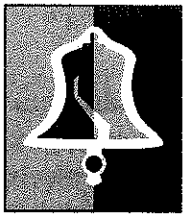
Attachment B



The Bell Policy Center

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Colorado Working Families Opportunity Act
SB13-001

Rich Jones, Director of Policy and Research
Testimony to the Senate State, Veterans and Military Affairs Committee
April 3, 2013

Thank you for the opportunity to testify to the committee today.

I am Rich Jones, the director of policy and research with the Bell Policy Center. The Bell is a non-partisan, non-profit research and advocacy organization founded on progressive values and dedicated to expanding opportunity for all Coloradans.

The Bell Policy Center supports SB13-001 to create a permanent state Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) and make them available for low-and moderate-income families each year. Research shows that increasing family income through these types of tax credits is one of the most effective ways to help them rise above poverty and promote opportunity for children. For example, studies show that even modest increases in a family's income, such as those provided by these credits, improve the educational and health outcomes for children, encourage work and boost economic activity in local communities as families spend the money from these credits.

Background on the Earned Income Tax Credit and the Child Tax Credit

The federal EITC was first enacted under President Ford in 1975 and expanded under Presidents Reagan and Clinton. Colorado created an EITC in 1999 under Gov. Bill Owens, but it was structured as a TABOR refund rather than a tax credit. As a result, it is available only when we have a TABOR surplus. The credit was paid for tax years 1999, 2000 and 2001 but not since then.

Colorado had offered a refundable Child Tax Credit equal to $300 per child age 5 and under but it was only available when the state had a sufficiently large TABOR surplus. It was last available in 2000 and 2001. In 2010 we repealed all TABOR refund mechanisms (SB10-212), including the Child Tax Credit, except for the Six-Tier Sales Tax Refund, Earned Income Tax Credit and Temporary Income Tax Rate Reduction.

Under SB13-001, these credits would be refundable, meaning they would first be used to reduce a family's state income tax liability and whatever is left would be returned to the family as a refund. Although many low- and moderate-income families may owe little or no state income taxes, they still pay state and local sales taxes and local property taxes. This is an efficient and effective way to refund a portion of those taxes to them.

Qualifications for the EITC

For tax year 2012, 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 spouse) must be 25 to 64 years old, have a valid Social Security number and receive less than $3,200 a year in investment income. The age requirement does not apply if the taxpayer has a qualifying child.

The credit grows as family earned income increases to $13,050 a year. Single parents with three or more children who earn $13,050 to $17,100 per year, and married couples with three or more children who earn $13,050 to $22,301 per year, receive the maximum credit. Then, as family earned income increases above $17,100 for single parents and $22,301 for married parents, the credit decreases. It falls to zero for families with three or more children when their earned income hits $45,051 for single parents and $50,271 for married parents.

The credit is structured the same way for parents with one and two children and for single and married taxpayers without children.[1]

Table 1 - Federal EITC earned income limits, 2012

Number of children	Married filing jointly	Other filing status
None	$19,151	$13,951
One	$42,101	$36,951
Two	$47,151	$41,951
Three or more	$50,271	$45,051

Table 2 - Maximum federal EITC by family size 2012

Number of children	Maximum Federal EITC
None	$475
One	$3,169
Two	$5,236
Three or more	$5,891

In tax year 2010, more than 330,000 Coloradans, or 16% of all income tax filers, received the federal EITC. More than $680 million in EITC refunds was returned to Colorado workers to spend in the local economy.

Qualifications for the CTC

The Child Tax Credit established in SB13-001 would be based on a percentage of the $1,000-per-child federal child tax credit, including the "refundable additional child tax credits" claimed. The credit would be available for families with children below age 6 and varies depending on their Adjusted Gross Income and tax filing status as shown in Table 3 below.

Table 3 – State Child Tax Credit under SB13-001 by filing status and Adjusted Gross Income

Filing Status	30% of Federal Credit	15% of Federal Credit	5% of Federal Credit
Single	Up to $25,000	$25,001 - $50,000	$50,001 - $75,000
Joint	Up to $35,000	$35,001 - $60,000	$60,001 - $85,000

Research and Evidence of Effectiveness

There is a substantial body of research that shows the federal EITC and the CTC lift people out of poverty, encourage low-income workers to participate in the labor force, improve the educational and health outcomes for children and boost local economies.

Reduces Poverty

The Brookings Institution found that the federal EITC and CTC together lowered the national poverty rate by 2.8 percentage points in 2011. In fact, it estimates for the period 2009 to 2011, these tax credits have lifted 120,000 to 200,000 Coloradans out of poverty, about half of whom are children.[2]

In *Measuring Opportunities for Working Families*, we found that the number of working families living in poverty grew by 16,000, or almost 50 percent, since 2004.[3] The recent Kids Count report released by the Colorado Children's Campaign found that the child poverty rate in Colorado continues to grow and has almost doubled since 2000, going from 10 percent to 18 percent.[4]

Encourages Work

Because people must have earned income to claim it, the EITC has been found to encourage low-income workers to enter and stay in the labor force. A number of researchers have found that expansions of the federal EITC have resulted in greater workforce participation, particularly among single women with children. By inducing non-workers into the labor force, the EITC also has been found to limit long-term unemployment and improve the job skills of workers, which increases their earnings. A recent study by a social scientist at Arizona State University found that the EITC is particularly effective at encouraging work among low-wage working mothers.[5]

In a 2010 study published in American Sociological Review, researchers compared states with EITCs to those without and found that state EITCs increased the workforce participation among low-income mothers by 19 percent and that they increased the mothers' earnings by 32 percent.[6]

Improves Educational and Health Outcomes for Children

Economists from Harvard and Columbia universities found that additional income from the EITC and CTC led to improved test scores for students in grades 3-8 in a large urban school district. In addition, they found that raising family income through refundable tax credits "increased the likelihood that children in the family will attend college." Other researchers have concluded that "additional income from the EITC raises the combined math and reading test scores of students."[7]

In the 2010 study of state EITCs cited above, researchers also found that state EITCs increase birth weights by, on average, 16 grams. They examined U.S. birth certificate data from 1980 to 2002 for children born to single mothers with a high school degree or less and controlled for variables to account for states' economic circumstances and other risk factors that impact birth weight. The impact of state EITCs on birth weight is equal to about 34 percent of the difference between birth weights of children born to mothers with and without a high school diploma. High school graduation has been found to be related to increased birth weight.[8]

Boosts Local Economies

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. This spending ripples through local economies as dollars move among consumers, businesses and their employees. A 2003 study in San Antonio, Texas, estimated that every $1.00 in EITC refunds generates another $1.58 in local economic activity.[9]

A study of the federal EITC in Nashville, Tenn., found that it added to business revenues and promoted job creation. It found that every $1.00 in EITC refunds generated $1.07 in economic activity in Nashville.[10]

We urge you to invest in Colorado families and their children and pass SB13-001. It rewards and encourages work, helps offset declining and stagnant wages many working families face as a result of the economic downturn and boosts local economies.

We thank Senators Morse and Kefalas for bringing it to you today and thank you for the opportunity to share our comments with you.

If you would like more information or if I can answer any questions please contact me at jones@thebell.org or via telephone at 303.297.0456, ext. 244

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[1]Publication 596, Earned Income Credit, Tax Year 2012, Internal Revenue Service. http://www.irs.gov/pub/irs-pdf/p596.pdf

[2]New State Data Show EITC's Widespread Anti-Poverty Impact, Elizabeth Kneebone and Jane Williams, The Brookings Institution, January 11, 2013, http://www.brookings.edu/blogs/the-avenue/posts/2013/01/11-eitc-anti-poverty-kneebone-williams

[3] Measuring Opportunities for Working Families, The Bell Policy Center, February 2013, http://bellpolicy.org/content/measuring-opportunities-working-families-0

[4] 2013 KIDS COUNT in Colorado, Colorado Children's Campaign, March 18, 2013, http://www.coloradokids.org/kidscount2013/kidscount2013.html

[5] Studies Show Earned Income Tax Credit Encourages Work and Success in School and Reduces Poverty, Center for Budget and Policy Priorities, June 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3793#_ftn15

[6] Effects of Prenatal Poverty on Infant Health: State Earned Income Tax Credits and Birth Weight, Kate W. Strully, David H. Rehkopf and Ziming Xuan, American Sociological Review, August 2010. http://asr.sagepub.com/content/75/4/534

[7]See Note 5.

[8] See Note 6.

[9]Using the Earned Income Tax Credit to Stimulate Local Economies, The Brookings Institution, November 2006. http://www.brookings.edu/~/media/research/files/reports/2006/11/childrenfamilies%20berube/berube20061101eitc.pdf

[10] EITC Boosts Local Economies, Partners in Community and Economic Development, Vol. 16, No. 3, 2006, Federal Reserve Bank of Atlanta.