COLORADO EARNED INCOME TAX CREDIT

EVALUATION SUMMARY | APRIL 2022 | 2022-TE19

TAX TYPE	Income	REVENUE IMPACT (TAX YEAR 2018)	$72 million
YEAR ENACTED	1999	NUMBER OF TAXPAYERS	336,197
REPEAL/EXPIRATION DATE	None		

KEY CONCLUSION: The credit improves low- and middle-income families' financial security by increasing their after-tax income, particularly for workers with children who receive a much larger benefit than childless workers. The credit may also positively impact Colorado's economy, though the impact is likely relatively small.

WHAT DOES THIS TAX EXPENDITURE DO?

The Colorado Earned Income Tax Credit (EITC) allows low- and moderate-income earners who claim the federal EITC to claim an additional state income tax credit, calculated as a percentage of the federal EITC (20 percent of the federal EITC for Tax Year 2022, 25 percent for Tax Years 2023 through Tax Year 2025, and 20 percent for Tax Year 2026 and beyond). The credit amount provided at the federal level and, therefore, the state level varies based on a taxpayers' filing status, total earned income, and number of qualifying children.

WHAT IS THE PURPOSE OF THIS TAX EXPENDITURE?

Statute [Section 39-22-123.5, C.R.S.] states that "[t]he intended purpose of [the Colorado EITC] is to help individuals and families achieve greater financial security and to help Colorado's economy."

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

The General Assembly may want to consider amending statute to establish performance measures for the credit.

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COLORADO EARNED INCOME TAX CREDIT

EVALUATION RESULTS

WHAT IS THE TAX EXPENDITURE?

The federal Earned Income Tax Credit (federal EITC) was created in 1975 to reduce poverty and encourage economic growth by providing a tax credit for households with earned income below a certain threshold. Earned income includes income received through employment, such as wages, salaries, and tips, as well as earnings from self-employment. Other income sources such as pensions, annuities, welfare benefits, unemployment compensation, workers' compensation, and social security benefits are not considered earned income. Generally, to be eligible for the federal EITC, taxpayers must:

- Have earned income below of $57,414 or less for married joint filers or earned income of $51,464 or less for single filers;
- Have investment income of $10,000 or less, and no foreign income;
- Have a valid work-eligible social security number (SSN); and
- Be a U.S. citizen or resident alien for the year in which they claim the credit.

The federal credit amount varies based on individuals' filing status (i.e., single, head of household, married filing jointly), their total earned income, and the number of qualifying children they have. To claim larger credit amounts, which are available to families with dependent children, individuals must have custody of their children, regardless of whether they pay child support or provide other support to their children and/or their children's custodial parent.

The Colorado Earned Income Tax Credit [Section 39-22-123.5, C.R.S.] (Colorado EITC) allows low- and moderate-income earners who claim the federal EITC to claim an additional state income tax credit, calculated as a percentage of the federal EITC amount, which varies depending on the tax year, as shown in EXHIBIT 1.

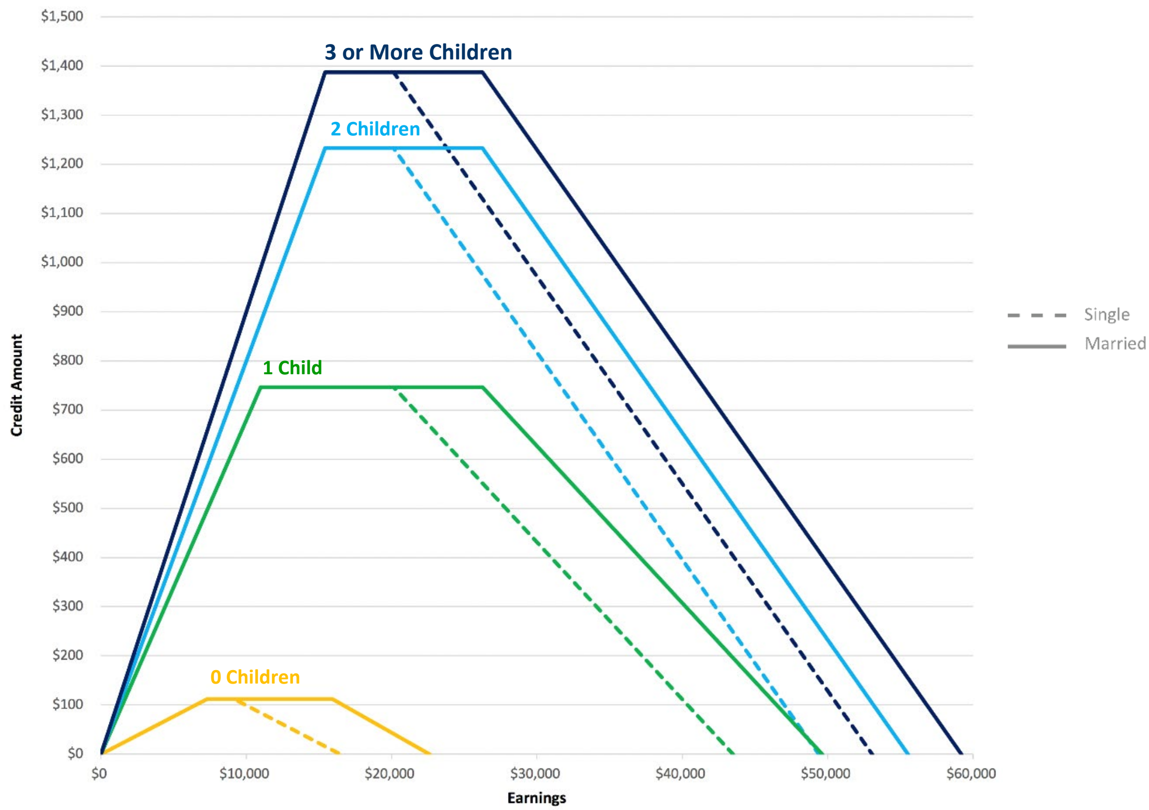
EXHIBIT 1. COLORADO EITC AMOUNT AS A PERCENTAGE OF THE FEDERAL EITC

Income Tax Year	Percentage of Federal EITC
Beginning prior to January 1, 2022	10 percent
Beginning on or after January 1, 2022, but prior to January 1, 2023	20 percent
Beginning on or after January 1, 2023, but prior to January 1, 2026	25 percent
Beginning on or after January 1, 2026	20 percent

SOURCE: Office of the State Auditor analysis of Section 39-22-123.5, C.R.S.

Eligibility for the Colorado EITC generally aligns with eligibility at the federal level, although Colorado also allows individuals or their family members without a valid SSN to qualify for the state EITC; these taxpayers file for the credit with an individual taxpayer identification number (ITIN) issued by the Internal Revenue Service (IRS). If the Colorado EITC exceeds recipients' tax liability they can receive a refund for the excess amount. Because the Colorado EITC is calculated as a percentage of the federal EITC, the credit amount also varies based on taxpayers' income, filing status, and number of dependents. EXHIBIT 2 shows the Colorado EITC credit amounts available to taxpayers in Tax Year 2022.

EXHIBIT 2. COLORADO EITC AMOUNTS AVAILABLE TO TAXPAYERS BASED ON FILING STATUS, EARNED INCOME, AND NUMBER OF CHILDREN IN TAX YEAR 2022



Source: Office of the State Auditor created based on the credit amount reported by the Internal Revenue Service.

As shown in EXHIBIT 2, the Colorado EITC provides less benefit to those with adjusted gross incomes under $10,000, provides the largest benefit to those with incomes between $10,000 and $30,000, and then gradually decreases for those with higher incomes. This structure, which parallels the federal EITC, is intended to encourage individuals to work and increase their earned income while gradually tapering off benefits to decrease the potential disincentive to earning additional income due to a reduced EITC benefit.

House Bill 99-1383 created the Colorado EITC in 1999. Since that time, there have been significant changes to both the Colorado and federal EITC which, as shown in EXHIBIT 3, have expanded the credits and clarified eligibility requirements.

EXHIBIT 3. STATE AND FEDERAL LEGISLATION RELATED TO THE EITC SINCE 1999	
Colorado House Bill 99-1383 (1999)	Created the Colorado EITC. At the time of its enactment, recipients were allowed a credit equivalent to 8.5 percent of the federal EITC only in years in which state revenue exceeded the limit imposed by Section 20(7)(a) of Article X of the Colorado Constitution, known as the Taxpayers Bill of Rights (TABOR).
Colorado House Bill 00-1049 (2000)	Increased the Colorado EITC amount to 10 percent of the federal EITC. Also, amended the credit to ensure that it did not prohibit recipients from qualifying for other public assistance or medical assistance benefits authorized under state law or for payments from any other publicly funded programs.
Federal Economic Growth and Tax Relief Reconciliation Act (2001)	Provided "marriage penalty relief" by increasing the income at which the federal EITC phases out for married couples filing jointly.
Federal American Recovery and Reinvestment Act (2009)	Increased the credit amount for families with three or more children and expanded the marriage penalty relief by increasing the income at which the federal EITC phases out for married couples filing jointly.
Colorado Senate Bill 13-001 (2013)	Removed the limitation on the Colorado EITC to years when the State exceeded the TABOR revenue cap. Based on the bill's operation, the credit became available on a permanent basis beginning in Tax Year 2016.
Tax Cut and Jobs Act (2018)	Indexed the federal EITC amount available to taxpayers to the chained consumer price index for urban consumers (C-CPI-U) instead of the traditional consumer price index for urban consumers (CPI-U). In comparison to the CPI-U, the chained CPI-U tends to grow more slowly, meaning the monetary parameters of the federal EITC will grow more slowly, decreasing the monetary value of the federal EITC with time.
Colorado House Bill 20-1420 (2020)	Extended the Colorado EITC to those with an ITIN who would otherwise qualify, but do not because they, their spouse, or one of their dependents does not have a valid SSN.
Colorado House Bill 21-1311 (2021)	Increased the Colorado EITC amount to 20 percent of the federal EITC for Tax Year 2022, 25 percent for Tax Years 2023 through 2025, and then reduces the credit back to 20 percent for Tax Year 2026 and beyond.
Federal American Rescue Plan Act (ARPA) (2021)	Temporarily increased the maximum federal tax benefit for childless workers from $543 to $1,502 for Tax Year 2021 and expanded eligibility requirements. Also, permanently increased the federal limit on qualified investment income from $3,650 to $10,000 and indexes it to inflation.

SOURCE: Office of the State Auditor's analysis of the legislative history of the Colorado EITC and the Federal EITC.

Taxpayers claim the credit on Line 4 of their Individual Credit Schedule (Form DR 0104CR), which is filed as part of their individual state income tax return. Additionally, taxpayers are required to report their total earned income on Line 2, the federal EITC amount claimed on Line 3, and list their children's information under Line 3 of Form DR 0104CR. Taxpayers or taxpayers' dependents who do not qualify for the federal EITC because they have ITINs or SSNs that are not valid for employment must file a Colorado Earned Income Tax Credit for ITIN Filers form (Form DR 0104TN) and include it with their tax return.

WHO ARE THE INTENDED BENEFICIARIES OF THE TAX EXPENDITURE?

Based on statute, the operation of the credit, and federal and state guidance, we determined that the intended beneficiaries of the Colorado EITC are low- and moderate-income workers, particularly those with children. Additionally, the credit is designed to encourage participation in the labor force and reduce recipients' need to access government programs and so, the State and Colorado economy also benefit to the extent that this occurs. Academic research shows, and stakeholders indicated, that credit recipients tend to spend EITC refunds on essential goods and services, such as food, essential items, and car repairs and so the credit may also benefit local communities where credit recipients spend the additional funds.

WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

Section 39-22-123.5, C.R.S., states that "[t]he intended purpose of [the Colorado EITC] is to help individuals and families achieve greater financial security and to help Colorado's economy." Based on legislative hearings from Senate Bill 13-001, the credit was likely intended to increase family security and stability by reducing poverty and was intended to support the Colorado economy by increasing earnings and employment among low- and middle-income earners, and circulating money within the local economy.

IS THE TAX EXPENDITURE MEETING ITS PURPOSE AND WHAT PERFORMANCE MEASURES WERE USED TO MAKE THIS DETERMINATION?

We determined that the Colorado EITC is meeting its purpose because it improves the financial security of low- and moderate-income earners by increasing their after-tax income and may also provide a positive impact to Colorado's economy, though this impact is likely relatively small.

Statute does not provide quantifiable performance measures for the Colorado EITC. Therefore, we created and applied the following performance measures to determine the extent to which the credit is meeting its purpose:

PERFORMANCE MEASURE #1: *To what extent do eligible taxpayers claim the Colorado EITC?*

RESULT: Based on data from the Department of Revenue (Department) and the IRS, we estimate that roughly 72 percent of eligible taxpayers claimed the Colorado EITC in Tax Year 2018, the most recent year for which data is available. We based this estimate on IRS data indicating that about 467,000 Coloradans were eligible for the federal EITC in Tax Year 2018, which would generally make them eligible for the Colorado EITC. In comparison, Department data show that 336,197 tax filers claimed the Colorado EITC. Further, it appears that nearly all tax filers who claim the federal EITC also claimed the Colorado EITC, with 98 percent of federal claimants also claiming the state credit. Therefore, nearly all of the eligible taxpayers who did not claim the Colorado EITC also did not claim the federal EITC, despite being eligible.

Based on our review of research on EITC up-take and discussions with stakeholders, we found that the incomplete up-take of the federal EITC, and therefore the Colorado EITC, may be due to several barriers that deter individuals from claiming the credit such as:

- LACK OF AWARENESS—Eligible individuals may not claim the credit because they are unaware of it or it is difficult for recipients to understand the benefit they would receive from the credit.

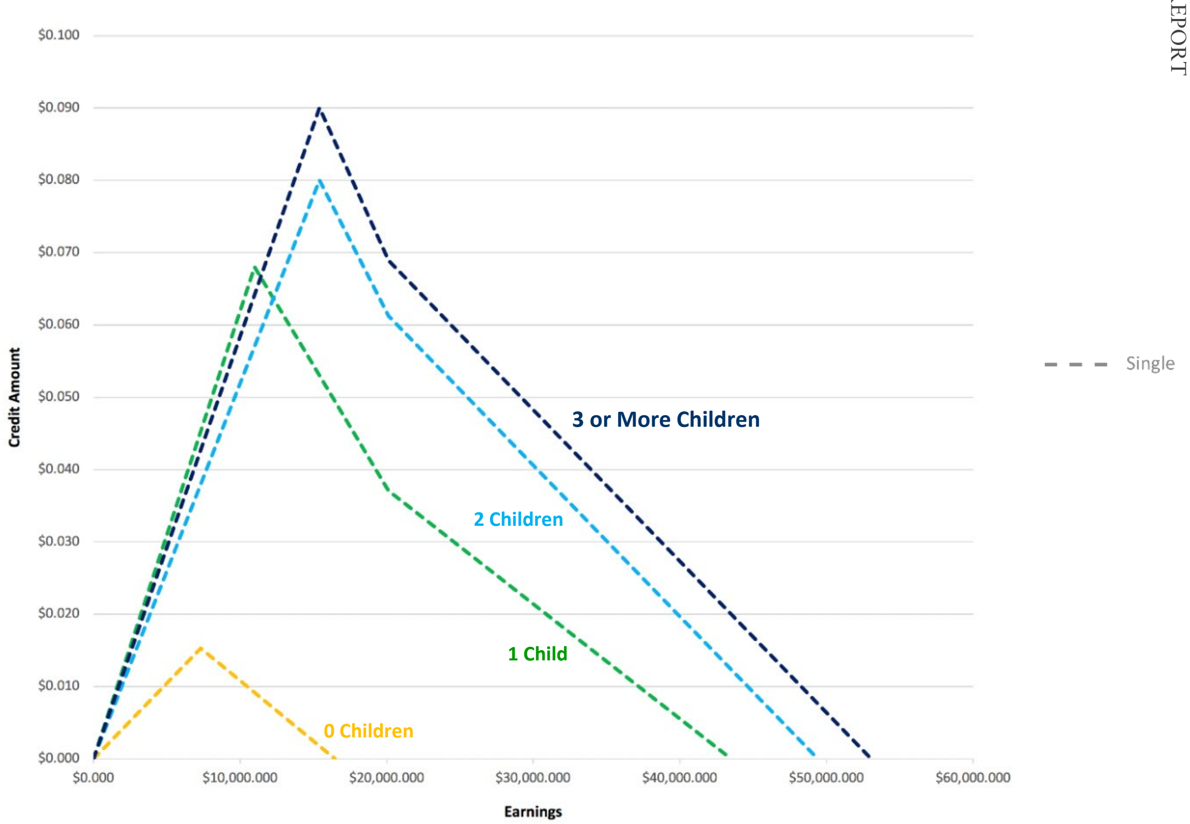
- PERCEIVED LACK OF BENEFIT—Childless workers are allowed only a small credit amount and the very lowest income earners with small credits may not claim the credit because of a perceived lack of benefit. For example, a survey conducted by the U.S. Census Bureau found that federal EITC up-take between 2006 and 2009 for taxpayers with children was higher (86 percent) than for those without children (65 percent). Further, only 40 percent of those with credits under $100 claimed the credit.

- NON-FILERS—Because many low-income earners are not required to and do not file tax returns, they miss out on the benefits of the EITC.

PERFORMANCE MEASURE #2: *To what extent does the Colorado EITC help low- to moderate-income individuals and families achieve greater financial security?*

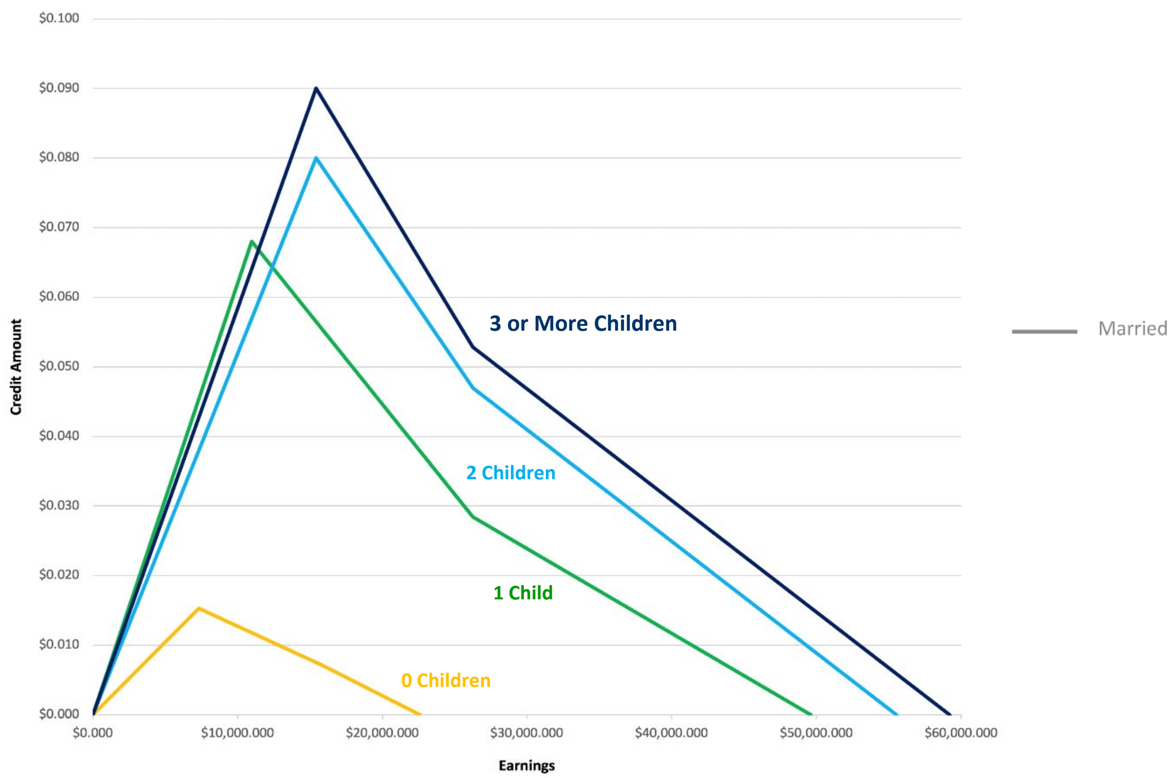
RESULT: We found that the Colorado EITC helps eligible individuals and families increase their financial security by providing a modest additional income benefit. The impact is significantly greater, however, when combined with the federal EITC and for individuals and families with children. Because the credit phases in at lower income levels, plateaus, and then phases out with income earned, the benefit varies by income level. To assess the value of the Colorado EITC, we determined the benefit of the Colorado EITC for every dollar of income that credit claimants earn. EXHIBITS 4 and 5 show the benefit of the Colorado EITC for taxpayers with no children, one child, two children, and three or more children, with EXHIBIT 4 showing the amounts for those who file as single or head of household and EXHIBIT 5 showing the amounts for filers who are married and file jointly:

EXHIBIT 4. ADDITIONAL INCOME PROVIDED BY THE COLORADO EITC FOR EACH $1 OF EARNED INCOME BY TOTAL ANNUAL EARNINGS FOR SINGLE/HEAD OF HOUSEHOLD FILERS IN TAX YEAR 2022



SOURCE: Office of the State Auditor analysis of the operation of the federal EITC.

EXHIBIT 5. ADDITIONAL INCOME PROVIDED BY THE COLORADO EITC FOR EACH $1 OF EARNED INCOME BY TOTAL ANNUAL EARNINGS FOR MARRIED JOINT FILERS IN TAX YEAR 2022



SOURCE: Office of the State Auditor analysis of the operation of the federal EITC.

As shown in EXHIBIT 4 and 5, the Colorado EITC provides a financial benefit up to about $0.09 per dollar of earned income in Tax Year 2022, with the largest benefit going to claimants with children and earned incomes between $15,000 and $25,000. Further, because Colorado EITC recipients also typically claim the larger federal EITC, which can provide a benefit of up to $0.45 for each dollar of earned income, the state and federal credits combined can provide earners with between about $0.09 and $0.54 for every dollar earned in Tax Year 2022.

To assess the impact of the financial benefit of the Colorado EITC at improving families' financial security, we compared the benefit it provides to U.S. Department of Health and Human Services 2022 federal poverty guidelines, which represents the cost of living for Calendar Year 2021, and found that the Colorado EITC made modest improvements to claimants' financial security. For example, a single parent with two children earning $15,000 in AGI, or about 65 percent of the 2022 federal poverty level, would receive a Colorado EITC of about $1,200, which would increase their income to $16,200 or about 70 percent of the federal poverty level. However, the benefit is more significant when combined with the federal EITC, which for this example, would be about $7,200. This would bring the individual's income to about $22,200, or 96 percent of the federal poverty level. Although, most credit claimants have received less than the amount in this example. Specifically, in Tax Year 2018, the most recent year with available data, the average state credit amount was $221. Due to recent legislation that essentially doubles the credit amount, we estimate that these tax filers would be eligible to receive a $442 credit beginning in Tax Year 2022.

Although the federal poverty guidelines are a commonly used measure to gauge households' financial security, they are not based on all of the typical costs that households incur, such as housing costs, childcare, transportation, healthcare, and local and federal taxes, and tend to underestimate the cost of living. Therefore, we also compared the benefit provided by the Colorado EITC to the Self Sufficiency Standard, a method for calculating income benchmarks for meeting basic needs that accounts for area housing costs, childcare, food, transportation, healthcare, miscellaneous expenses, emergency savings, and local and federal taxes. According to a report prepared by the Center for Women's Welfare at the University of Washington for the Colorado Center on Law and Policy, the Self Sufficiency Standard varies widely by location in Colorado. For example, in Calendar Year 2018, the annual wage needed for a family with two adults and two children to be self-sufficient was about $51,000 in Prowers County and about $72,000 in Denver County, with the median wage needed in Colorado at $62,000. Therefore, even the $573 maximum available Colorado EITC amount in Tax Year 2018 for a family earning $15,000 in AGI, with two adults and two children, would have covered only about 1 percent of a family's typical costs based on the Self-Sufficiency Standard. However, when combined with the federal EITC, recipients receiving the maximum federal and Colorado EITC amount available would have been able to cover about 10 percent of their costs in Tax Year 2018. Furthermore, due to the variation in cost-of-living by geographic area, the impact of the state and federal EITCs on financial security also likely varies, with the credits providing a larger relative benefit to families in areas with a lower cost of living, where each additional dollar goes further.

PERFORMANCE MEASURE #3: *To what extent does the Colorado EITC help Colorado's economy?*

RESULT: Overall, we found that the Colorado EITC likely provides a modest benefit to Colorado's economy by increasing earnings, encouraging work, and providing stimulus for local economies. To assess the effectiveness of the credit in supporting Colorado's economy, we reviewed economic research on the national and local economic impact of federal and state-level EITCs. According to an analysis from the Congressional Research Service and research conducted by the National Bureau of Economic Research, the federal EITC encourages individuals to seek and maintain employment, since doing so optimizes the credit amount they are eligible for and increases their income. Similarly, an academic study conducted by David Neumark and Katherine Williams, *Do State Earned Income Tax Credits Increase Participation in the Federal EITC?*, found that state-level EITCs have a positive effect on employment for single individuals with children by raising wages on earned income and, therefore, encouraging entry into the work force.

Furthermore, economic research, such as *Long-Run Effects of the Earned Income Tax Credit* conducted by David Neumark and Peter Shirley, suggests that because the federal EITC encourages individuals to enter the workforce and remain in the workforce, they accumulate skills that translate into increased long-term earnings. For example, they found that a 1-year increase of $1,000 in federal EITC led to 1.4 percent more earnings for single mothers above the age of 18 years old.

While research on the federal- and state-level EITCs is largely in agreement that the EITC increases earnings, some research suggests that EITC recipients do not realize the full EITC dollar amount provided. Specifically, economic research indicates that the EITC may indirectly result in a reduction in industry wages as employers balance labor demand with the increased labor supply within industries that experience more individuals joining the workforce due to the EITC. Some studies have estimated that this effect can effectively decrease the benefit provided by the EITC by about 36 percent, with employers benefiting through lower labor costs.

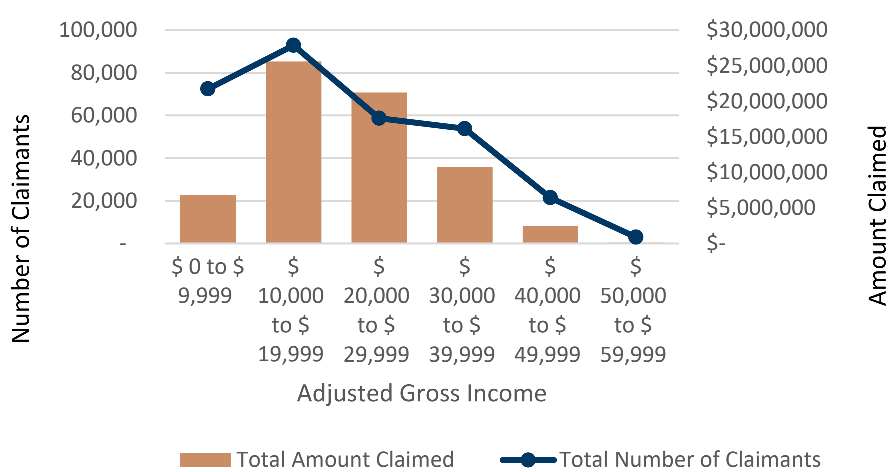
Finally, economic research suggests that increasing income among low- and middle-income earners may result in more income, wealth, and jobs within a local economy due to the local multiplier effect, which occurs when EITC recipients spend additional funds within the local economy. For example, the National Conference of State Legislatures reports that the federal EITC causes about $1.50 to $2 in economic activity for every dollar of the federal EITC claimed. Research published within the *California Journal of Politics & Policy* found that the local economic impact of the federal EITC was roughly one and a half times the amount of federal EITC dollars provided in California. A few studies done at the local municipal level found that federal EITC dollars result in positive economic activity. In contrast, one academic research article published in the Economic Development Quarterly found that some state-level EITCs do not have a significant impact on local economic outcomes of metropolitan areas, likely because the credits are not large enough to realize positive economic gains on their own. State-level EITCs, including Colorado's, do however augment the impact of the federal EITC and likely positively impact local economies.

WHAT ARE THE ECONOMIC COSTS AND BENEFITS OF THE TAX EXPENDITURE?

According to Department data, in Tax Year 2018—the most recent year for which the Department has data—336,197 Colorado residents or part-year residents claimed the Colorado EITC, resulting in about $72 million in forgone revenue for the State. Additionally, as discussed, the American Rescue Plan nearly doubled the federal EITC amount for childless workers in Tax Year 2021, and House Bill 21-1311 doubled the Colorado EITC amount to 20 percent of the federal credit for Tax Year 2022. Therefore, the revenue impact to the State in Tax Year 2021 and beyond will likely be significantly higher than in past years. For example, if Tax Year 2018 claimants had received credits equivalent to 20 percent of the federal EITC, the Colorado EITC would have had a revenue impact of about $144 million, or double what actually occurred.

Overall, we found that the claimants with AGIs between $10,000 and $29,999 received the largest number of credits and the majority of the total credit amounts. EXHIBIT 6 provides the number of claimants and total amount claimed by income.

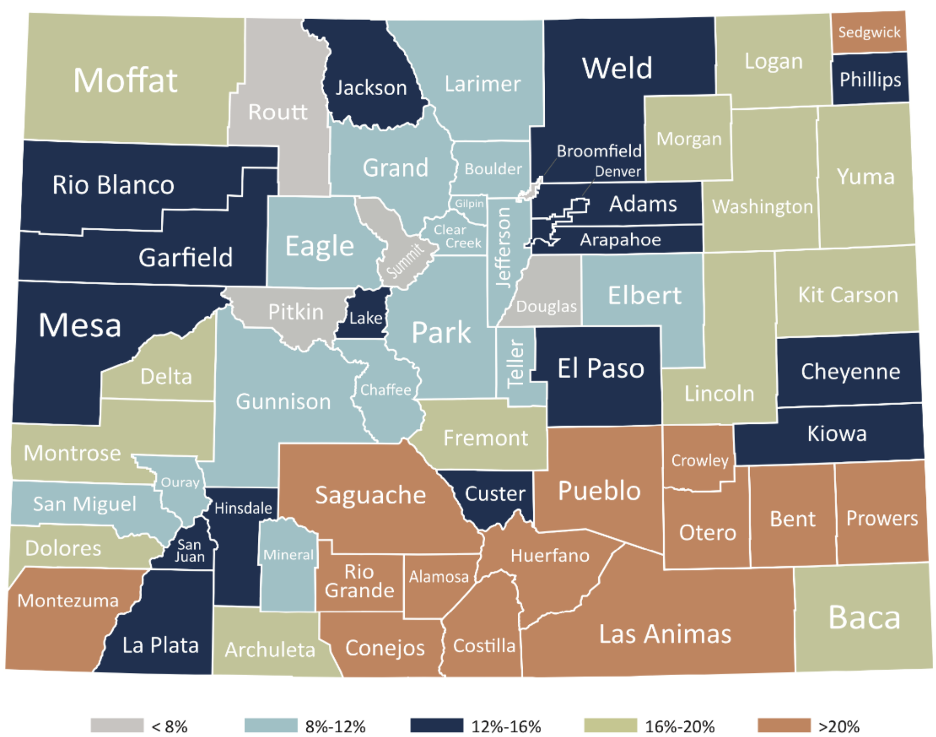
EXHIBIT 6. TOTAL NUMBER OF CLAIMANTS AND AMOUNTS CLAIMED BY INCOME IN TAX YEAR 2018



SOURCE: Office of the State Auditor analysis of Department of Revenue Statistics of Income data from Tax Year 2018.

Additionally, we found that the usage of the Colorado EITC varies significantly across the State's geographic regions, with the highest concentrations of recipients, as a percentage of total population, generally in the southern sections of the state. EXHIBIT 7 shows the percent of total tax returns that claimed the federal EITC by county. As discussed, about 98 percent of federal EITC claimants also claimed the Colorado EITC, so the distribution of Colorado EITC claimants is likely similar to that of the federal EITC.

EXHIBIT 7. THE GREATEST NUMBER OF EITC RECIPIENTS IS CONCENTRATED PRIMARILY WITHIN SOUTHERN COLORADO COUNTIES

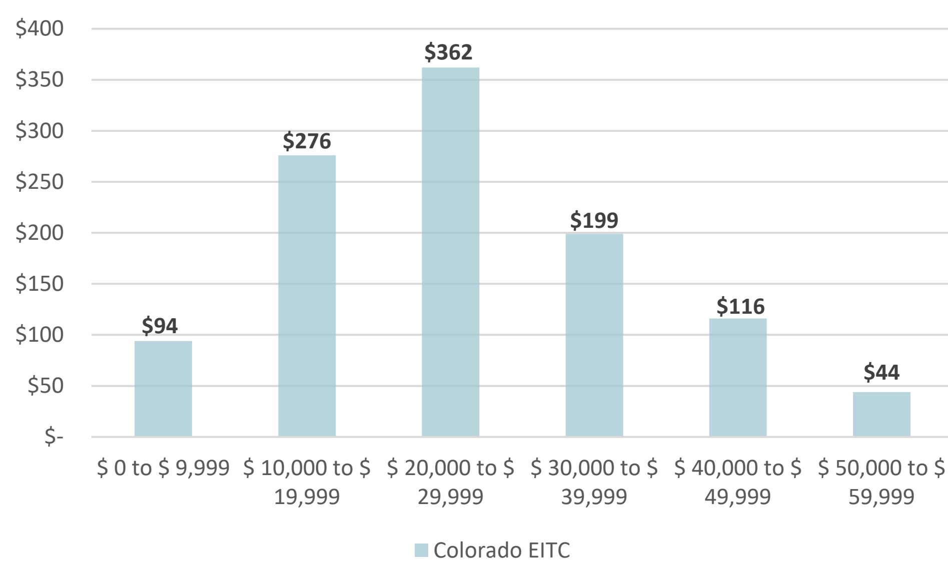


SOURCE: Office of the State Auditor analysis of IRS county-level federal EITC data.

WHAT IMPACT WOULD ELIMINATING THE TAX EXPENDITURE HAVE ON BENEFICIARIES?

If the credit were eliminated and the same number of taxpayers who currently claim it would otherwise have been eligible, it would decrease after-tax income for an estimated 336,197 low- and moderate-income earners, or about 15 percent of all households statewide, based on the number of claimants in Tax Year 2018 and State Demography Office data. Because recipients with adjusted gross incomes between $10,000 and $29,999 tend to receive the largest credits, these individuals would also see the largest impact. Additionally, current recipients with children would see the most significant decrease in income and research suggests that single mothers, specifically minority single mothers, receive the greatest wage supplements from the EITC and would, therefore, be impacted the most if the Colorado EITC were eliminated. However, most current beneficiaries would still be eligible to receive the federal EITC, which as discussed, provides a larger benefit than the Colorado EITC. EXHIBIT 8 shows the average Colorado EITC amount by federal AGI groups for full-year Colorado residents in Tax Year 2018, which would no longer be available if the credit was eliminated. Though, as noted, because of legislation that essentially doubled the credit amount, benefits in Tax Year 2022 will likely be significantly larger than the amounts in EXHIBIT 8, so the impact on beneficiaries would be larger as well.

EXHIBIT 8. AVERAGE CREDIT
BY INCOME IN TAX YEAR 2019

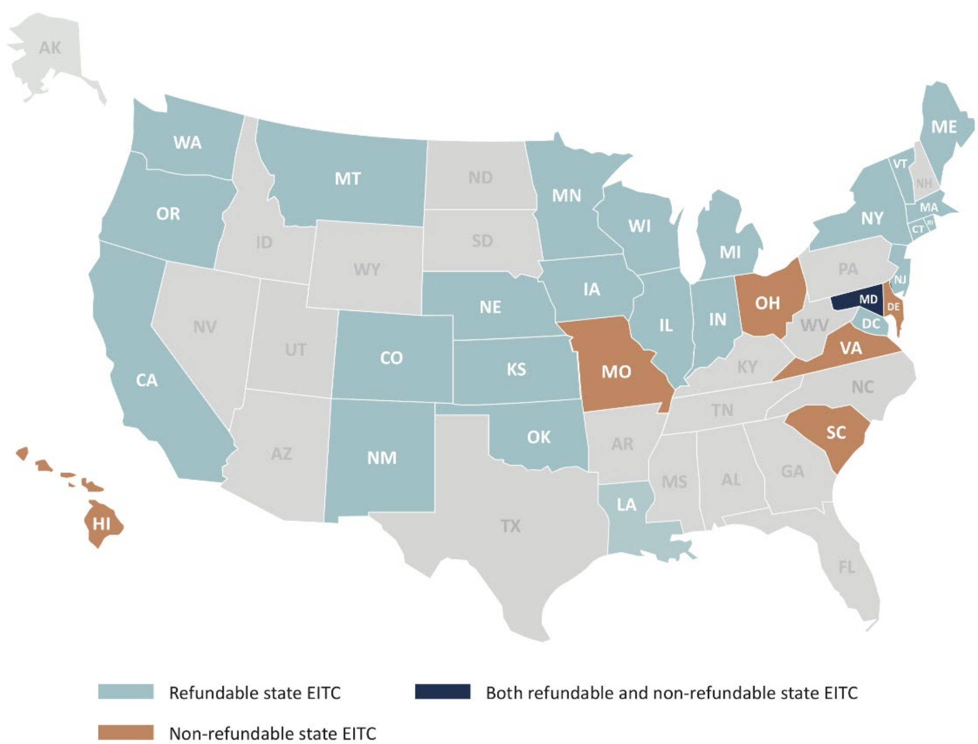


SOURCE: Office of the State Auditor analysis of Department of Revenue Statistics of Income data from Tax Year 2018.

ARE THERE SIMILAR TAX EXPENDITURES IN OTHER STATES?

Of the 41 states (not including Colorado) that levy an individual income tax, including the District of Columbia, we identified 24 that provide a refundable EITC similar to Colorado's, and seven states that provide a non-refundable EITC. Furthermore, in most states, including Colorado, only parents with custody of their children can claim the credit, although one state, New York, and the District of Columbia, provide credits for noncustodial parents. EXHIBIT 9 shows the states with EITCs.

EXHIBIT 9. EITC POLICIES BY STATE



SOURCE: NCSL, StateNet bill tracking current as of January 2022. Internal Revenue Service, States and Local Governments with Earned Income Tax Credit (Washington, D.C.: IRS, January 2021).
*While Washington does not levy a state income tax, it provides a fully refundable flat state EITC amount based on income level and household size for taxpayers that qualify for the federal EITC or file using ITINs.

As in Colorado, state EITC credit amounts are typically calculated as percentages of the federal credit, ranging from 3 percent in Montana to 83 percent in South Carolina; South Carolina is increasing its credit amount to 125 percent of the federal credit by 2023.

ARE THERE OTHER TAX EXPENDITURES OR PROGRAMS WITH A SIMILAR PURPOSE AVAILABLE IN THE STATE?

As discussed, taxpayers benefitting from the Colorado EITC also benefit from the federal EITC, which provides a larger benefit for federal tax purposes. Additionally, we identified the following tax expenditures and programs in Colorado that are similar to the EITC because they are intended to support the financial security of low- and middle-income families:

- COLORADO WORKS/TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)—This program provides qualifying families with cash assistance and work support. In order to qualify, families must have at least one dependent child and meet certain income guidelines. Cash assistance amounts depend on the number of caretakers and children. For example, households with one caretaker and one child can receive up to $400 in cash assistance per month. In addition to cash assistance, the program connects clients to education and job opportunity resources, and helps clients identify strategies to increase household income and economic stability. Colorado spent about $452 million in federal and state funds under the TANF program in Fiscal Year 2020, of which 18 percent was spent on basic assistance, such as cash assistance to TANF families.

- SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)—SNAP provides a monthly benefit to help low-income households purchase food. SNAP is part of a federal nutrition program, but counties are responsible for determining eligibility and authorizing SNAP benefits. In Calendar Year 2020, there were about 255,000 Colorado household SNAP recipients that received an average monthly benefit of $343. Families receive SNAP benefits depending on their household size and total income.

- COLORADO SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMAN, INFANTS, AND CHILDREN (COWIC)—COWIC improves the health of and reduces healthcare costs for families by providing nutrition education, breastfeeding support, healthy food, and other services free of charge. To be eligible, participants must be Colorado residents who are pregnant women, mothers breastfeeding a baby under 1 year old, new moms who had a baby or were pregnant within the last 6 months, or children under the age of 5. Nearly 130,000 clients received COWIC benefits in Federal Fiscal Year 2021.

- CHILD CARE EXPENSE CREDIT AND LOW-INCOME CHILD CARE EXPENSE CREDIT [SECTION 39-22-119 AND 119.5, C.R.S.]—Statute states that the purpose of these credits is to "make child care more affordable for working families." The Child Care Expense Credit allows taxpayers with an adjusted gross income of $60,000 or less, who are claiming the federal Child and Dependent Care Tax Credit, to claim up to 50 percent of their federal credit amount on their state income tax return, up to $525 for a single child or $1,050 for two or more children. The Low-Income Child Care Expense Credit allows taxpayers that have an adjusted gross income of $25,000 or less, but do not have a sufficient tax liability to claim the federal Child and Dependent Care Tax Credit, to claim up to 25 percent of their annual child care expenses, up to $500 for a single child or $1,000 for two or more children. For both credits, taxpayers may receive the amount of the credit as a refund if it exceeds their state income tax liability.

- CHILD TAX CREDIT [SECTION 39-22-129, C.R.S.]—Allows for a refundable state tax credit for taxpayers with children under 6 years of age. The state credit is calculated from the amount of the federal child tax credit, and ranges from 5 to 30 percent of the federal credit amount, based on the taxpayer's adjusted gross income. Because the state credit, initially established in 2013, was contingent on the passage of separate federal legislation that was not enacted, the credit was not available in recent years. However, in 2021, the

General Assembly passed House Bill 21-1311, which beginning January 1, 2022, will allow taxpayers to claim the credit.

- ECONOMIC MOBILITY INITIATIVE—Established in Calendar Year 2022, this initiative seeks to increase enrollment in the Child Tax Credit, EITC, and the Child and Dependent Care Tax Credit through a cooperative effort between the Colorado Department of Public Health and the Environment (CDPHE), Serve Colorado, and AmeriCorps, which is a federal agency for community service and volunteerism that connects volunteers with nonprofit organizations around the country. Specifically, the program aims to increase these credits' up-take by providing tax filing and tax credit navigation assistance and increasing awareness of volunteer income tax assistance sites to help low- and middle-income families file their taxes and claim the credits, if eligible.

WHAT DATA CONSTRAINTS IMPACTED OUR ABILITY TO EVALUATE THE TAX EXPENDITURE?

We did not encounter any data constraints that impacted our ability to conduct the evaluation.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

THE GENERAL ASSEMBLY MAY WANT TO CONSIDER AMENDING STATUTE TO ESTABLISH PERFORMANCE MEASURES FOR THE COLORADO EITC. Statute states that the purpose of the credit is to "help individuals and families achieve greater financial security and to help Colorado's economy." However, statute does not provide performance measures for evaluating the effectiveness of the credit. Therefore, based on legislative audio from Senate Bill 13-001, which made the credit permanent, we developed performance measures to assess the extent to which the credit is meeting its purpose. However, the General Assembly may want to clarify its intent for the credit by providing performance measure(s) in statute. This would eliminate potential uncertainty regarding the credit's purpose and allow our office to more definitively assess the extent to which it is accomplishing its intended goal(s).