



CFI Factsheet: The State Child Tax Credit Means a Brighter Future for Colorado Families

The Child Tax Credit (CTC) is the largest federal tax code provision benefiting working families with children. It is critical in the fight to end childhood poverty and in building a road toward the economy we want in the future. Due to a flaw in Colorado's state Child Tax Credit, nearly 200,000 Colorado families do not have access to the state credit. Legislators must address this flaw in Colorado's CTC because working families need help now.

Colorado and the Federal Child Tax Credit

In 2013, Colorado passed a state CTC via Senate Bill 13-001 that provides a refundable tax credit between 5 percent and 30 percent of the federal credit to working families with children age 5 and under (Table 1). The credit is targeted to families with young children because that is the time that child care and other expenses are at their highest, and small investments have the greatest return (Table 1). However, the Colorado CTC does not go into effect unless Congress passes the Marketplace Fairness Act, or other similar legislation. Congress has failed to pass the Marketplace Fairness Act, and families have gone without this vital support.

Table 1 State Child Tax Credit Refund Tiers Based on SB13-001

Household Income	Filing Type	Refund
Below \$25,001	Single	30% of federal credit claimed
\$25,001-\$50,000	Single	15% of federal credit claimed
\$50,001-\$75,000	Single	5% of federal credit claimed
Below \$35,001	Joint	30% of federal credit claimed
\$35,001-\$60,000	Joint	15% of federal credit claimed
\$60,001-\$85,000	Joint	5% of federal credit claimed

Families do have access to a tax credit at the federal level of \$1,000 per qualifying child age 16 or under. The credit is phased out for families with an adjusted gross income that is more than \$75,000 for a single filer or \$110,000 for joint filers. An additional child tax credit is available for taxpayers who get less than the full amount of the child tax credit. The additional credit allows a portion of the federal Child Tax Credit to be refundable for the poorest families.

Many Colorado families make use of the federal tax credit and would benefit from the state credit. In 2013, 28.3 percent of filers in Colorado claimed the federal Child Tax Credit and the additional child tax credit. Legislative Council estimates that if Colorado's state child tax credit were in effect, 181,875 individuals would have benefited in 2014, with a revenue impact of \$22.3 million (Table 2).

Table 2 Estimated Returns and Revenue Impact of the Colorado Child Tax Credit

	2014	2015	2016	2017
Number of Returns	181,875	184,785	187,742	190,746
Revenue Impact	\$22,343,790	\$22,701,291	\$23,064,512	\$23,433,544

Why Support a State Child Tax Credit?

A recent study from the Colorado Fiscal Institute found that 26.2 percent of workers in Colorado work in jobs that are classified as low-wage.¹ This means that more than one-fourth of the workers in Colorado make less than \$12 an hour and often live in poverty. Earning such low wages presents many challenges, especially for families with young children. When combined with the Earned Income Tax Credit, a state Child Tax Credit puts millions back into local economies and provides better outcomes for children in low- and moderate-income families.

Studies find that increasing the budget of a family living in poverty can have long-lasting and far-reaching educational and economic benefits. A study from Stanford University found that, when all other factors are held constant, there is a strong relationship between early childhood poverty and long-term outcomes. Compared with children from wealthier families, poor children completed two fewer years of schooling, earned less money, worked 451 fewer hours per year, received \$826 per year more in food stamps and were three times more likely to report poor overall health. In addition, men who lived in poverty at a young age were two times more likely to be arrested and women were five times more likely to have unplanned pregnancies prior to age 21.²

Researchers from Columbia University also found that there is a strong relationship between family income and the size of a child's brain and cognitive ability. Neuroscientists found that as a family's income declines, so do test scores and brain functions associated with language, decision-making skills, reading and memory.³

These studies find that directly increasing the size of a family's budget, through credits like the CTC, improves immediate and lifelong outcomes for the children in these families. Increasing a poor family's household income by \$3,000 a year is associated with a 17 percent increase in adult earnings and 135 additional work hours per year after 25. In addition, children in these households are healthier and experience greater achievement in the classroom due to improved motor development and cognitive skills.

A refundable state Child Tax Credit is an investment in our families and children that encourages and rewards work, provides better educational and economic outcomes over a lifetime and offsets negative trends in wages.

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¹ Stiffler, C. (2015). Low-Wage Jobs in Colorado are Growing and Putting More Pressure on Taxpayers. Colorado Fiscal Institute

² Duncan, G., & Magnuson, K. (2011). The Long Reach of Early Childhood Poverty. Pathways, (Winter 2011)

³ Noble, K. et. al (2015). Family income, parental education, and brain structure in children and adolescents. Nature Neuroscience, 18(5)