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Build Economic Security for All Coloradans Through Fair Tax Policy

The downturn has left millions of American families in economic crisis. In Denver County, nearly one in five people live below the federal poverty level, and 11.9% of Coloradans are below the poverty level statewide. Families with young children are the most likely to have trouble making ends meet – in fact, Colorado has experienced one of the largest increases of children in poverty nationwide.

We must act now to help build economic security for the thousands of families struggling in our state.

There are several tax programs expiring this year that have helped Colorado families. The Bush era tax cuts up for renewal, for example, reduced taxes for nearly half the population – however most of these benefits went to wealthy Americans. But the Bush programs also expanded the Child Tax Credit (CTC) from \$500 to \$1,000, which put much-needed dollars back in the pockets of middle-class families.

The Recovery Act tax credits, however, were the most effective for low-income families. Most families who earn less than \$20,000 per year earn too little to owe federal income tax. Therefore, only tax credits which can be refunded beyond the amount of income tax owed are of any benefit. For example the federal Child and Dependent Care Tax Credit, which is **not** refundable, cannot be used to reduce child care expenses for those too poor to owe income tax. On the other hand, the Recovery Act changed these tax provisions, to the benefit of low-income families:

- Expanded the Earned Income Tax Credit (EITC) for families with more than two children and for families headed by married couples;
- Allowed low-income families to benefit from higher education tax credits for the first time, by making them a refundable credit; and
- Most importantly of all, the Recovery Act expanded the Child Tax Credit to families earning less than \$12,000 per year (but more than \$3,000 per year) – a credit that had previously been unavailable to the lowest-income Americans.

These tax credits for hard-hit families will expire this year unless Congress renews them. If Congress fails to act, a family with two children earning \$12,000 per year will lose about \$1,500 – which can make the difference between paying the rent or mortgage and losing your home.



Here in Colorado, we have seen how tax policy can shape a family's economic security. In 1999 and 2000, Colorado cut its sales and income tax rates, and later made these cuts permanent. But income tax reductions benefit only those who earn enough to owe taxes – and the highest earners tend to benefit most of all. When state legislators created a tax credit for low-income families with children, in contrast, they did not make it permanent and instead left it contingent on a TABOR (budget) surplus* – which hasn't existed since 2001. When times are tough, in other words, the most well-off Coloradoans get to enjoy a permanently-reduced income tax rate of 4.63%, while our low-income families get no such relief. Without the Colorado EITC, these families miss out on up to almost \$500 per year.

We must continue to invest in Colorado families and back programs that promote economic security for all Coloradans. Programs like the EITC make a great difference for families struggling to maintain a home, send their kids to school and build a secure retirement.

Colorado tax policies should help build family economic security for all. Here are our tax policy recommendations:

Congressional Representatives:

- ▶ Make permanent the Child Tax Credit minimum earnings criteria reduction to \$3,000 per year. There is no defensible reason to exclude poorer children.
- ▶ Make permanent the expansion of the federal Earned Income Tax Credit for families with more than 2 children and for married couples.
- ▶ Make the Child and Dependent Care Tax Credit refundable, so low-income families can claim child care expenses on the same footing as middle-class families.
- ▶ Make permanent the Child Tax Credit expansion to \$1,000 per child.

Colorado Legislators:

- ▶ Make the State Earned Income Tax Credit permanent. It is one of the most effective and administratively efficient tools to increase a family's economic security.
- ▶ Make the Colorado Child Care Tax Credit refundable, so that lower wage families can claim child care expenses on the same footing as middle-class families.

*Revenues exceeding the state revenue cap, which is the previous maximum State General Fund, plus inflation and population growth.