

53 Oak Street, Suite 15
Hartford, CT 06106
Voice: 860-548-1661
Fax: 860-548-1783
www.ctkidslink.org

Testimony Concerning:
SB 657, An Act Concerning a Taxpayer Relief Plan
Douglas Hall, Ph.D.¹
Finance, Revenue and Bonding Committee
March 11, 2008

Dear Senator Daily, Representative Staples, and distinguished Members of the Finance, Revenue and Bonding Committee:

We testify today on behalf of Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut’s children, youth and families. We submit this testimony because Connecticut’s working families have not yet fully recovered from Connecticut’s last recession. We are hopeful that the combined effect of a federal stimulus package agreed on by Congress and the President, and the stimulus components included in this bill, will reduce the impact of an economic blow that has just begun to be felt in earnest in Connecticut.

CT Voices supports SB 657, An Act Concerning a Taxpayer Relief Plan.

This economic stimulus bill comes as Connecticut’s employment situation appears to have taken a turn for the worse, with only very modest growth since August 2007, as seen in Figure 1 below.

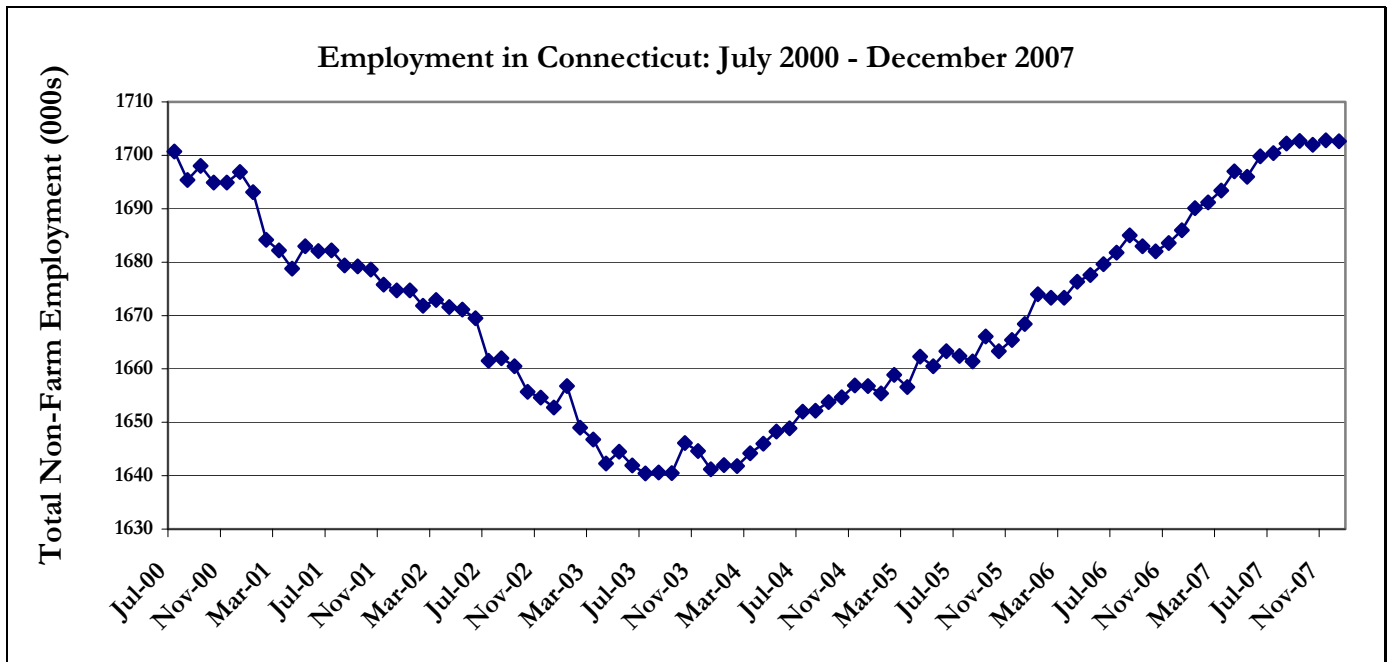


Figure 1

¹ Douglas Hall is Associate Research Director at Connecticut Voices for Children.

SB 657 proposes a series of tax rebates with a sliding scale for each filing type. Lower income families receive a slightly higher amount. This not only enhances tax fairness for the 2007 Tax Year, it also puts a higher proportion of scarce resources in the hands of those most likely to spend the money quickly (and locally), on expenses to provide for their families. Figure 2 below highlights the need to build more progressivity into the overall tax structure, not just on an interim basis, but permanently.

Incidence of Connecticut State and Local Taxes, 2006

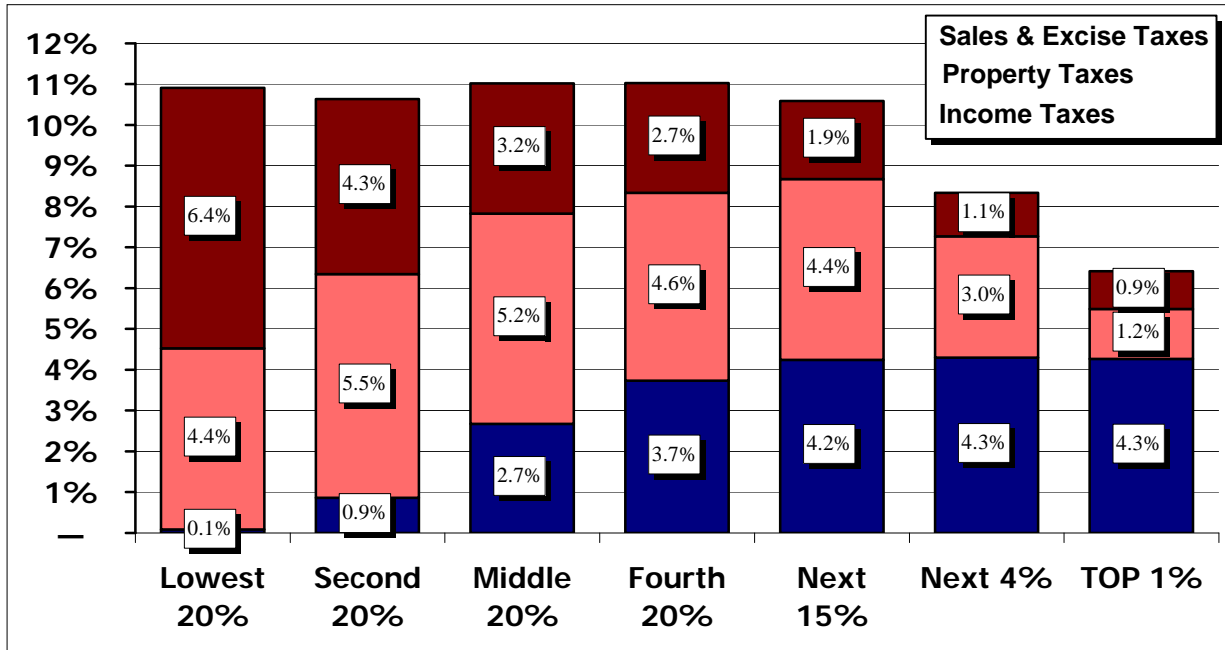


Figure 2: Source: Institute on Taxation and Economic Policy, 2008.

We support this bill’s provision to pursue such rebates only if there remain at least \$100 million in surplus funds for FY08.² In the event that Connecticut’s slowing economy erodes the size of the surplus beyond the \$100 million threshold, Connecticut’s working families would be better served by having those funds placed in the state’s rainy day fund (and then used, in part, in FY09, to provide necessary services to Connecticut residents suffering from the effects of a state recession).

Connecticut Voices for Children also strongly supports SB 657’s provision to create a state level earned income tax credit equaling 20% of the federal credit.

A state EITC would:

1. **Help families recover lost economic ground.** Connecticut’s low-income families have lost significant ground over the last seventeen years; our state income tax has not been any help: Between 1991 and 2002, Connecticut was one of only two states in which family incomes of the lowest 20 percent of earners declined (by \$22), compared to national average gains of \$2,326. Connecticut’s income tax threshold (the income level at which families begin to have tax liability) for a family of four has been fixed at \$24,100 since Connecticut’s income tax was enacted in 1991. It has eroded over that time from 73 percent above the poverty line to just 14 percent above the poverty level in 2007 (See Figure 2 below). Since 2005, Connecticut has taxed families with income at 125 percent of the poverty line – for the first time since the income tax was adopted in 1991. Without legislative action, Connecticut will tax families with poverty-level incomes in just a few years. Connecticut’s percentage decline in the income tax

² On March 6, the State Comptroller announced a sharp reduction in the size of the FY08 surplus, resulting from declining revenues from corporate tax receipts. Her most recent projection is for a surplus of \$226.8 million.

threshold in relation to the federal poverty level has been the greatest among all states with an income tax. If Connecticut's income tax threshold had been indexed for inflation, it would have been \$36,688 in 2007, rather than the actual \$24,100. Adoption of a state EITC would help to close that gap for hard-working families.

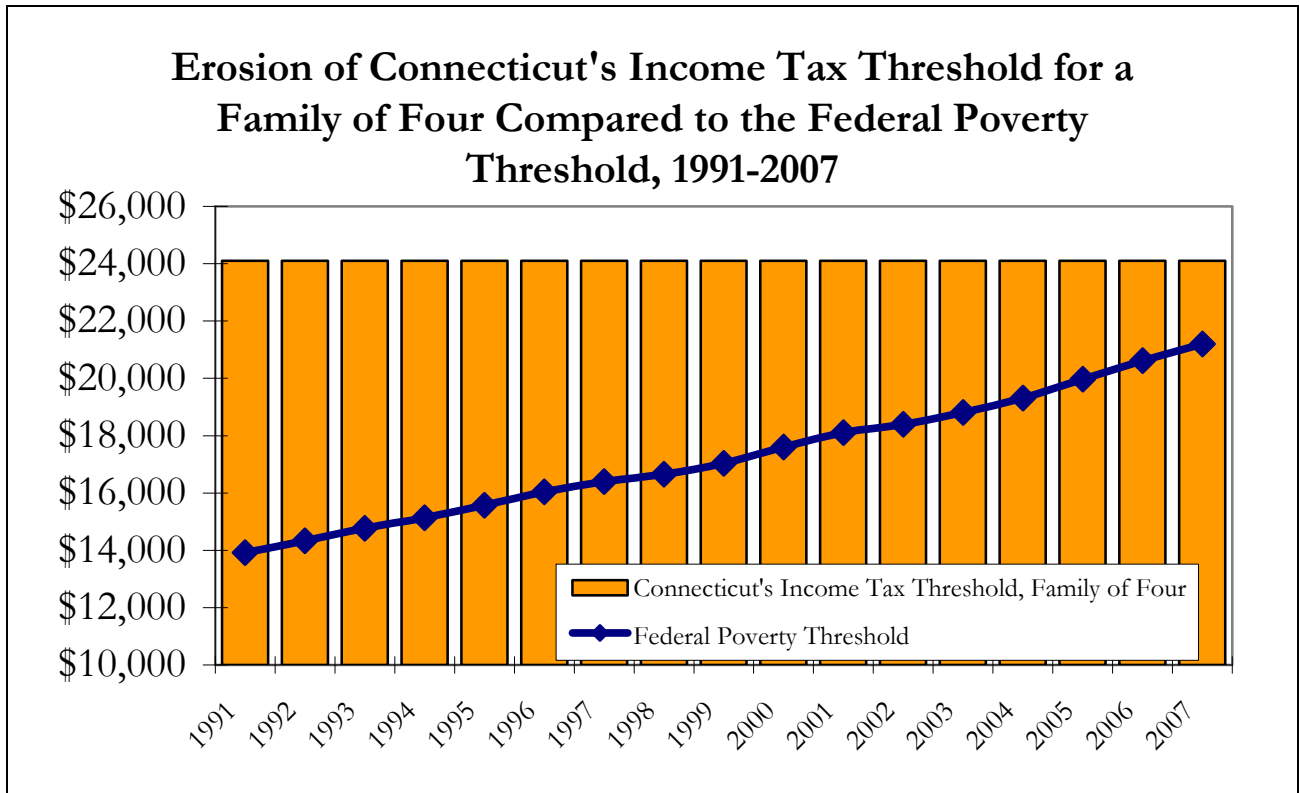


Figure 2.

2. **Act as an effective and efficient economic stimulus.** To be effective, economists agree that an economic stimulus must have a rapid impact and be of adequate size. The Connecticut EITC would be an effective stimulus because the money it would provide would be spent quickly, building consumer demand. Research shows that EITC credits are returned quickly to the economy, as low-income working families pay utility and rent bills, buy clothing for their children, and meet their other essential needs. Typically, spending on such necessities is local, stimulating the economies of the areas that have the greatest poverty. Additionally, many economists believe that the 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 administratively efficient and it is also effective in targeting benefits to the families and the communities that need it most and where it will be spent the fastest. Implementation of the proposed Connecticut EITC would be administratively simple because it would piggyback on the already established federal credit. The credit varies by level of earnings and family size, assuring that its benefits go to families that need it the most to make ends meet.

3. **Reward work.** For many Connecticut families, employment is not enough to provide economic stability. Low-income families need some support to reach self-sufficiency, and the

EITC is an effective measure targeted to help those individuals and families who are working hard to make ends meet. To be eligible for this credit, one must work, yet have low income.³

4. **Directly benefit the Connecticut economy.** Low-income families who would qualify for the state EITC are likely to spend their tax refund quickly and in the community where they live, building consumer demand and stimulating the economy. Connecticut has benefited from the federal EITC since it was enacted in 1975. Now 1 in 10 working families in Connecticut claim the federal EITC.⁴ In tax year 2005, the federal EITC helped 173,000 Connecticut families, including thousands of poor children, and brought more than \$286 million dollars into the pockets of Connecticut's lower-income families.⁵
5. **Help to reduce child poverty.** At the federal level, the EITC has been lauded by Democrats and Republicans alike as an effective measure to reduce child poverty. Child poverty adversely affects our children's health and educational success. More than one in four elementary school students in Connecticut is eligible for free and reduced price meals.⁶ More than one in ten Connecticut children lives below the federal poverty line,⁷ and there are higher rates of poverty in our cities and among our minority populations. Each year, the federal EITC lifts more than 4 million people out of poverty, half of whom are children.⁸ The federal EITC helps more children escape poverty than any other single federal program, and a state EITC could enhance Connecticut's capacity to reduce child poverty. In 2004, the Connecticut General Assembly committed to reducing child poverty by half within ten years, to be coordinated through a Child Poverty Council. This Council recommended "establish[ment of] a refundable Earned Income Tax Credit (EITC) Program to supplement low-wage parents."⁹ Four years later, little progress has been made toward the restructured Child Poverty and Prevention Council's 50% reduction target, though the Council has successfully prioritized the original 76 recommendations, selecting 13 areas to target for immediate action.
6. **Help CT's working poor families reach self-sufficiency.** Changes in the economy including the loss of manufacturing jobs in Connecticut, as well as recent federal budget decisions, are making the economic stability of people with low wages and low levels of educational attainment ever more precarious. Although Connecticut's minimum wage is among the highest in the nation, full time minimum wage employment is not enough to support a family in Connecticut. A parent working 40 hours per week, 52 weeks of the year, at minimum wage¹⁰ would earn \$15,912, which is below the federal poverty guideline for a family of three.¹¹ Furthermore, the Office of Workforce Competitiveness's Self-Sufficiency Report (2006) quantifies the real costs faced by parents raising children in Connecticut – and shows that economic self-sufficiency requires a much higher annual income than the federal poverty level.¹² For example, full time, year round, minimum wage employment provides less than half of what it really costs for a parent to support two children in Waterbury.¹³ By supplementing the earnings of low-income families raising children, a Connecticut EITC helps hard-working families with incomes below, at and just over the poverty level to meet their essential needs.
7. **Alleviate the unfairness of Connecticut's tax code.** Connecticut's Legislative Program Review and Investigations Committee staff reported in January 2006 that the state's "mildly progressive" personal income tax "does not offset the regressivity of the state's sales, excise and property taxes." The staff recognized the effectiveness of a state EITC to achieve greater tax equity in Connecticut. CT's state income tax makes no adjustment for family size and the

³ For EITC eligibility under the current federal tax code for TY2008, income cannot exceed \$33,995 for single parents with one child and \$36,995 for married parents with one child. For families with two or more children, income cannot exceed \$38,646 for single parents and \$41,646 for married parents. Internal Revenue Service, *EITC Thresholds and Tax Law Updates: Next Tax Year, 2008*, available at: <http://www.irs.gov/individuals/article/0,,id=150513,00.html>.

additional costs of child-rearing. The EITC is designed to provide a higher benefit to families with one child than it does to single adults and a higher benefit to families with more children than to those with one child.¹⁴

8. **NOT be subject to the state spending cap.** To the extent a state EITC reduces the amount of income tax due from a family who has state income tax liability, the “cost” of the EITC, like any other tax expenditure, is a revenue loss rather than an appropriation. Based on the precedent set in the treatment of refundable R & D credits for businesses, the refundable portion of the EITC (that which exceeds the family’s income tax liability) is likewise an adjustment to revenue, rather than an appropriated expenditure.¹⁵

9. **Help Connecticut businesses in the long and short term.** Connecticut business leaders have supported the EITC in recent years. The Business Council (formerly SACIA) recognizes that: “The EITC is an efficiently-targeted way to provide income supplementation to help low-wage working families escape poverty.... [A]ll of Connecticut’s neighboring states have adopted a state EITC based on the federal credit.” Businesses will enjoy both short and long term benefits from an EITC. In the short term, the credit will be returned quickly to the Connecticut economy. 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. Furthermore, the EITC as a measure to reduce child poverty is an important investment in Connecticut’s future workforce. The Connecticut Economic Research Center’s 2005 Benchmarking Connecticut report noted that by 2020 forty percent of Connecticut workers are expected to come from our large cities where child poverty is highest and test scores are lowest.¹⁶ Because living in poverty hinders educational attainment, reducing the number of children living in poverty is essential to preparing today’s students to succeed in the 21st century economy.

10. **Maximize its potential only if made refundable.** The Program Review and Investigations Committee notes that “given Connecticut’s filing thresholds, the state would want to offer a refundable credit otherwise it would not benefit lower-income persons exempt from filing.”

Thank-you for the opportunity to testify today. We look forward to working with this committee as you craft a tax structure that is not only sufficient to sustain and enhance Connecticut’s overall quality of life, but also more equitable.

⁴ About 10% of CT tax filers collected an EITC in 2002, 2003, 2004, and 2005. D. Hall, *The Earned Income Tax Credit—What it Does for Connecticut and How it Could Do Much More* (CT Voices for Children, February 2008, forthcoming).

⁵ Ibid.

⁶ State Department of Education, *Strategic School Profile: 2006-2007*, available at: <http://www.csde.state.ct.us/public/der/ssp/>.

⁷ According to the US Census Bureau’s American Community Survey, Connecticut’s child poverty rate in 2006 was 11%. For further detail, see http://www.ctkidslink.org/media/press_releases/2007censusreleasepub.pdf.

⁸ D. Hall, *The Earned Income Tax Credit—What it Does for Connecticut and How it Could Do Much More*, (Rev) (CT Voices for Children, February 2008).

⁹ Marc Ryan, Secretary, Connecticut Office of Policy and Management, *Child Poverty Council, Initial Plan*, (OPM, January 2005), 86.

¹⁰ The minimum wage in Connecticut is currently \$7.65/hr. Pending legislation would increase the minimum wage to \$8.00/hr.

¹¹ The federal poverty guideline for a family of three is \$17,600. US Department of Health and Human Services, *2008 HHS Poverty Guidelines*, available at: <http://aspe.hhs.gov/poverty/08poverty.shtml>.

¹² For example, a single adult’s household expenses nearly double when that adult begins raising an infant. D. Pearce, *The Real Cost of Living in 2005: The Self-Sufficiency Standard for Connecticut*, (CT General Assembly, Office of Workforce Competitiveness, December 2005), available at: http://www.cga.ct.gov/pcsw/Publications/Self_SufficiencyCT05%20Full%20Report_12_13_05.pdf.

¹³ Ibid. This report includes cost of living calculations for 23 regions and 9 cities in the state to reflect the unique economic circumstances in different localities.

¹⁴ See n. 5.

¹⁵ Section 38 of PA 99-173 permits companies with less than \$70 million in gross sales to sell back to the state at 65% of their value any unused Research and Experiment and Research and Development tax credits. In its recent Tax Expenditure Report, OFA characterizes the sale of these credits to the state as tax expenditures. Connecticut CT General Assembly, Office of Fiscal Analysis, *Tax Expenditure Report* (August 30, 2004) pp. 8, 78, available at: <http://www.cga.ct.gov/ofa/Documents/RevItems/TaxExp/TaxExp2004.pdf>

¹⁶ *Benchmarking CT’s Economy: A Comparative Analysis of Innovation and Technology*, (Connecticut Economic Research Center, October 2005).