



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Demographic Note

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|-------------------------|----------------------------------|-----------------|---|
| Drafting Number: | LLS 23-0125 | Date: | May 1, 2023 |
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BILL TOPIC: EARNED INCOME AND CHILD TAX CREDITS

| | | |
|-------------------------------|---|--|
| Demographics Analyzed: | <ul style="list-style-type: none">• Socioeconomic Status• Race/Ethnicity | <ul style="list-style-type: none">• Sex• Disability |
|-------------------------------|---|--|

| | | | |
|--------------------------|--|------------------------------------|--|
| Direct Impact(s): | <input checked="" type="checkbox"/> Economic | <input type="checkbox"/> Health | <input type="checkbox"/> Public Safety |
| | <input type="checkbox"/> Employment | <input type="checkbox"/> Education | |

Bill Impact: The bill expands the state earned income tax credit and child tax credit, thereby increasing after-tax income for certain lower-income households. In doing so, the bill decreases existing disparities in economic outcomes, including disparities by socioeconomic status, race, ethnicity, sex, and disability status, for those who qualify for and claim the expanded tax credits.

Report Status: The demographic note reflects the reengrossed bill.

Demographic Impact Summary

This demographic note¹ analyzes potential impacts of HB 23-1112 on disparities in economic outcomes based on available data, including by socioeconomic status as measured by income, race, ethnicity, sex, and disability status.² The bill expands the state Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), thereby increasing after-tax income for lower-income households claiming these tax credits. These changes will reduce economic disparities by socioeconomic status, race, ethnicity, sex, and disability, for those who qualify for and claim the expanded tax credits.

Demographic characteristics of Colorado households by income suggest that lower-income black/African American, Hispanic, and other/multiracial individuals, women, and those living with a disability are more likely to experience after-tax income increases as a result of the bill.

¹Pursuant to Section 2-2-322.5, C.R.S., this demographic note uses available data to outline the potential impacts of proposed legislation on disparities within the state. Disparities are defined by statute as the difference in economic, employment, health, education, or public safety outcomes between the state population as a whole and subgroups of the population, as defined by socioeconomic status, race, ethnicity, sex, gender identity, sexual orientation, disability, geography, or any other relevant characteristic for which data are available. It is beyond the scope of this analysis to examine each of the varied causes contributing to a given disparity. For further information on the contents of demographic notes, see "Demographic Notes Overview" Memorandum available at https://leg.colorado.gov/sites/default/files/images/committees/demographic_note_overview_memo.pdf.

² Terminology used to distinguish demographic groups (e.g., black/African American, Hispanic or Latina/Latino) is based on the terminology used in the data sources referenced. These terms may differ from the self-identification of these populations.

Key Provisions and Demographic Comparisons

For tax year 2024, the bill expands the state EITC and the state CTC. The following analysis presents the demographic considerations raised by the bill and, where data are available, compares the populations affected by the bill to the statewide population across different demographic groups. Pursuant to statute and based on available data on demographic differences between affected and statewide comparison populations, this analysis identifies potential effects of the bill on existing disparities.

Colorado Tax Credits and Tax Savings by Federal Adjusted Gross Income

Earned income tax credit. Colorado taxpayers who claim the federal EITC or who would otherwise be able to claim the federal EITC but are ineligible because they, their spouse, or one or more of their dependents do not have a social security number may claim the Colorado EITC. The state EITC is a refundable credit calculated as a percentage of the federal credit. The federal EITC is available to taxpayers below a certain income level ranging from \$16,500 for a single filer with no children, to a maximum of almost \$60,000 for married filers with three or more children. As shown in Table 1 on the following page, over 98 percent of claimants of the state EITC have adjusted gross income (AGI) of \$50,000 or below, with the average EITC credit under the current law percentage of 25 percent for tax year 2024 estimated at \$521. Under HB 23-1112, the estimated average tax credit for all eligible claimants is \$834, with average credit amounts ranging from \$42 to \$1,757, depending on income level and filing status.

Child tax credit. The bill expands the state refundable child tax that became available to taxpayers beginning in tax year 2022. The credit is available for single income tax filers with less than \$75,000, and for joint filers with less than \$85,000 in federal AGI, provided they claimed either the federal child tax credit or the additional child tax credit, regardless of the federal requirement that a qualifying child must have a social security number. Credit amounts are adjusted for income levels, with those in lower income groups eligible to claim a higher percentage of the federal credit, ranging between 10 and 60 percent. The bill increases the percentages of the federal credit so that they range between 20 and 70 percent. As shown in Table 2 on the following page, the average child tax credit for tax year 2024 under current law is estimated at \$638. Under HB 23-1112, the estimated average tax credit for all eligible claimants is estimated to be \$840, with average credit amounts ranging from \$441 to \$1,163, depending on income level and filing status.

Table 1
State EITC Tax Credits by Federal AGI, Tax Year 2020

| Single Filers | Population | Share of Claimants | Average Credit under Current Law | Average Credit Under HB 23-1112 | Average Taxpayer Savings |
|----------------------|----------------|--------------------|----------------------------------|---------------------------------|--------------------------|
| Negative Income | 2,595 | 0.8% | \$213 | \$340 | \$128 |
| \$0 to \$9,999 | 72,770 | 23.4% | \$243 | \$388 | \$146 |
| \$10,000 to \$19,999 | 73,142 | 23.5% | \$568 | \$909 | \$341 |
| \$20,000 to \$29,999 | 42,291 | 13.6% | \$875 | \$1,400 | \$525 |
| \$30,000 to \$39,999 | 40,875 | 13.1% | \$459 | \$734 | \$275 |
| \$40,000 to \$49,999 | 12,567 | 4.0% | \$199 | \$318 | \$119 |
| \$50,000 to \$59,999 | 184 | 0.1% | \$26 | \$42 | \$16 |
| Joint Filers | | | | | |
| Negative Income | 1,218 | 0.4% | \$579 | \$927 | \$348 |
| \$0 to \$9,999 | 6,664 | 2.1% | \$411 | \$658 | \$247 |
| \$10,000 to \$19,999 | 11,573 | 3.7% | \$714 | \$1,143 | \$429 |
| \$20,000 to \$29,999 | 12,183 | 3.9% | \$1,098 | \$1,757 | \$659 |
| \$30,000 to \$39,999 | 15,068 | 4.8% | \$817 | \$1,308 | \$490 |
| \$40,000 to \$49,999 | 15,009 | 4.8% | \$407 | \$651 | \$244 |
| \$50,000 to \$59,999 | 4,900 | 1.6% | \$142 | \$227 | \$85 |
| TOTAL | 311,039 | 100.0% | \$521 | \$834 | \$313 |

Source: Department of Revenue, and LCS calculations.

Table 2
Estimated State Child Tax Credits by Federal AGI, 2020*

| Single Filers | Population | Share of Claimants | Estimated Average Credit under Current Law | Estimated Average Credit Under HB 23-1112 | Estimated Average Taxpayer Savings |
|----------------------|----------------|--------------------|--|---|------------------------------------|
| \$25,000 or less | 37,442 | 25.2% | \$752 | \$878 | \$125 |
| \$25,001 - \$50,000 | 32,822 | 22.1% | \$637 | \$849 | \$212 |
| \$50,000 to \$74,999 | 10,239 | 6.9% | \$221 | \$441 | \$221 |
| Joint Filers | | | | | |
| \$35,000 or less | 17,603 | 11.9% | \$997 | \$1,163 | \$166 |
| \$35,001 - \$60,000 | 24,705 | 16.6% | \$774 | \$1,032 | \$258 |
| \$60,001 - \$85,000 | 25,652 | 17.3% | \$264 | \$528 | \$264 |
| TOTAL | 148,463 | 100.0% | \$638 | \$840 | \$202 |

Source: Colorado Department of Revenue and LCS calculations.

* Estimates for credits claimed under the bill are based on 2019 Colorado statistics of income combined with data on federal child tax credits claimed.

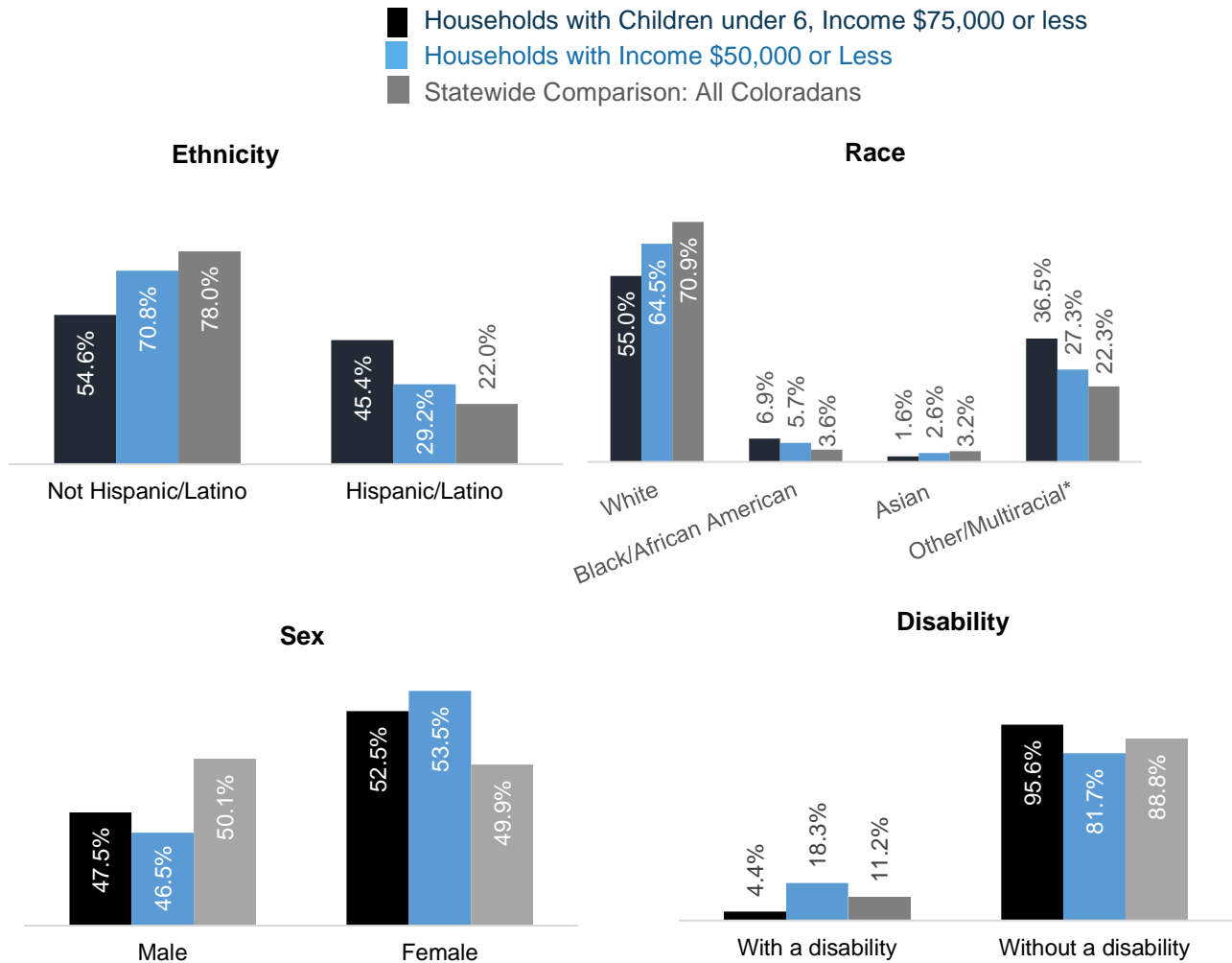
Demographics of Colorado Households by Income

Income is often correlated with other demographic characteristics, as shown in Figure 1, which compares the racial and ethnic composition of affected populations, including:

- households with children under six and incomes of \$75,000 or less (those eligible for the CTC);
- households with income of \$50,000 or less (those eligible for the EITC); and
- the statewide population as a whole (comparison population).

Those with children under 6 and incomes of under \$75,000 constitute about 8 percent of the statewide population while those with incomes of \$50,000 or less constitute about 24 percent of the statewide population. Median household income in Colorado in 2021 was approximately \$80,000. The data suggest that Coloradans living in lower income households with and without children under six are more likely to be women, Hispanic and black/African American, multiracial, or of another race than the statewide population as a whole. Lower-income Coloradans without children under six are also more likely to be living with a disability than the statewide population as a whole, while lower-income households with children under six are less likely to be living with a disability. For example, 3.6 percent and 22.0 percent of the statewide population identifies as black/African American or Hispanic, respectively, while 6.9 percent and 45.4 percent of those with children under 6 and incomes of \$75,000 or less identify as black/African American or Hispanic, respectively. For more detailed information on the data used, see Appendix A.

Figure 1
Population Comparisons
Share of Total Population



Source: U.S. Census Bureau, American Community Survey 1-Year Estimates, 2021.

* Other races include American Indian, Alaska Native, Native Hawaiian, other Pacific Islander, or some other race alone.

Analysis and Findings

The bill is expected to increase after-tax income for many low-income households who claim the expanded state EITC and CTC. Based on a comparison between the statewide population and those expected to be eligible to claim these credits, this analysis suggests that the tax credits expanded by the bill will reduce economic disparities by socioeconomic status, race, ethnicity, sex, as well as by disability in the case of the EITC. Demographic characteristics of Colorado households by income suggest that individuals living in lower-income households affected by the bill are more likely than the statewide population to be black or African American, multiracial or of another race, Hispanic, women, and living with a disability. The bill’s impacts on disparities is limited to populations filing tax returns, which excludes many of the lowest income taxpayers.

Impact of the bill on TABOR refunds and taxpayer savings. Under current law and the March 2023 Legislative Council Staff forecast, the bill is expected to reduce the amount of TABOR refunds to taxpayers in FY 2023-24 and FY 2024-25. TABOR refunds are distributed to taxpayers based on refund mechanisms set in state statute. Based on the fiscal note, the bill is expected to reduce the amount refunded via the six-tier sales tax refund mechanism in tax year 2024 by between \$28 for single filers with AGI up to \$52,000 to \$180 for joint filers with AGI of \$289,001 and above. Relative to the six-tier refund mechanism under current law, the expanded EITC and CTC are expected to result in higher taxpayer savings for those with lower incomes and who qualify for one or both of the credits. For example, a joint filing taxpayer with AGI of \$40,000 who qualifies for the EITC and the CTC will have an estimated reduction of \$56 in TABOR refunds, but an estimated increase of \$244 in the EITC and an increase of \$258 in the CTC under HB 23-1112, for a net tax savings of \$446. Low income taxpayers without earned income who do not qualify for either the EITC or the CTC will experience either no change or a reduction in tax savings under the bill.

Disparities in context. While HB 23-1211 reduces income disparities for many low-income households, it is unlikely to influence other factors that contribute to income or other disparities. It is important to note that economic disparities such as those discussed here have multiple and interacting causes, including not only individual behavior and choices, but also historical and structural factors that can shape or constrain individual choices and distribute economic and other opportunities unevenly to individuals on the basis of their membership in particular demographic groups.

Budgetary tradeoffs. For future years in which the state does not collect revenue above the TABOR limit, the bill will reduce money available for the state budget. To the extent that this results in a reduction in state services, some demographics may be disproportionately impacted.

Demographics Not Analyzed

Some demographic groups have not been included in the analysis due to data limitations. Data on the relevant populations delineated by gender identity, sexual orientation, and geography were not available at the time of the analysis. Should data become available, this analysis may be updated.

Data Sources and Agencies Contacted

Revenue

**Appendix A
Colorado Population by Income and Ethnicity, 2021**

| Ethnicity | <i>Children under 6, Income \$75,000 or Less</i> | | <i>Income \$50,000 or Less</i> | | <i>Statewide</i> | |
|---------------------|--|----------------|--------------------------------|----------------|------------------|----------------|
| | Population | Share of Total | Population | Share of Total | Population | Share of Total |
| Not Hispanic/Latino | 234,937 | 54.6% | 944,758 | 70.8% | 4,358,344 | 78.0% |
| Hispanic/Latino | 195,284 | 45.4% | 390,111 | 29.2% | 1,232,424 | 22.0% |
| TOTAL | 430,221 | 100.0% | 1,334,869 | 100.0% | 5,590,768 | 100.0% |

Source: U.S. Census Bureau, American Community Survey 1-Year Estimates, 2021

Colorado Population by Income and Race, 2021

| Race | <i>Children under 6, Income \$75,000 or Less</i> | | <i>Income \$50,000 or Less</i> | | <i>Statewide</i> | |
|------------------------|--|----------------|--------------------------------|----------------|------------------|----------------|
| | Population | Share of Total | Population | Share of Total | Population | Share of Total |
| White | 236,457 | 55.0% | 860,460 | 64.5% | 3,964,782 | 70.9% |
| Black/African American | 29,767 | 6.9% | 75,630 | 5.7% | 201,201 | 3.6% |
| Asian | 7,095 | 1.6% | 34,862 | 2.6% | 178,106 | 3.2% |
| Other/Multiracial* | 156,902 | 36.5% | 363,917 | 27.3% | 1,246,679 | 22.3% |
| TOTAL | 430,221 | 100.0% | 1,334,869 | 100.0% | 5,590,768 | 100.0% |

* Other races include American Indian, Alaska Native, Native Hawaiian, other Pacific Islander, or some other race alone

Source: U.S. Census Bureau, American Community Survey 1-Year Estimates, 2021

Colorado Population by Sex, 2021

| Sex | <i>Children under 6, Income \$75,000 or Less</i> | | <i>Income \$50,000 or Less</i> | | <i>Statewide</i> | |
|--------------|--|----------------|--------------------------------|----------------|------------------|----------------|
| | Population | Share of Total | Population | Share of Total | Population | Share of Total |
| Male | 204,490 | 47.5% | 621,199 | 46.5% | 2,803,221 | 50.1% |
| Female | 225,731 | 52.5% | 713,670 | 53.5% | 2,787,547 | 49.9% |
| TOTAL | 430,221 | 100.0% | 1,334,869 | 100.0% | 5,590,768 | 100.0% |

Source: U.S. Census Bureau, American Community Survey 1-Year Estimates, 2021

Colorado Population by Disability Status, 2021

| Disability Status | <i>Children under 6, Income \$75,000 or Less</i> | | <i>Income \$50,000 or Less</i> | | <i>Statewide</i> | |
|--------------------------|--|----------------|--------------------------------|----------------|------------------|----------------|
| | Population | Share of Total | Population | Share of Total | Population | Share of Total |
| With a disability | 19,040 | 4.4% | 244,411 | 18.3% | 627,796 | 11.2% |
| Without a disability | 411,181 | 95.6% | 1,090,458 | 81.7% | 4,962,972 | 88.8% |
| TOTAL | 430,221 | 100.0% | 1,334,869 | 100.0% | 5,590,768 | 100.0% |

Source: U.S. Census Bureau, American Community Survey 1-Year Estimates, 2021