

An Earned Income Tax Credit for CT

IT IS TIME FOR CT TO JOIN MA, NY, RI, VT & OTHER STATES WITH A STATE EITC

The federal Earned Income Tax Credit (EITC) is a tax credit available to low-income working families. If their income tax liability is less than the amount of the credit, the difference is paid to the family (thus it is *refundable*). The EITC reduces taxes and supplements wages for low-income working families.

The EITC lifts more children out of poverty than any other single federal program. In 1999, the federal EITC helped about 144,600 Connecticut families, including thousands of poor children, and brought approximately \$214 million in federal funds into the pockets of Connecticut's lower-income working families.

A CT EITC would expand the benefit for Connecticut's low-income working families and help reduce growing poverty among Connecticut's children. Despite historic low unemployment rates during one of the longest economic expansion periods in the state's history, *about 110,000 Connecticut children lived at or below the federal poverty level in 1998 – 30,000 more than in 1989.*¹ Today, with the economy in a downturn, our children are only more at risk.

A CT EITC would support the transition of CT families from welfare to work and help low-income families achieve economic self-sufficiency. CT families lose ground at certain points as they make the transition from welfare to work because benefit losses exceed income increases. The recently released evaluation of CT's *Jobs First program* notes that the average wage for parents leaving welfare was \$8.53 (about \$17,000/yr. as a full time wage). Families relying on such a wage would qualify for the federal EITC, and would likewise be eligible for a Connecticut EITC. *The EITC rewards work and targets the benefit cliffs* and other points where full time work cannot achieve income adequacy. OPM's *Self-Sufficiency Report* (1999) quantifies the real costs faced by parents raising children in CT – and shows that economic self-sufficiency requires a much higher annual income than the federal poverty level.² Yet CT's state income tax makes no allowance for the costs of child rearing. A state EITC would reduce this inequity and help families make ends meet.

A CT EITC would address the alarming decline in “real” income among low-income earners. From the late 1980s to the late 1990s, the inflation-adjusted (“real”) income of the bottom 20% of Connecticut families *fell* by \$4,672, by far the most significant decline of any state. In the majority of states (35), the poorest 20% of families enjoyed real income *gains* during this period.³

A CT EITC would make our tax system more fair. Connecticut's poorest families pay almost twice the proportion of their income in state and local taxes as do the state's most affluent families. While most of the Connecticut families who are eligible for the federal EITC have no current state income tax liability, all pay sales and property taxes. Connecticut is one of only two states (the other being Alabama) that over the 1990s failed to provide tax relief to low-income earners by changing the point at which they start paying taxes.⁴

¹ As of April 1, 2001, the federal poverty level was \$14,630 for a family of 3 and \$17,650 for a family of 4.

² For example, a single adult's household expenses nearly double when that adult begins raising an infant.

³ Economic Policy Institute and the Center on Budget and Policy Priorities, *Pulling Apart: A State-by-State Analysis of Income Trends* (forthcoming, April 2002).

⁴ In 1991, Connecticut's tax threshold for a family of four was \$24,100. A decade later, it remains the same. Adjusted for inflation, the 2001 threshold would have been raised to \$31,337 to keep up. An EITC would address this situation, as it has in our neighboring states over this time period. See N. Johnson et al, *State Income Tax Burdens on Low Income Families in 2001* (Center on Budget and Policy Priorities, 2002).

A CT EITC would be an important tool in catalyzing Connecticut's economic recovery. A state EITC would be both an effective and efficient way to boost consumer spending, the key element in Connecticut's economic recovery.

- **A CT EITC is an effective economic stimulus.** To be *effective*, an economic stimulus must have a rapid impact and be of adequate size. Low-income earners spend additional income quickly, to meet their basic needs. Their EITC credits are returned quickly to Connecticut's economy, as low-income working families begin to pay utility and rent bills, buy clothing for their children, and meet their other essential needs.⁵ Typically, spending on such necessities is local, stimulating the economy of the areas that have the greatest poverty. Almost all of the money appropriated by this modest proposal would flow directly to CT's cities and towns, as families receiving the EITC spend this additional income paying bills and making purchases in their local economy.
- **A CT EITC is an efficient economic stimulus.** To be efficient, an economic stimulus must be well targeted, extracting the most "bang-for-the-buck" per dollar spent. The EITC is extremely efficient in administration and in targeting its benefits to the *families and the communities* that need it most and will spend it the fastest. Implementation of a state level EITC does not require additional bureaucracy, but only the addition of a single line to Connecticut's income tax form. The credit varies by level of earnings and family size, assuring that its benefits go to families that need it to help make ends meet.

The EITC has enjoyed broad bipartisan support since its inception. Enacted in 1975 under President Ford, the federal EITC has been expanded under the administrations of Presidents Reagan, Bush and Clinton. At the state level, EITC's have been enacted under both Democratic and Republican Governors:

Democratic

- New York, Cuomo, 1994;
- Oregon, Kitzhaber, 1997;
- Vermont, Kunin, 1988.

Republican

- Illinois, Ryan, 2000;
- New Jersey, Whitman, 2001;
- Oklahoma, Keating 2001.

To learn more about the EITC (and to obtain data on the number of CT families who benefit, by town), see the CT Voices for Children report, *The Earned Income Tax Credit: Why Does Connecticut Lag Behind Its Neighbors?*, available at www.ctkidslink.org.

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⁵ Additionally, the EITC is an attractive initiative for employers, especially those small and new businesses whose very narrow profit margins may limit their capacity to pay higher wages that help keep workers on the job.