

2018 Colorado Individual Income Tax Return

Part-Year or Nonresident (or resident, part-year, non-resident combination)
*Must attach DR 0104PN

Mark if Abroad on due date – s

THE WORKING FAMILIES TAX CREDIT

Building an Economy that Works for all Coloradans

Charles Brennan
Michelle Webster
Claire Sheridan

May 2019



COLORADO CENTER
on LAW & POLICY

Forging Pathways from Poverty

ABOUT THE COLORADO CENTER ON LAW AND POLICY

Colorado's legal aid community created the Colorado Center on Law and Policy (CCLP) in 1998 so that people would continue to have access to justice after Congress imposed advocacy restrictions on federally funded legal services. CCLP quickly emerged as a leader in increasing access to health care, family economic security, job training, and other critical family needs and supports.

For 20 years, CCLP's efforts have improved the health and financial security of hundreds of thousands of Coloradans. Through its work on health care, public benefits, work supports, and access to skills training, CCLP has gained a strong reputation in providing research and policy analysis, coalition building, and strategic litigation, shaping enduring, systemic change in Colorado on behalf of lower-income Coloradans.



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789 Sherman Street, Suite 300
Denver, CO 80203
303-573-5669

www.cclponline.org

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1. INTRODUCTION

Colorado, with robust job growth and low unemployment, has one of the strongest economies in the country. Yet most Colorado families are struggling to make ends meet. Even though they are employed, families across the state are struggling to deal with the effects of their costs of living increasing three times faster than their wages. Meanwhile, economic gains are concentrated among the richest households. Only the top earners in the state have experienced sustained wage growth over the last two decades. One troubling outcome of this trend is that half of the state's income now goes to the top 20 percent of earners, with the rest divided unequally among the other 80 percent of Coloradans.

The tax code further exacerbates income inequality, leaving the state's income distribution more unequal after Coloradans pay state and local taxes. Colorado has a flat income tax and is the only state to have adopted the Taxpayer Bill of Rights (TABOR), which severely limits taxing and spending at the state and local levels. In addition, the state uses a number of sales and excise taxes that do not differ by income level. As a result, Coloradans on the lower end of the income scale pay a higher share of their income in taxes compared to the state's richest households, leaving the majority of Coloradans with less money to spend in their local communities.

Scanning Colorado's vast and diverse geography also reveals significant differences in economic opportunity. Economic growth in the San Luis Valley, the Eastern Plains and along the Western Slope lags behind the Front Range. The economic gap between urban and rural areas of Colorado has continued to widen since the Great Recession and the uneven recovery that followed.

So how can we radically shift these trends and create an economy that benefits all hard-working Coloradans? One solution is actually quite simple: Expand and modernize Colorado's Earned Income Tax Credit through the Working Families Tax Credit. The Working Families Tax Credit would:

- Put more cash in the hands of families to help with the rising cost of living and housing;
- Rebalance Colorado's tax code and make it more fair;
- Boost local economies across the state;
- Address the growing urban rural divide; and
- Reduce growing income inequality.

When we pursue policies that expand Colorado's middle class, we strengthen our economy and allow our communities to thrive. The Colorado way of life is for all of us—not just for the wealthy few. It's up to all of us to ensure every family in Colorado can work hard to enjoy a good life, every child has the chance for a bright future regardless of the circumstances they were born into, and communities across our beautiful state are able to thrive.

2. WHAT IS THE WORKING FAMILIES TAX CREDIT?

The Working Families Tax Credit (WFTC) is an expanded and modernized version of Colorado's current Earned Income Tax Credit (EITC). By all measures, the EITC has been incredibly effective in promoting tax fairness and improving economic security of working families in Colorado. Expanding our state's EITC to reach a larger share of working- and middle-class families and modernizing it to include students and caregivers will help us build strong, thriving communities across Colorado.

The Working Families Tax Credit would benefit 40% of Coloradans or 2.3 million people statewide

The Earned Income Tax Credit

The federal EITC, first enacted in 1975 as an economic stimulus measure, is widely regarded as one of the most successful antipoverty programs in the United States for working-age households. Its design encourages and rewards work while offsetting the effects of federal payroll and income taxes. Because it has been so successful in encouraging and rewarding work, the EITC has been expanded by both Democratic and Republican administrations.

The credit amount depends on a worker's income, marital status, and number of children and increases as income rises until gradually phasing out at higher income levels. An important feature of the EITC is that it is refundable. If the credit exceeds a worker's tax liability, he or she receives the credit in the form of a cash refund. Qualifying households receive the tax credit when they file their tax returns each year.

In addition to the federal EITC, 29 states and the District of Columbia, including Colorado, offer their own EITC, typically structured as a percentage of the federal EITC.¹ Although Colorado has had an EITC since 1999, the tax credit has only been permanent since 2015. It currently provides a tax credit worth 10 percent of the credit a family or individual receives through the federal EITC.

The average federal and state EITC received by Coloradans in 2018 was about \$2,435.² Families use this additional income for basic necessities, to make repairs on their homes or cars, to get additional training to improve their job skills and earning power, and to pay down accumulated debt. Recent research on the effects of the EITC shows the money received by eligible families provides more than just financial benefits. The children of families who benefit from the program perform better in school, have higher college enrollment rates, and have increased earnings as adults.³

Table 1
EITC in Colorado, 2018

AVG. FEDERAL EITC AMOUNT	AVG. STATE EITC AMOUNT (10%)	NUMBER OF CLAIMS
\$2,214	\$221	331,000

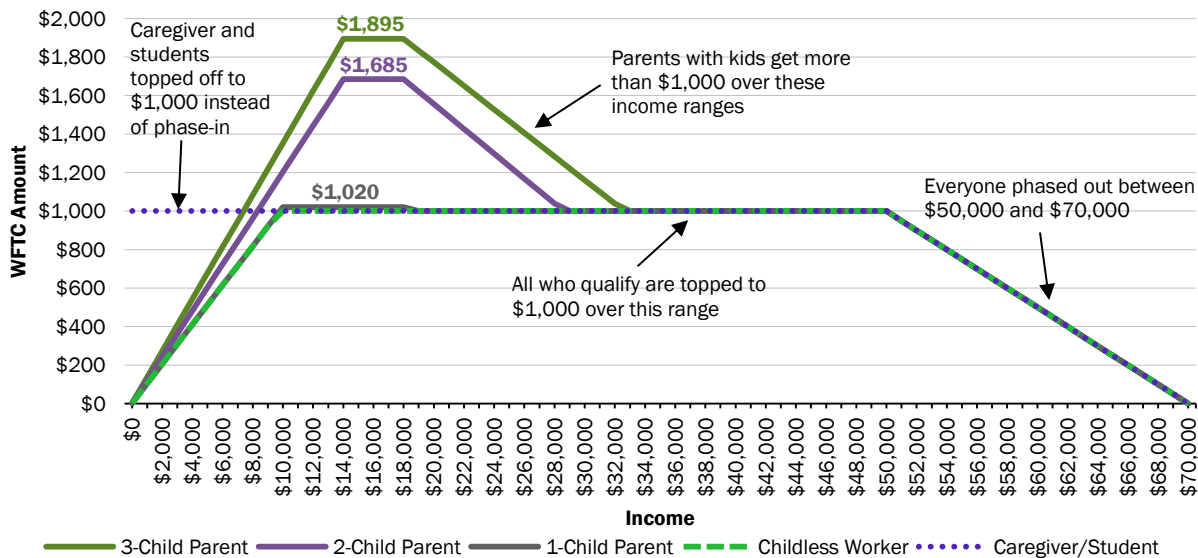
Source: Internal Revenue Service (IRS)

Expanding and Modernizing the EITC: The Working Families Tax Credit

The WFTC would expand Colorado’s current EITC, boosting the prosperity of low- and middle-income Coloradans while encouraging work. Here’s how the WFTC would work:

- Colorado households earning less than \$70,000 would receive either a basic credit of \$1,000 or a credit of up to 30 percent of their federal EITC
- The amount of credit received would depend on the number of children in the household and income level—the average household receiving the credit would receive about \$1,000 a year. Families with lower incomes and children would get a larger boost, up to nearly \$2,000
- The WFTC would expand eligibility by providing a basic credit of \$1,000 to two groups of Coloradans who benefit our communities even if they have no earned income: (1) students pursuing higher education at least half time; and (2) caregivers caring for young children (under age 6), a disabled family member, or an elderly relative (over age 70)
- Unlike the current EITC, the credit would be available in monthly installments to help families pay bills throughout the year
- Like the EITC, the WFTC would be fully refundable
- The WFTC would be paid for by eliminating Colorado’s unfair flat income tax rate, raising the rate for taxpayers with incomes over \$500,000—the top 1.1% of filers—to 9.75%

Figure 1
Working Families Tax Credit



A Cost of Living Boost for 2.7 Million Coloradans

The WFTC would benefit 40 percent of Coloradans or 2.3 million people statewide, including 739,000 children.⁴ The policy would give families earning up to 300 percent of the poverty line a boost in income and would reduce overall poverty by 8 percent and child poverty by 11 percent.⁵

Table 2
Who Benefits from the Working Families Tax Credit?

INCOME GROUP	AVERAGE INCOME	% ELIGIBLE	AVERAGE CREDIT	SHARE OF TOTAL WFTC
Lowest 20%	\$15,000	80%	\$931	37%
Second 20%	\$36,000	69%	\$1,044	37%
Middle 20%	\$60,000	67%	\$672	24%
Fourth 20%	\$97,000	4%	\$701	1%
Next 15%	\$180,000	---	---	---
Next 4%	\$419,000	---	---	---
Top 1%	\$1,884,000	---	---	---

Source: Institute on Taxation and Economic Policy (ITEP)

The credit received by a family depends on the number of children and income level. A Coloradan earning between \$14,000 and \$18,000 with three children would qualify for the largest credit of \$1,895 or around \$158 each month. A worker with two children in that income bracket would get up to \$1,685 or around \$140 each month.

The WFTC also broadens eligibility to include those who give up earned income to care for young children, a disabled or elderly family member and those attending college at least half-time. This expansion acknowledges the importance of caregiving responsibilities and investing in education by providing family caregivers and students a basic credit of \$1,000 even if they have no earned income.

Table 3
Maximum Credit by Household Type

HOUSEHOLDS WITH CHILDREN			HOUSEHOLDS WITHOUT CHILDREN		
3 children	2 children	1 child	Worker	Caregiver	Student
\$1,895	\$1,685	\$1,020	\$1,000	\$1,000	\$1,000

Extends the Credit to Adults without Children and Non-Custodial Parents

Currently, adults without children and non-custodial parents are only eligible to receive a very small federal EITC—averaging about \$280 compared to an average of \$2,200 for workers with children. As a result, the EITC only lifts about 1 percent of households without children out of poverty while pulling 15 percent of families with children above the poverty line. The WFTC addresses this glaring gap in coverage by providing a basic credit of \$1,000 to workers without children.⁶

Furthermore, many of these workers, while classified as non-custodial parents, actually have financial obligations to their children. Helping them succeed in the labor force means better outcomes for their children as well. An expanded EITC for all income qualified workers would strengthen labor-force participation, marriage prospects, and reduce crime—all ultimately improvements that benefit the communities in which children grow up.⁷

Recognizes the Important Contributions of Caregivers and Students

The WFTC broadens eligibility to include Coloradans caring for a family member or attending college half-time. People caring for a disabled family member, a child under age 6, or an elderly relative over age 70, or who leave the labor force to upgrade their skills by attending college, will receive a basic credit of \$1,000 a year, even if they have no earned income.

Families of young children in Colorado face a difficult choice concerning work and caring for their children. Colorado consistently ranks as one of the highest cost states for child care.⁸ Nearly two-thirds of all children under the age of six in Colorado live in a home where all primary caregivers work.⁹ A family with one infant and one four-year-old would face average annual child care costs of about \$23,000 or nearly one-third of the median income for a Colorado family with children.¹⁰ For families who choose to have a caregiver stay home to care for pre-school children, the WFTC would provide a much-needed boost in earnings.

A recent report found that 33 million Americans are providing care to older loved-ones.¹¹ These caregivers are primarily women and the time they devote to providing care is equivalent to a part-time job. Nearly two-thirds of caregivers report cutting back on hours of paid work, changing jobs, or taking leave so they can better manage their caretaking responsibilities. This comes at a financial

This expansion acknowledges the importance of caregiving responsibilities and investing in education by providing family caregivers and students a basic credit of \$1,000 a year even if they have no earned income

cost, however, with many reporting periods of financial instability and needing to draw on savings to support themselves.

While Colorado's population is relatively young, our demographics are changing. By 2030, an estimated 1 million workers are projected to age out of the workforce.¹² The need for families to step in and provide care to elders will only continue to increase. The WFTC helps families better afford that eventuality.

As a state, we value people taking time out of the labor force to invest in the education and training they need to upgrade their skills. Education is a key pathway to economic mobility. Of the over 300,000 Coloradans over the age of 25 living in poverty in 2017, 19 percent had a bachelor's degree or higher compared to 50 percent with a high school diploma or less.¹³ Yet, education debt is a growing strain on family finances. The amount of student debt held by Colorado families between 1999 and 2015 increased by nearly 600 percent.¹⁴ Nationally, student loans are second only to home mortgages as the largest debt owed by American families.¹⁵

Credit is Paid in Monthly Installments

One of the limitations of the EITC is that it is paid out in a lump sum after the recipient files their state and federal taxes. Recent research has found that 95 percent of EITC recipients are dealing with debt of some kind and use some portion of their refund to pay down debt or pay for deferred expenses, like a car or home repair.¹⁶ The WFTC would be paid monthly to help families keep up with their regular expenses and avoid taking on costly debt to make ends meet.

An EITC pilot in Chicago that provided recipients with 60 percent of their refund in periodic payments found that families had more disposable income to purchase necessities, pay monthly bills on time, and avoid taking on debt. The extra cash allowed them to remain current on important monthly expenses so when they got the balance of their refund at tax time, they were in a better position to save. The study also examined recipients' preferences on how they received their EITC refunds.

While only half of those receiving their refund annually thought periodic payments sounded appealing, 90 percent of those who received the credit over the course of the year preferred to keep receiving periodic payments.

While the WFTC would be paid monthly, the federal EITC is still paid out in a lump sum. In Colorado, families would get the benefit of both a monthly boost in income and a lump sum payment that could be saved to pay for education, a down payment on a home, or retirement.

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Costs Would Be Covered by Tax Increase on Wealthiest Coloradans

The costs of providing the WFTC to low- and middle-income Colorado families will be paid for by eliminating the state's unfair flat income tax. Currently, all families, regardless of income, pay an income tax rate of 4.63 percent. Introducing a progressive state income tax that taxes higher-income Coloradans at a higher rate would raise more than enough revenue to cover the cost of this proposal. In all, the proposal will reduce tax revenue by \$1 billion. Introducing an income tax of 9.75 percent on individuals earning more than \$500,000 (the top 1.1 percent of Coloradans) would raise around \$1.4 billion in new revenue.

3. WHY DO WE NEED A WORKING FAMILIES TAX CREDIT?

Given the state’s strong economy, it is fair to wonder why working families would need a program like the Working Families Tax Credit (WFTC). However, Colorado is increasingly becoming a tale of two states, where a few benefit from economic growth, while most live paycheck to paycheck. Wages for most workers have stagnated over the past decade and much of the work available in our state is in jobs that do not provide families with enough income to meet their basic needs. Putting more money in the hands of hard-working Colorado families through a program such as the WFTC will help to counteract these economic trends, supplementing Colorado families’ stagnating wages and allowing them to save and better prepare for uncertainty or unexpected expenses.

Stagnant Wages for the Majority of Workers

Wage growth in Colorado has been strikingly uneven. While the wealthiest Coloradans have seen their wages grow much faster and more consistently over time, wage growth has been sluggish for the vast majority of workers in the state and has failed to keep pace with both the rising cost of living and gains in productivity.¹⁷ In 2017, the median hourly wage for Coloradans was \$19.93, up only two percent from the median wage in 2000 after adjusting for inflation.¹⁸ In contrast, those in the top 10% of earners received hourly wages of \$48.02 or more, a 17 percent increase from 2000. From 2006 to 2015, the lowest 20 percent of wage earners actually saw their median wage drop from 2000. Only during 2016 and 2017 did this group see their wages rise relative to their wages in 2000, but only slightly.

Figure 2
Wage Growth for Most Coloradans Has Stagnated Since 2000

Percent Change in Hourly Wages by Income Group, 2000 to 2017 (in 2017\$)



Source: Economic Policy Institute analysis of U.S. Census Bureau Current Population Survey.

Note: The median wage in 2017 was \$19.93 per hour. The lowest 20% of earners made less than \$12.36 per hour while the highest 10% of earners made more than \$48.02 per hour.

430,150 working-age households, or 27 percent of all working-age households in the state, do not earn enough income to afford their basic needs

Middle-class households are important drivers of our state’s economy. A dollar of income earned by households at the middle or lower end of the income spectrum produces three times more consumption than a dollar of income earned by a high-income household.¹⁹ Stagnating wages that fail to keep pace with the rising cost of living in our state makes getting by harder for individual families and creates a drag on economic growth in our communities and our state.

Growth of Low-Wage Jobs

While job growth has been strong in Colorado in recent years, a growing share of available jobs pay too little for even a single adult to meet his or her basic needs.²⁰ The share of jobs in Colorado paying less than self-sufficiency wages for a single adult, or the amount one adult needs to cover his or her basic costs of living, has grown substantially between 2001 and 2017—from about 9.4 percent to nearly 19 percent of jobs.

The growth in low-wage jobs is one reason for the wage stagnation experienced by many workers in our state. Jobs that used to offer economic security no longer do so because wages have not kept pace with the rising cost of living. For example, about 40 percent of food service jobs in 2001 paid wages below self-sufficiency for a single adult. In 2017, that number increased to 63 percent. This means that most workers employed in the food service industry in Colorado would not be able to afford his or her basic needs. Overall, 430,150 working-age households, or 27 percent of all working-age households in the state do not earn enough income to afford their basic needs.²¹

Figure 3
Growth in Low-Wage Jobs in Colorado
Share of jobs paying less than self-sufficiency wage for a single adult, 2001 and 2017



Source: 2018 Self-Sufficiency Standard for Colorado; Bureau of Labor Statistics Occupational Employment Statistics

Note: Self-sufficiency wages for a single adult varied by county depending on the costs of goods and services. The lowest self-sufficiency wage in the state was found in Cheyenne County, where a single worker would need to make \$8.62 per hour to cover their basic needs. The highest in the state was found in Douglas County, where a single worker would need to make \$15.84 per hour to cover their basic needs. For reference, Colorado’s minimum wage in 2019 was \$11.10 per hour.

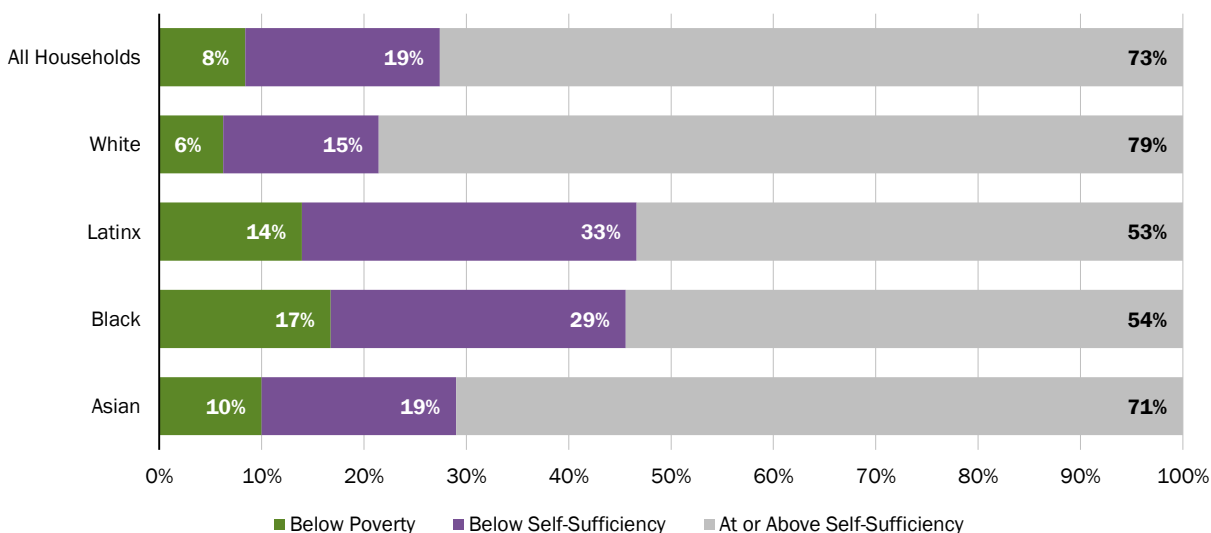
Persistent Race-Based Economic Divide

Colorado is becoming an increasingly multiracial state with a persistent race-based economic divide. People of color in Colorado are disproportionately low-income, face higher unemployment rates and poverty rates, and are more likely to live in high-poverty neighborhoods.

By 2050, an estimated 48 percent of the state's labor force will consist of people of color. As people of color comprise a larger share of the labor force, their social and economic progress will determine the success and growth of the state's economy. The persistent disparities in income, employment, and poverty by race and ethnicity in Colorado are the ongoing consequence of our nation's history of unequal access to good schools, safe neighborhoods, money to finance home ownership, and disproportionate targeting by the criminal justice system.

One manifestation of these inequities can be found in the share of people of color who lack basic economic security: 47 percent of all working-age Latinx households in Colorado live on incomes below self-sufficiency, or the incomes they need to afford their basic needs. This is also true for 46 percent of Black working-age households and 29 percent of Asians working-age households.

Figure 5
Nearly Half of Latinx and Black Households in Colorado Lack Financial Security
Percent working-age households living below poverty and self-sufficiency, by race and ethnicity, 2016*



Source: Diana Pearce (2018). *Overlooked & Undercounted 2018: Struggling to Make Ends Meet in Colorado*. Colorado Center on Law & Policy.

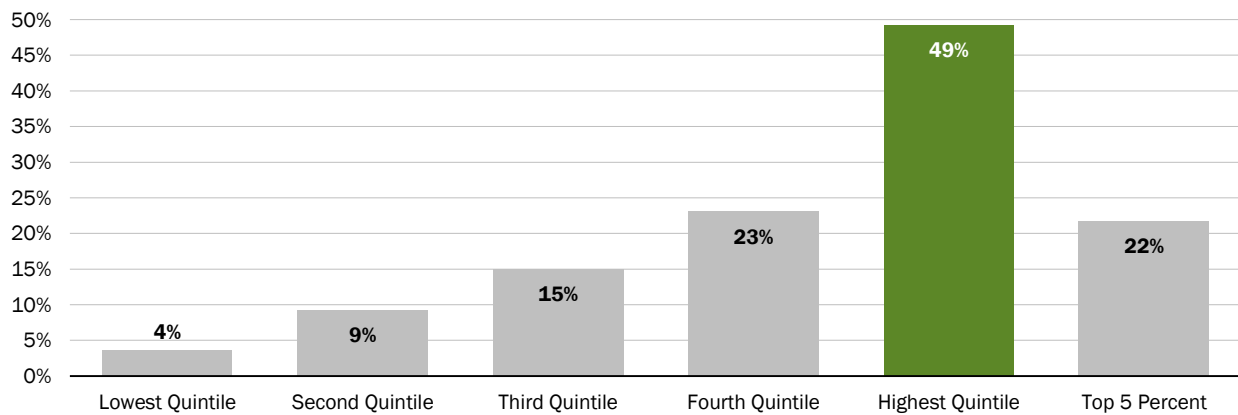
*This analysis is based on the Self-Sufficiency Standard, which assumes that all adult household members work. Therefore, the sample for this analysis includes only households with at least one adult age 18-64 without a work limiting disability.

Growing Income Inequality

Because of these and other economic forces, a growing share of the state's income is concentrated among a small share of households at the very top of the income distribution. Colorado's economy

has become increasingly more lopsided since the Great Recession and uneven recovery that followed. The top 1 percent in Colorado saw their income increase by nearly 50 percent between 2009 and 2012 while the rest of Colorado families experienced a 1 percent decline in income—essentially finding themselves worse off than before the Great Recession began.²² In 2016, the wealthiest 20 percent of Colorado households earned half of the state’s total personal income. This means that one of every two dollars earned in the state went to the top 20 percent of households and the other dollar was split—unevenly—among the remaining 80 percent of households.

Figure 6
Top 20 Percent of Households Earned Half of All Income in the State
 Share of total state income by income group, 2017



Source: U.S. Census Bureau American Community Survey

One of every two dollars earned in the state went to the top 20 percent of households

How the Working Families Tax Credit Would Help Working Families

While the economic issues facing working families in our state will not be solved by one policy alone, the Working Families Tax Credit (WFTC) provides a great starting point for

policymakers looking to provide support for working families, particularly those struggling to make ends meet. In addition, the WFTC is a way in which public policy can begin to help the majority of working families in Colorado who have not benefited from our growing economy to the same extent as wealthier families.

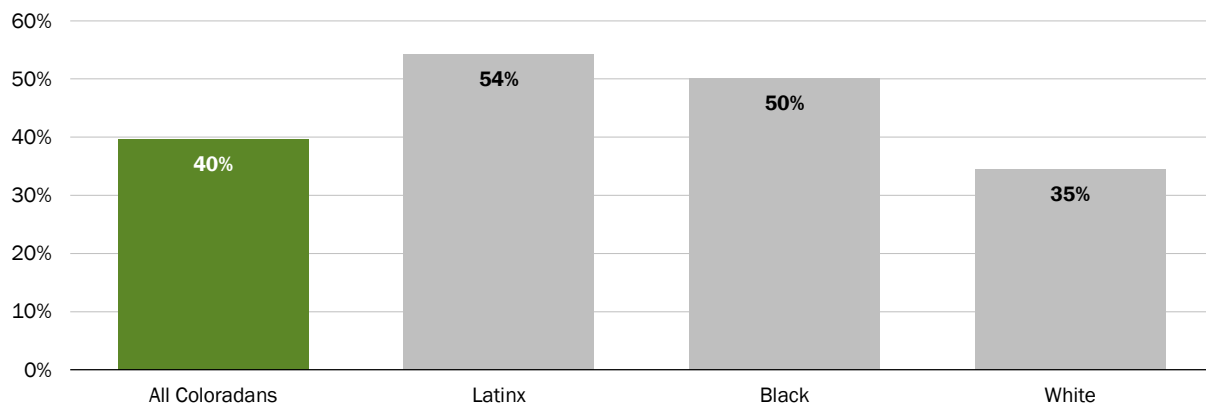
The Earned Income Tax Credit (EITC) has been one of the most effective strategies for reducing persistently high poverty rates. It encourages and rewards work while creating a financial incentive for people to leave public assistance and remain in the labor force. In 2016, the EITC lifted 5.8 million Americans out of poverty, including 3 million children. Without the EITC, the number of children living in poverty would have been 25 percent higher. The EITC also reduced the severity of poverty experienced by another 18.7 million people, including 6.9 million children.²³ Building on the EITC, the WFTC would give 40 percent of working-age families—or 2.3 million people—across the

state a much-needed raise and lift 23,000 children out of poverty. Since the tax credit would be paid out monthly, families would have a reliable source of income to help them deal with income fluctuations or unexpected costs that come up in a given year.

The WFTC would also make an important investment towards addressing income disparities by race and ethnicity in our state. People of color in Colorado continue to struggle against systemic racism that deprives them of equal access to economic opportunity. The WFTC would boost the incomes of 54 percent of Latinx residents and 50 percent of Black residents. People of color would disproportionately benefit from the WFTC. In all, 41 percent of recipients would be people of color even though people of color make up 32 percent of the state's population.

Figure 7
WFTC Will Help Address Income Disparities by Race and Ethnicity

Share of Coloradans eligible for the WFTC, by race and ethnicity



Source: Colorado Center on Law and Policy analysis of CPS microdata 2018

Working Families Tax Credit Would Provide Benefits Across Families' Lifespan

Research on the EITC shows that in addition to rewarding and encouraging work, the additional income received by families results in benefits across their lifespan, including healthier births, better school performance, higher college enrollment, and increased earnings as an adult.²⁴ Other benefits of the EITC include:

- **Improved infant and maternal health:** Research has found links between even small amounts of additional income from the EITC and important improvements in infant health like reductions in low-birth weight and premature births and better overall maternal health.
- **Better school performance:** School-age kids whose families receive refundable tax credits from the EITC and Child Tax Credit have higher test scores.
- **Higher college enrollment:** Young children in low-income families who benefit from additional income from the EITC as they grow up are more likely to attend college. In part,

this is due to academic gains in elementary and middle school from EITC receipt earlier in childhood that persist into high school and beyond.

- **Increased work and earnings among the next generation:** Children under the age of 6 growing up in families with low incomes were found to work an average of 135 more hours each year as adults for each additional \$3,000 (from any source) their family received while they were growing up.
- **Boost in Social Security retirement benefits:** The EITC was the primary driving force in raising employment among single mothers with children through the 1990s—doing more to raise employment levels than welfare reform or the strong economy. Increasing the employment and earnings of working-age women means higher Social Security benefits upon retirement and lower rates of poverty.²⁵
- **Increased savings lowers likelihood of intergenerational poverty:** The EITC provides an important asset-building opportunity for low-income families. Research shows that children in low-income families who are able to maintain a modest amount of savings are more likely to move out of poverty as adults.²⁶

All of these findings point to the importance of adequate family income as an important building block of thriving families and communities. In addition to these direct benefits to families, the WFTC would address economic inequalities in our state by making Colorado's tax code more fair, boosting local economies across the state, and helping us to address Colorado's urban/rural divide.

4. MAKING COLORADO'S TAX CODE MORE FAIR

Due to Colorado's regressive tax code, incomes earned by households are more unequal after residents pay state and local taxes than they were before.²⁷ While the personal income tax rate (i.e., the combined state and local income tax rate paid by Colorado residents) is somewhat progressive, taxes on real property, sales, and gas are each highly regressive. As a result, families with less income end up paying a higher percentage of their income in taxes compared to families with more income. The Working Family Tax Credit (WFTC) would address this imbalance by providing a larger tax credit to lower- and middle-income households, while funding the credit by raising the tax rate paid by households earning over \$500,000.

Coloradans in the lowest income brackets pay the highest share of their income in taxes while the highest earners pay the lowest percentage of their income in taxes

Lowest Income Families Pay More of Their Income in Taxes

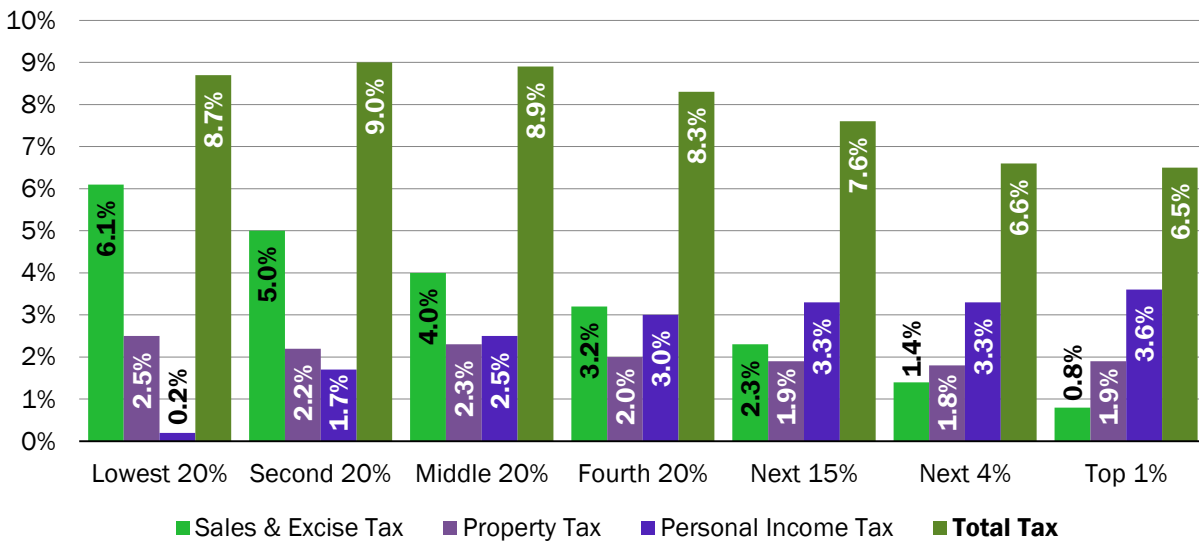
Colorado is one of eight states nationwide that has a flat income tax—currently set at 4.63 percent. Generally, flat income tax systems are regressive, meaning that even though the nominal tax rate is the same across the income spectrum, the effective tax rate after deductions is typically lower for higher income taxpayers. However, the regressive nature of the state's income tax is balanced out by the progressive federal income tax, in which higher income families are subject to higher tax rates. As a result, Coloradans making less than \$22,000 per year pay 0.2 percent of their income in income taxes while the top 1 percent of earners in the state—those with an average income of \$1.5 million—pay an average of 3.7 percent of their income towards income taxes.

Sales and excise taxes, on the other hand, are highly regressive in Colorado. Families in the bottom 20 percent of earners pay on average 6.1 percent of their income in sales and excise taxes compared to the wealthiest 1 percent of families who pay just 0.8 percent of their income on such taxes. Since sales and excise tax rates do not vary based on the income of the person paying the tax (similar to Colorado's flat state income tax) families with lower incomes end up spending a larger share of their incomes on such taxes than do wealthier families. Property taxes in the state are also regressive.

Under our state's tax system, Coloradans in the lowest income brackets pay the highest share of their income in taxes while the highest earners pay the lowest percentage of their income in taxes. Coloradans earning less than \$41,000 a year pay about 9 percent of their income in taxes, compared to a tax rate of 6.5 percent for those in the top 1 percent of earners.

Figure 8
Colorado Taxes Low-Income Families at Higher Rates

Share of state and local taxes paid in Colorado by income level



Source: Institute on Taxation and Economic Policy (2018). *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 6th Edition.

Lowest 20% = less than \$25,000; Second 20% = \$25,000 to \$47,000; Middle 20% = \$47,000 to \$74,000; Fourth 20% = \$74,000 to \$130,000; Next 15% = \$130,000 to \$283,000; Next 4% = \$283,000 to \$697,000; Top 1% = \$697,000 or more.

Working Families Tax Credit Makes Colorado’s Tax System More Fair

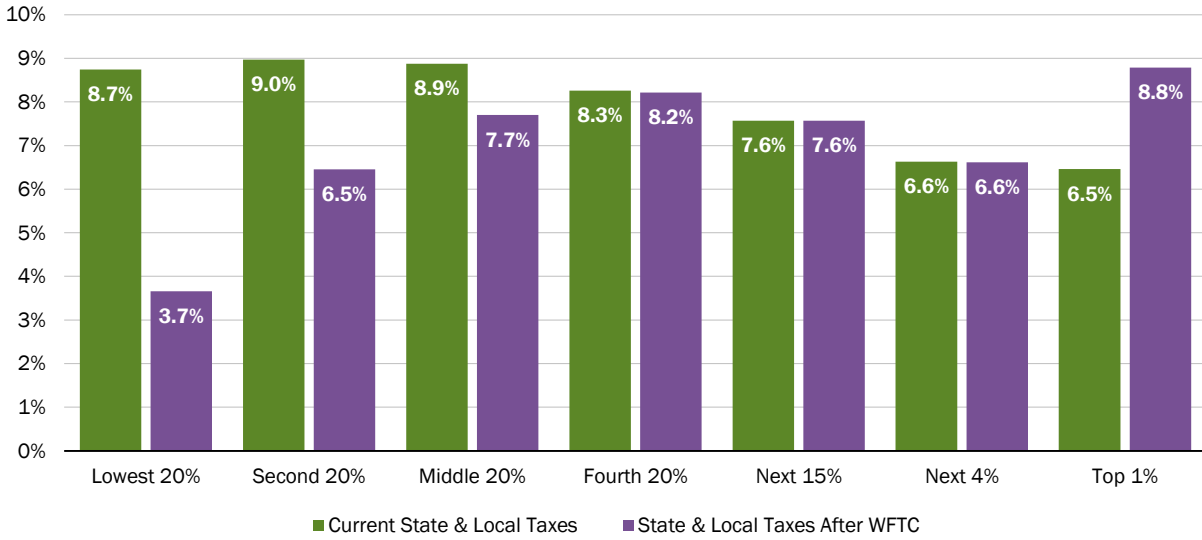
One of the most effective ways of improving tax fairness and helping working families is through refundable income tax credits. The WFTC would create a refundable income tax credit for low and middle-income households earning up to \$70,000. The new tax credit would be funded by adding a new income tax bracket of 9.75 percent on income over \$500,000.

With the Working Families Tax Credit, the tax burden for families in the lowest 20 percent of taxpayers would fall from 8.7 percent to 3.7 percent. With this change, Colorado taxpayers in this quintile would pay the lowest share of their income to taxes in the country (Delaware is currently the lowest at 5.5 percent of income for the lowest 20 percent). The tax burden for the top 1 percent of taxpayers—those earning \$1.7 million on average—would increase from 6.5 percent to 8.8 percent—lower than the 9 percent rate middle-class Coloradans pay today.

This tax increase on the wealthiest taxpayers in the state would be entirely offset by the benefits bestowed to the highest earners by the 2018 federal Tax Cut and Jobs Act. With these reforms to the federal income tax code, the effective tax rate paid by the top 1 percent of taxpayers in Colorado decreased by 2.8 percent. Since the Working Families Tax Credit would raise their rate by 2.4 percent, they would receive a tax cut of 0.4 percent and still pay lower combined taxes than before the tax cuts.

Figure 9
Working Families Tax Credit Would Rebalance Colorado's Tax Code

Share of family income paid in Colorado state and local taxes by income level



Source: ITEP

Lowest 20% = less than \$25,000; Second 20% = \$25,000 to \$47,000; Middle 20% = \$47,000 to \$74,000; Fourth 20% = \$74,000 to \$130,000; Next 15% = \$130,000 to \$283,000; Next 4% = \$283,000 to \$697,000; Top 1% = \$697,000 or more.

5. BOOSTING LOCAL ECONOMIES ACROSS COLORADO

The Earned Income Tax Credit (EITC) benefits families not only by boosting their income, but also through the broader benefits it creates in the wider community and local economy as families spend the extra money they receive at local businesses. Estimates from a study in California suggest that the EITC in that state generates economic activity equal to twice the amount of dollars paid out to by workers and their families. Assuming the same would be true in Colorado, expanding the EITC through the Working Families Tax Credit (WFTC) could potentially boost Colorado's economy by an estimated \$3 billion.²⁸ When Coloradans earn more money, they have more money to spend in their local economies. Expanding the EITC through the WFTC will increase the amount of money available to families, and the benefits to local economies across the state.

EITC Dollars Support Local Economies

The EITC is both a proven antipoverty measure and an effective economic development tool. In fact, it was originally developed as an economic stimulus measure of the Tax Reduction Act of 1975. Since then, state and local governments across the country have worked to expand participation in the EITC because they recognize that it is a powerful tool for promoting local and regional economic health.²⁹

The EITC increases local economic activity in several ways: directly through EITC recipients spending their refunds in the community and indirectly as businesses adjust their spending and hiring decisions in response to increased consumer spending.

A study of economic effects of the EITC in California found that it generates economic activity equivalent to twice the amount of EITC dollars received.³⁰ The study found that EITC payments received by workers contributed over \$5 billion in economic output and added 30,000 jobs to the state's economy in 2007.

Working Families Spend Increased Earnings on Main Street

The average federal EITC refund for a family with children in 2016 was \$3,176. Consumer surveys show that most EITC recipients use their tax refund to meet short and medium term needs for their families—they buy clothes for their children, repair a vehicle, catch up on accumulated debt, and pay for needed repairs in their home.³¹ Much of this spending on necessities occurs in the local economy.

The EITC generates economic activity equal to twice the amount of dollars paid out to workers and their families—potentially boosting the Colorado economy by an estimated \$3 billion

The WFTC would provide an additional average refund of about \$1,000 and would be paid out monthly. These increased earnings would be readily available to help pay for rent, food and other daily necessities—most often purchased locally. This local spending has a ripple effect throughout the local economy, as dollars spent by families receiving the tax credit helps support businesses in their community, who in turn are able to support their own employees, who then are able to spend their incomes in the local economy, etc. Since they often have unmet or deferred needs, low and middle-income workers are more likely to spend earnings increases than are higher income groups.

The combination of stagnant wages and rising income inequality has created a drag on economic growth.³² Shifting an ever-growing share of income to rich households, which are more likely to save than spend, dampens consumer spending. Putting more money in the pockets of middle- and low-income Coloradans would have an overall positive effect on the local economy by stimulating increased consumer demand and creating jobs.

The Working Families Tax Credit Helps Build and Stabilize the Local Labor Force

According to a survey of business leaders in Colorado, the top challenges facing the state's economy are labor shortages, the cost of labor, and high housing prices that discourage potential employees from relocating for a new job.³³ Expanding the EITC in Colorado through the Working Families Tax Credit is an effective strategy for meeting these challenges. In addition to encouraging work, the WFTC would help businesses in our state by helping employees be more productive and reliable.

We know that workers who are not preoccupied with meeting their basic expenses or how they will come up with enough money for car repair or next month's rent are more reliable employees. They are able to focus on their work rather than becoming overwhelmed by figuring out how to deal with the next financial emergency. Furthermore, research shows that workers consumed by concern about income security perform less well at work.³⁴

6. ADDRESSING COLORADO'S URBAN-RURAL DIVIDE

Geography plays an important role in the well-being of families in Colorado. On one hand, there is the Colorado comprised of cities and towns along the Front Range corridor from Pueblo, Denver, and Fort Collins. On the other, the vast landscape on either side of the Front Range that includes the Eastern Plains, San Luis Valley, and Western Slope. While three-quarters of Colorado's 64 counties are rural,³⁵ less than 13 percent of the state population lives in this sweeping geographic area. As a result, looking only at the statewide picture often masks the different experiences of residents living in the urban or rural areas of our state.

Like many places across the country, people living in urban and rural areas face very different challenges. Our urban communities are growing fast and have seen significant population gains, robust job growth, an influx of workers with high educational attainment, and better wages. Meanwhile, our rural communities and remote mountain towns are struggling with a declining and aging population base, fewer well-paying job opportunities, and a shortage of workers. More specifically, our urban and rural areas differ in some of the following ways:

- The median household income for rural areas is one-third lower than in urban areas.³⁶
- Poverty rates are higher in rural counties. Half of rural children in public schools in Colorado are eligible for free or reduced lunches, compared to one-third of urban children.
- The nine-county corridor between Colorado Springs and Fort Collins, including the Denver metro area, accounts for [80 percent of the state's jobs](#).³⁷
- Nearly 40 percent of prime working age people in rural counties have a high school education or less, compared to 31 percent in urban areas.
- Many rural counties across the state have experienced significant population declines—12 counties have seen their numbers shrink to less than half of their historic population peaks.
- Employee shortages are among the top five problems facing rural communities.³⁸ While the Denver area attracts highly educated transplants, rural communities are losing their most educated residents who leave to seek better employment opportunities.

In addition, the [economic gap between urban and rural areas](#) of Colorado has grown since the Great Recession and the uneven recovery that followed.³⁹ As a result, Colorado currently has one of the largest economic gaps between urban and rural areas in the country (along with Virginia, South Carolina, and Florida).

The Working Families Tax Credit Would Give Rural Communities a Much Needed Economic Boost

We know that when one member of our family isn't doing well, it puts a strain on the whole family. That's the same for the economy – when everyone can contribute to their full potential, we all do

better. The Working Families Tax Credit would provide 68 percent of rural Colorado families with a much-needed financial boost. This money would not only help those families but also support Main Street businesses in these communities.

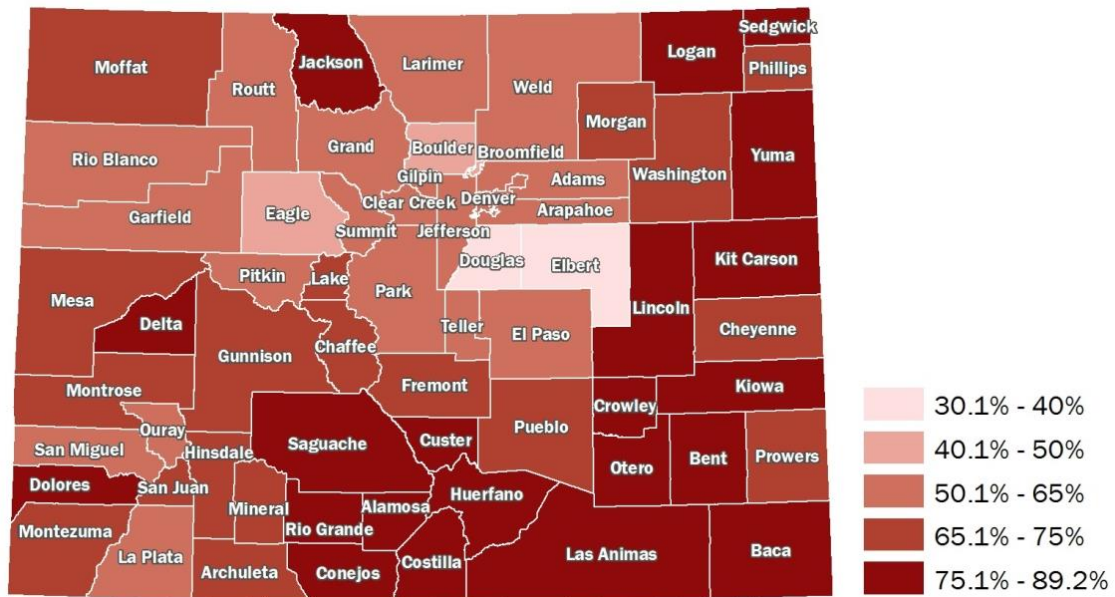
Figure 10
WFTC Would Provide a Much Needed Economic Boost to Rural Counties

Share of families making less than self-sufficiency wages for their family size and local cost of living, 2016



Source: 2018 Self-Sufficiency Standard for Colorado, Center for Women's Welfare, University of Washington

Share of households that would benefit from the Working Families Tax Credit, 2017



Source: Colorado Center on Law and Policy Analysis of ACS 2013-2017 data based on household incomes below \$75,000

7. CONCLUSION

An Effective Policy for Building a Colorado Economy that Works for All

We often hear Colorado's economy is booming, but, as detailed in this report, it doesn't feel that way for too many families in our state. While high-income families have seen a boost from recent economic growth, the majority of low- and middle-income families are struggling to get by. The cost of living has skyrocketed in Colorado, while wages for the majority of workers have stagnated over the last two decades. It's getting harder for families to buy a home, pay rent, afford health care, and save for college or retirement. Expanding Colorado's Earned Income Tax Credit (EITC) through the Working Families Tax Credit (WFTC) is an effective tool for addressing these challenges and boosting the prosperity of working families. The Working Families Tax Credit:

- **Benefits much of the population, reaching both low- and middle-income families.** Every household earning less than \$70,000 in annual income would be eligible to receive the WFTC—that's about 40 percent of all Coloradans.
- **Rewards caregivers and students.** We know that the people who care for young children and our elders are providing critical contributions to their families and our communities. In addition, students and others who leave the work force to pursue training will eventually return and contribute to the economic growth of our state. The WFTC would recognize the important contributions of these Coloradans by providing them an annual credit of \$1,000 even if they do not have any earned income.
- **Is paid monthly.** An important feature of the WFTC is that it would be paid out monthly rather than in a lump sum as the EITC is currently paid. Research shows that recipients prefer monthly payments and families benefit most when the credit can be counted on to help them meet their basic needs throughout the year.⁴⁰
- **Builds on the minimum wage increase.** Minimum wage increases in Colorado and across the country are a critical first step to addressing these problems. Expanding the EITC through the WFTC is also an essential strategy for raising the standard of living for low- and middle-income workers and addressing rising income inequality.
- **Rebalances Colorado's unfair tax code.** The Taxpayers Bill of Rights (TABOR) prohibits Colorado from enacting a graduated income tax. The WFTC would amend TABOR by removing this and establishing a higher income tax rate (9.75 percent) for all earnings over \$500,000 to fund the expanded tax credit. The Working Families Tax Credit brings the share of income paid in taxes by millionaires to the same share paid by those earning \$30,000 today.
- **Encourages economic development throughout the state.** The WFTC would benefit the majority of families living in Colorado's rural counties. In all, 68 percent of families would receive the tax credit, providing them with additional income to spend in their local economies each month.

The Working Families Tax Credit on its own will not solve all of the economic challenges facing families in our state. However, it is a positive step forward to begin addressing income inequality, stagnating wages, and the unfair tax burden placed on lower-income families. This important policy proposal not only helps families struggling to meet their basic needs, but also provides an economic boost to local economies across the state. The economic activity unleashed by expanding the state EITC will create jobs and lead to a more prosperous Colorado.

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Denver, CO 80203
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