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Connecticut Falls Behind All Other States in Updating Its Tax Rules for Struggling Families

More CT families paying state income tax because of failure to adjust "tax threshold" for inflation

An increasing number of struggling, low-income Connecticut families are required to pay state income taxes, because the state has failed to increase the "tax threshold," the income level at which families begin paying taxes. Of the 42 states, including the District of Columbia, that have a state income tax, Connecticut is **the only state** that has not adjusted its tax threshold upward since 1991, according to a report released by Connecticut Voices for Children and the Center on Budget and Policy Priorities. As a result, more low-income families have been paying income taxes, and without legislative action, Connecticut will be taxing families at the poverty level within a few years.

When Connecticut first instituted its income tax in 1991, the state was a national leader in its support of low-wage families by not requiring many to pay the tax. At the time, Connecticut had the highest tax threshold in the nation. But by 2007, 22 states and the District of Columbia had higher tax thresholds than Connecticut.

This trend exacerbates the problem of Connecticut's regressive state and local tax system, in which the state's wealthiest residents pay a far smaller share of their income in state and local taxes (4.7%) than do middle-income residents (10.2%) and lower-income residents (10.9%). Low- and middle-income families pay a relatively larger share of their incomes in sales and property taxes, while higher income families pay a larger share of their incomes in income tax. In total, however, the state's wealthiest families pay a much smaller share of their income in state and local taxes than do its middle and lower income families, because the state's income tax rates are not progressive enough to offset the regressive sales and property taxes.

To make the state and local tax system more fair and to help stimulate the state's struggling economic engine, Connecticut Voices for Children recommends:

- Increasing the tax threshold each year by adjusting it for inflation;
- Creating a state earned income tax credit (EITC), and

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- Increasing the overall progressivity of the income tax so that taxes are distributed more fairly by increasing income tax rates for the wealthiest residents. This would also help to raise additional revenues necessary to help close the expected state budget deficit.

“We have a tax system that is increasingly unfair to working families,” said Doug Hall, Acting Managing Director at Connecticut Voices for Children. “We should catch up to our neighboring states and the rest of the country with these simple measures that would give a boost to our economy and make our tax system more fair and adequate.”

The EITC is a tax credit targeted to low-income working families. Currently 22 states, including all of Connecticut’s neighboring states and the District of Columbia, have state EITCs, but Connecticut has not adopted one.

“The federal earned income tax credit has enjoyed broad bipartisan support for decades,” said Jamey Bell, Executive Director of Connecticut Voices. “Connecticut should join its neighboring states and build on the success of the federal model with a state earned income tax credit that rewards work and helps to alleviate the unfairness of Connecticut’s tax system.”

In 1991, the state income tax threshold for a family of four was 73% above the federal poverty level. However, today, the threshold is just 14% over the poverty line, the largest decline in the nation. Connecticut’s trend is the opposite of most states. On average, states have *increased* their tax thresholds by 25% relative to the poverty level.

A family of four in Connecticut earning just \$24,100 owed the state income tax in 2007 (if they were not eligible for the property tax credit because they owned neither a car nor a home). If the tax threshold had remained at the same level above the federal poverty line, today it would be \$38,713.

Connecticut Voices for Children is a statewide, research-based policy thinktank for children and families (www.ctkidslink.org). The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. The national report and a summary of the Connecticut findings are available on the Connecticut Voices Web site at www.ctkidslink.org.

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