



Proposal: EITC/CTC Employer Notification

Legislative Fact Sheet
November 10, 2022

Summary of Proposal:

The federal and state Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and Child and Dependent Care Tax Credit (CDCTC) offer low- and middle-income households thousands of dollars in income support each year but often go unclaimed (detailed below). These credits have been shown to encourage work, improve family health and education outcomes, improve child birth weight and nutrition, reduce recidivism, and are income supplements that boost workers' overall take-home earnings, which is in the interest of employers.

The Governor's Office and the Department are proposing legislation to require employers to notify employees of their potential eligibility for the credits, which would bolster our current tax credit outreach and tax filing assistance project, run by CDPHE's economic mobility team. By implementing such notification requirement in statute, Colorado would be following the lead of Texas, New Jersey, and eight other states.

In Tax Year 2019 (returns filed in 2020) - the most recent year for which there is data - about \$270M in federal EITC credits went unclaimed by Colorado residents, and it's likely that at least \$515M in federal CTC credits went unclaimed. Amounts are likely higher today and don't include unclaimed state EITC credits.

TAX CREDIT:	HOW TO QUALIFY:	POTENTIAL RETURN ¹ :
Federal & State EITC ²	Income thresholds and potential returns vary by household size, but married households with three or more children may be eligible up to \$59k in income, with other-sized households eligible up to lower levels of income	Up to \$8,322
Federal CTC ³	Individual must have children under 17 years old	Up to \$2,000/child
State CTC	Individual must have income below \$75k; children under 6 years old	Up to \$1,200/child
Federal CDCTC ⁴	Individual must be working or looking for work + children under 13	Up to \$1,200 total
State CCETC (regular)	Individual must claim federal CDCTC, be working or looking for work, and have children under 13; Individual must have income below \$60k	Up to \$600 total
State CCETC (low-income)	Individual must have income below \$25k, be unable to claim federal CDCTC (because they have no federal income tax liability), be working or looking for work, and have children under 13	Up to \$1,000 total

1 Based on the most recent year of federal tax data; for more information: https://tax.colorado.gov/sites/tax/files/documents/ITT_Child_Care_Credits_May_2021.pdf

2 Colorado is tied for the fourth-lowest EITC claims rate in the US.

3 The Department of Treasury estimated that at least 36,763 children in Colorado are at risk of missing out on the CTC

4 Only 12% of taxpayers with children claim the CDCTC. and claims for the state credits are similarly low.

Proposed Solution:

Colorado can follow ten other states and Philadelphia in passing legislation to require employers to notify all employees of their potential eligibility for the federal and state EITC, CTC, and child care expense credits. This proposal would require employers to deliver a separate paper notification mailed or hand-delivered to all employees (both W-2 and 1099 employees), while also encouraging employers to include email notification.

The Department of Revenue (DOR) could provide sample text translated into a variety of languages with a link to a website with free tax help resources. CDLE can also send notifications to employers regarding this new requirement.

This new notification requirement would not be duplicative of federal efforts because these notification requirements go beyond IRS-required notification, for which employers only have to send to W-2 employees who have no income tax withheld. In general, these measures have experienced wide bipartisan support and little to no opposition in legislative committees. Additionally, focusing on just the federal and state EITC and CTC limits this notification to the credits which are shown to decrease poverty and increase family economic/health outcomes the most, reducing the administrative burden on employers.

Fiscal Impact: None.

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