



The Bell Policy Center

Start of the Child Tax Credit

HB16-1045

Testimony to the House Finance Committee
Rich Jones, Director of Policy and Research
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Thank you for the opportunity to present this testimony.

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

The Bell Policy Center supports HB16-1045 to start the Colorado Tax Credit in tax year 2016 and make it a permanent tax credit. Research shows that increasing family income through this type of tax credit is one of the most effective ways to help families 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 this credit, 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 Child Tax Credit

The federal Child Tax Credit (CTC) was created in 1997 and has been expanded with bipartisan support several times since 2001. Colorado offered a refundable CTC as a TABOR rebate equal to \$300 per child age 5 or younger. However, it was only available when the total TABOR rebates reached \$290 million and was last available in 2000 and 2001.¹ In 2010, the legislature repealed all TABOR refund mechanisms (SB10-212), including the CTC, except for the Six-Tier Sales Tax Refund, Earned Income Tax Credit and Temporary Income Tax Rate Reduction.

In 2013, the legislature authorized making the Earned Income Tax Credit (EITC) and CTC permanent tax credits provided certain economic conditions were met. For the EITC, it becomes a permanent tax credit once the total amount of TABOR rebates reaches about \$100 million, which it did in Fiscal Year 2014-15. The EITC is available for tax year 2015, claimed on tax forms filed in 2016, and will be available as a permanent tax credit in future years.

Under current law, the CTC will be available once the U.S. Congress enacts legislation allowing states to collect sales taxes on internet and catalogue sales. HB16-1045 would remove this requirement and make the CTC available beginning in tax year 2016, claimed on tax forms filed in 2017.

The CTC would be refundable, meaning it 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 CTC

The CTC 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 age 5 and younger depending on their Adjusted Gross Income and tax filing status as shown in the table below.

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

According to the Center on Budget and Policy Priorities, the federal CTC lifted approximately 3.1 million people out of poverty, including about 1.7 million children, and reduced poverty for another 13.7 million people, including 6.8 million children, in 2013.²

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.³

Economists from Harvard and Columbia Universities found that additional income from the EITC and CTC led to improved test scores for students in grades three through eight 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."⁴

Most families that receive these tax credits spend the money locally on day-to-day living expenses. Studies in Denver; Nashville, Tennessee; and San Antonio, Texas, showed that spending from the EITC and CTC boosted local economies.⁵

We urge you to invest in Colorado families and their children and pass HB16-1045. It helps people move out of poverty, rewards and encourages work, improves educational and health outcomes for children and boosts local economies.

We thank Representative Singer for bringing this bill to you today and for his work on this issue during the interim. We also thank the committee for the opportunity to share our thoughts with you

If you have any questions, or if I can provide further information, please contact me at (303) 297-0456, ext. 224 or jones@bellpolicy.org.

¹ 2000 Tax Reduction Memo, Colorado Office of State Planning and Budgeting, June 12, 2000, <http://hermes.cde.state.co.us/drupal/islandora/object/co%3A1973/datastream/OBJ/view>

² The Child Tax Credit, Policy Basics, Center on Budget and Policy Priorities, updated January 15, 2016, <http://www.cbpp.org/research/policy-basics-the-child-tax-credit>

³ 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>

⁴ 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

⁵ 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> 'EITC Boosts Local Economies, Partners in Community and Economic Development, Vol. 16, No. 3, 2006, Federal Reserve Bank of Atlanta.