HB19-1164: An Economic Analysis

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In 2013, the Colorado Congress passed the “Colorado Working Families Economic Opportunity Act”. Under this act, taxpayers with children under 6 would receive a state tax credit that is a percentage of the federal Child Tax Credit (CTC). There are three tiers of incomes that are eligible for the credit. As families enter a higher tier of income, they would be eligible for a smaller credit.

The lowest tier of income is under $35,000 of federal adjusted gross income. Families in this tier would be eligible to receive a state credit equal to 30% of the federal CTC. The middle tier is for families between $35,001 and $60,000, who would be eligible for a credit equal to 15% of the federal CTC. The highest tier is for families between $60,001 and $75,000, who would be eligible for a credit equal to 5% of the federal CTC. Joint filers who have above $75,000 in income would not be eligible to claim this credit.

This tax credit never went into effect because it was conditional on the federal government passing the “Marketplace Fairness Act” or a similar law. Upon passage of HB19-1164,The Working Families Tax Credit Act, the CTC as described above would be enacted. The aim of this paper is to provide an economic analysis of the Child Tax Credit proposed under HB19-1164 to ensure that our laws best serve the citizens of Colorado.

The federal Child Tax Credit is a tax policy originally introduced in 1997. Since then, it has evolved and currently offers up to $2,000 dollars in credits to taxpayers in America who earn over $2,500 a year.

The government should intervene to ensure efficient use of a public good, to encourage a positive externality (or discourage a negative externality), to make a market more efficient when there is a market failure, or to redistribute to those in need. The Working Families Tax Credit Act addresses issues that fall under two of these categories. Firstly, by alleviating poverty, it decreases the negative externalities created by poverty. Having impoverished families and neighborhoods can potentially create a negative externality.

Living in neighborhoods with people in poverty has negative social impacts. Firstly, there is an increased exposure to crime and violence (Galster et al, 2019). Galster et al (2019) found through their research that if neighborhoods where more than 20% of residents live under the poverty line reduced their poverty level to 20% between 1990 and 2000, property values would increase by 13%, holding all else constant. The first justification for voting in favor of HB19-1164 is that it would alleviate the negative externalities experienced by children born into poverty and society as a whole.

In 2014, 16.8% of children under the age of 5 in Colorado lived in homes below the poverty line (Colorado's Children, 2017). The biggest externality of growing up in poverty on the children is their reduced human capital. Children born into poverty are likely to have poor child development outcomes which affect the rest of their lives (Naudeau, 2011). Poor development has both short and long term effects. In the short term, it affects the child's readiness and performance in school. Later it reduces their employability, productivity, and well being (Feinstein 2003; Currie and Thomas 1999; Pianta and McCoy 1997). These are externalities because they arise from inadequate

parental incomes rather than through any choices that the children themselves may have made. This cost is incurred as a loss of human productivity due to poverty and increased costs due to crime and health costs (Fessler, 2019). The costs of not addressing poverty are afflicted on society, another externality.

Recently, the National Academies for Sciences, Engineering, and Medicine released policy recommendations to alleviate childhood policy. They estimated that the nation has the ability to cut childhood poverty in half by expanding the CTC and the Earned Income Credit, amongst other things. Although this would be costly for the nation, the cost of not addressing childhood poverty in a more aggressive manner is about 10 times the cost of alleviating it through these policies (Fessler, 2019).

There is also an argument that the Child Tax Credit is justifiable through redistribution terms. A child born into poverty is disadvantaged in the opportunities they will have in the future, as shown above through the externality argument. Additionally, a child born into a relatively poor family neither chose to live in these conditions nor caused them, so they should have access to redistributive benefits. The government should help children born into households in poverty or near poverty have the same opportunity as those born into families who are better off financially.

The way that race intersects with the likelihood of a child being in poverty is also alarming and calls for redistribution by the government. Almost 75% of white children will never experience poverty in their lifetime, while fewer than one-third of African-American children are never poor (Wagmiller, 2009). Additionally, when compared, African American children who grow up in poverty are more likely than their

white peers to stay in poverty in adulthood (Wagmiller, 2009). The government should intervene to remedy the structural barriers to minorities of getting out of poverty in order to provide equal opportunities to citizens.

There are many proposals for helping children born into poverty. However, one reason the CTC and other Earned Income Tax Credits are effective in mediating some of the impacts of being born into poverty is due to the parental investment model. According to this tested theory, the amount that parents invest in their children, both emotionally and financially, is dependent on the parent's income (Gershoff et al, 2007).

We can consider a family composed of two parents and two children to see the impact HB19-1164 could have. The poverty line for this type of family nationally is $24,858 (Lee, 2018). Suppose the family is filing their taxes in Colorado after the passage of this bill and has an income of $21,000. With a standard deduction of $24,400 in 2019 and a $4,000 credit from the federal CTC, the family would not pay any federal taxes and would be eligible to receive up to $2,800 in refunds via the federal CTC (IRS, 2018). Under HB19-1164, they would also receive a refund of $1,200 (30% of the federal amount) from the state, bringing their yearly income to 25,000, above the federal poverty line.

According to the fiscal note from, in 2015, it was estimated that 171,466 single and joint income tax filers would be eligible for Colorado’s proposed CTC at some level. Using numbers from the fiscal note, around 61% of the money allocated under HB19-1164 would be to single or joint filers in the lowest tier of income, who are most in need of redistributive measures from the government.

It is justifiable to have money going to those further away from the poverty line because the livable wage in Colorado is much higher than the national poverty line of $23,848. According to the Colorado Center on Law and Policy, a family with two parents and two kids would require between $48,621 and $78,254 to live sufficiently across, depending on the county (Pearce, 2015). Because of this, perhaps HB19-1164 should reconsider the maximum income based on what is livable in the state and who needs the aid from the government the most.

The cost of doing nothing to remedy poverty is high, both in lost opportunities and socially. HB19-1164 would benefit needy families with a a tax credit to help break the cycle of poverty. Therefore, HB19-1164 should be passed to encourage a more efficient future for Colorado.

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