Expanding tax credits for Colorado families is the right way to clean up the tax code

Colorado's tax code is outdated and regressive. Our fiscal knot makes fixing that problem difficult, but we can make sure thousands of Coloradans who earn low and moderate incomes — whether they're white, black or brown — get more money in their pockets. And we can do it in a way that's proven to reduce poverty, help middle class families, and will actually make our system more progressive.

EXPAND TAX CREDITS FOR FAMILIES

The federal Earned Income Tax Credit (EITC) has helped cut the national poverty rate in half.[1] Expanding our state EITC and funding a state Child Tax Credit (CTC) would do even more to help families make ends meet.

Research shows the federal EITC lifted 10.6 million people out of poverty in 2018 alone.[2] Other research points to the EITC (and the similar CTC) boosting health and educational outcomes for families who receive them.[3]

CLOSE A LOOPHOLE THAT MOSTLY BENEFITS THE WEALTHY

The Trump tax cuts created a deduction for certain types of business income that Colorado also uses because of the way we determine tax liability. Nearly two-thirds of the benefits go to people who make over $200,000 a year.[4]

Closing that loophole would generate $150-$200 million for the state. The fiscal knot in the state constitution prevents us from using that money to invest in education or other priorities, but we can make sure thousands of Colorado families have more money in their budgets.

[1] Trisi and Saenz. "Economic Security Programs Cut Poverty Nearly in Half Over Last 50 Years." Nov. 26, 2019.
[2] Washington, Samantha. "Child Tax Credit and Earned Income Tax Credit Lifted 10.6 Million People out of Poverty in 2018." Oct. 31, 2019.
[3] Marr, Huang, et al. "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds" Oct. 1, 2015.
[4] Tax Policy Center analysis of 2018 IRS statistics of income.

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How the progressive tax credit package works

Step one: Close a loophole that disproportionately benefits the wealthy:

- To improve the fairness of Colorado's tax code, the bill proposes to **eliminate a tax deduction that disproportionately benefits high-income business owners.**
- Because of a recent change in federal law, business owners are allowed to deduct 20 percent of "pass-through" income on their state income taxes.
- Analysts estimate **Colorado is slated to lose up to $200 million each year** due to this change. Changing the state deduction will not affect federal taxes owed.
- **63 percent of the benefits of the deduction go to filers who report more than $200,000 in income as of 2018.**
- Colorado is one of only five states that allows filers to deduct business income in for the purposes of calculating state income taxes. The other states are Idaho, Minnesota, North Dakota, and Iowa.

Step two: Use the revenue from closing the loophole to expand and fund tax credits that put money in families' pockets:

- The Earned Income Tax Credit (EITC) is a refundable tax credit for working families with annual incomes below $56,000 (depending on marital status and number of dependent children). The average federal EITC for Colorado filers was $2,153 in 2017.
- Colorado has a state-level EITC equal to 10 percent of the federal EITC. **This bill would double the state EITC to 20 percent of the federal EITC.** 28 other states have a state-level EITC. Of the states that base their EITCs on the federal credit, 21 states calculate their credits using a percentage equal to or greater than the 10 percent factor Colorado uses. Only seven use a lower percentage.
- Colorado has a state-level CTC in statute for families with children aged five and under. **The Colorado CTC has never been funded before**.
- Here's the breakdown of how the Colorado CTC would put money in the pockets of families who earn low and moderate incomes:

Single		Joint	
Income	Percent of federal credit	Income	Percent of federal credit
$0 - $25,000	30%	$0 - $35,000	30%
$25,000 - $50,000	15%	$35,000 - $60,000	15%
$50,000 - $75,000	5%	$60,000 - $85,000	5%
Note: The federal CTC is $2,000 per child ($1,400 of which is refundable).			