than 300,000 Colorado families received EITC refunds, averaging \$1,752 per filer. Three-quarters of EITC filers had children, and the remainder were childless adults who earned less than \$12,000 per year. With the ARRA expansion, 11,463 more Colorado taxpayers are eligible for the EITC, and 94,454 Colorado families receive a larger credit than before. That

equates to an increased benefit for more than 30 percent of all of the families that are eligible for the EITC in Colorado. In 2009 a total of \$517.5 million in EITC funds went to Coloradans.

As an added benefit, these tax breaks were spent by taxpayers, generating the jobs and output shown below as a result. In 2009, the EITC created an estimated \$577 million in economic activity in Colorado, and 4,166 jobs. (See methodology section for more about the source of these figures.)

Colorado

- Put \$518 million into the pockets of low-income Coloradans
- Generated an estimated economic benefit of \$577 million
- Created an estimated 4,166 jobs across the state

Top Colorado industries affected, by employment

1. Dining
2. Healthcare
3. Real estate
4. Retail and wholesale

Detailed industry breakdown of employment generated by the Earned Income Tax Credit

Industry	Total induced employment
Food services and drinking places	416
Offices of physicians, dentists, and other health practitioners	260
Private hospitals	225
Real estate establishments	217
Retail Stores - General merchandise	126
Nursing and residential care facilities	125
Retail Stores - Food and beverage	117
Wholesale trade businesses	111
Private household operations	108
Retail Nonstores - Direct and electronic sales	108

Source: Colorado Fiscal Policy Institute analysis

Benefits of the EITC

Encourages Employment

Since the EITC credit is paid based on working income, the credit encourages people to enter the workforce and rewards those that do. For example, studies have shown a large number of single mothers have left welfare and joined the workforce as a result of the EITC. The Committee for Economic Development, an organization of 250 corporate executives and university presidents, concluded in 2000 that “The EITC has become a powerful force in dramatically raising the employment of low-income women in recent years.”

Poverty Reduction

The EITC yields an immense reduction in poverty. From 1995 to 1999, the EITC reduced the overall poverty rate by 1.5 percentage points and the total poverty gap — the aggregate difference between poor families’ resources and the poverty threshold — for families with children would have been 20 percent higher in 1999 without the EITC.

Additionally, the EITC lifts more children from poverty than any other single program or category of programs. The Council of Economic Advisers (1998) found more than one-half of the decline in child poverty between 1993 and 1997 could be explained by changes in taxes, and most important was the EITC. Even before ARRA, of the estimated 4.4 million families were lifted out of poverty because of the EITC, more than one-half were children. With the ARRA expansion, the numbers increased and the EITC lifted 6.6 million people out of poverty, 3.3 million of which were children.

Household Spending and Saving

The EITC refund is received as a lump-sum, one-time payment. Research has shown families use their EITC refunds to pay for necessities, make bill payments, invest in home and vehicle repair and maintenance, enroll in education and training to boost employability and potential earning power and to save toward long-term asset development. Two-thirds of EITC recipients with qualifying children used their refunds primarily to support their children, including many who used their refunds as savings for their children's future.

Economists agree the Recovery Act's positive effect has been felt throughout the nation. The tax provisions of the stimulus are an example of the benefit, and their effects have been profound in Colorado. Nearly all of the state has been touched by these benefits. To date, more than 3.8 million Colorado families have been helped by stimulus tax funding, and the majority of the funds have yet to be distributed. In addition, an estimated 70,000 Coloradans have been lifted above the poverty line and millions will continue to benefit from tax assistance such as the Earned Income Tax Credit, the Additional Child Tax Credit and Making Work Pay credit in 2010.

The Earned Income Tax Credit is just one example of these far-reaching tax benefits, which afford economic support and financial relief for families and businesses in nearly every industry and across all income brackets. The EITC provided \$517.5 million in tax relief for low-income Coloradans, reducing poverty and encouraging employment. As a result, this statewide income boost created an estimated \$577 million in economic activity in Colorado, and 4,166 jobs.

Impact analysis methodology

Regional economic effects of the Earned Income Tax Credit are generated using the IMPLAN economic impact modeling software. This software uses empirically-derived regional input-output accounting to enable modeling of local economic changes. (For more information, see the IMPLAN website – <http://implan.com/v3/>.) The Colorado EITC total is distributed among households by income level, using Internal Revenue Service data based on historical EITC distributions. The resulting household income change and its induced effects are modeled.

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