Making Children Visible in Connecticut’s Tax Code

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Connecticut could do more to help families with children make ends meet—and bolster the state’s future workforce—by creating a state income tax exemption for dependent children and a child tax credit. Unlike nearly every other state, Connecticut has no tax exemptions, deductions or credits to offset some of the considerable costs of raising children. As a result, a family of two parents and three children pays virtually the same amount in state income tax as a couple without children that earns the same income,¹ even though households with children spend more on food, clothing, health care and other necessities, and have far less disposable income.

A dependent child exemption and a child tax credit that is “refundable” — meaning that parents with credits larger than their tax obligations could receive the balance as a refund — would emphasize the state’s commitment to bettering the lives of our children and their families, and strengthen a cornerstone of our economy. Both would reduce income taxes for low- and moderate-income families raising children — acknowledging the significant costs of child-rearing that the parents of our state bear and making Connecticut’s tax code more equitable by eliminating what is effectively a child penalty.² A refundable child tax credit would also help make up for cuts to education, child care and other family supports that Connecticut has made over the past 20 years, and that have put low- and middle-income youth at a particular disadvantage compared to children from more prosperous households.

For decades, Connecticut — like most other states and the federal government — has used its personal and corporate income tax laws to encourage economic growth and job creation through business tax credits, exemptions, deductions and differential tax rates. These kinds of “tax expenditures” — so called since they are akin to direct state spending — can foster important investments in our state’s economic future if they are well-targeted and routinely scrutinized to make sure they are effective. Using the tax code to support children and their families is an equally important investment in the future workforce and essential for a prosperous economic future. But today, children are virtually invisible in Connecticut’s personal income tax code.

In Fiscal Year (FY) 2014, Connecticut’s tax expenditures totaled more than $7 billion,³ an amount equal to more than 40 percent of that year’s $17.2 billion General Fund budget⁴ — but virtually none of it went to offset families’

¹ The state earned-income tax credit, enacted in 2011, preferentially benefits working families with children. A single parent with two children and $35,000 in earned income will be eligible for a state EITC of about $465 next year, while a childless worker with the same income would not qualify for the credit.


³ This total includes approximately $930 million in tax expenditures created to avoid redundancy, or double-taxation, in the tax code. For example, motor fuel is exempt from the sales tax but is subject to the Motor Fuels Excise Tax. Removing these redundant tax...
unique costs of raising children. In stark contrast, the federal government and 41 other states make some sort of adjustment in personal income taxes to account for the additional costs families face when rearing children. In fact, Connecticut is only one of two states with a broad-based personal income tax that does not offer such a break to families.

I. Connecticut Virtually Alone in Not Offering Credit for Dependent Children

Among states with a personal income tax, Connecticut and Pennsylvania are the only ones that don’t offer an exemption for dependent children who can be claimed on the federal tax returns filed by their residents. This exemption allows parents and guardians to deduct from their reported income a certain amount for each dependent claimed, reducing the amount of taxes paid by families raising children. In addition, about half of states further subsidize families raising kids through a child and dependent care credit, a refundable child tax credit, or a combination of these.

Without a dependent deduction, a Connecticut couple with $50,000 in taxable income and two children pays virtually the same amount in taxes as a childless couple earning the same amount – even though the couple with children has much less capacity to pay taxes given how much more of its disposable income is used to buy clothes, food, school supplies and other things for their children. Similarly, a single parent in Connecticut will pay more in state income tax than a married couple with no children and the same income.

This violates a basic principle of tax policy: those equal in ability to pay should be taxed equally, while those who are not equal in ability to pay should be taxed differently, according to their means. This uncontroversial idea protects taxpayers against arbitrary discrimination, and is a core component of overall tax fairness. Without a dependent child deduction, Connecticut fails that test.

II. The High Cost of Raising a Child

Given the high costs of caring for and raising a child, it is essential that Connecticut’s tax code not penalize families with children – making it even harder for them to make ends meet – but this is exactly what the current tax code does. For instance, an adult living in the Hartford suburbs would need to make around $23,472 a year to be self-sufficient and cover basic expenses like housing, transportation and taxes, according to a 2008 analysis commissioned by Connecticut’s Permanent Commission on the Status of Women. But this threshold leaps to $43,678 when the household includes an infant – an increase of 86 percent (nearly $22,000 in today’s dollars) that is largely due to the high costs of childcare, housing, and healthcare in Connecticut. This scenario takes account of the help that families with children can get from the federal earned-income, child, and child and dependent care tax credits – further highlighting the tremendous costs of raising children in Connecticut and the limited ability of federal tax credits alone to defray them.


http://taxadmin.org/fta/rate/ind_inc.pdf. Of the nine states without a broad-based personal income tax, two (New Hampshire and Tennessee) tax interest and dividend income at a flat rate. While Tennessee does offer a personal exemption, there is no exemption for dependents.

6 State data from Tax Credits for Working Families. See: http://www.taxcreditsforworkingfamilies.org
7 As mentioned above, a lower-income family with children may qualify for the state EITC, which would modestly offset their state tax liability.
2014. It is on course to equal only $1 in every $4 by 2024. This decline, combined with the child penalty in the tax code, highlights the need for a renewed commitment to child-oriented investments across-the-board – both direct expenditures and those that occur through the tax code.

III. The Child Tax Credit: An Investment in Connecticut’s Future

A dependent exemption alone would not be enough to make Connecticut’s tax code fairer and more helpful to families with children. Since the exemption is not refundable, low-income families with little or no state income tax obligation would get no help from this change. Further, a new dependent exemption modeled after Massachusetts’ – in the amount of $1,000 – would result in an income tax cut for only 1 percent of filers with incomes below $24,000, while 92 percent of filers with incomes above $1.6 million would benefit from this change. This approach would move Connecticut further away from the goal of ensuring that low- and middle-income earners don’t pay proportionally more in taxes than higher-income households.

A state child tax credit, modeled on the child credit offered for federal income taxes, is a better investment in families with children and would ensure that they are treated equitably when it comes to taxes. Congress created the federal child tax credit as part of the Taxpayer Relief Act of 1997. Importantly, the credit is fully refundable for filers with incomes greater than $9,667 – meaning that if the amount of the credit is greater than what they pay in taxes, they receive the balance as a refund. Figure 1 illustrates the important expansion of the credit’s value brought about by the ARRA legislation.

![Figure 1. Source: CT Voices calculations based on IRS and Tax Policy Center data.](chart.png)

The federal child tax credit plays a significant role in offsetting the costs of child rearing for low- and moderate-income families in our country. From 2010 to 2012, the refundable portion of the credit, combined, with the federal

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11 Institution on Taxation and Economic Policy (ITEP) tax simulation model.

12 Of the range of policy options that would make children visible in Connecticut’s tax code, a refundable child tax credit most effectively targets those low- and moderate-income families who have borne the brunt of the shift away from child-oriented state spending, and who face the largest relative state and local tax burdens in Connecticut’s regressive tax system. Future analyses may explore ways to combine a refundable child tax credit with a targeted dependent exemption that phases out at upper income levels, as well as a child and dependent care tax credit that could defray the specific costs of child care.
Earned Income Tax Credit (EITC), lifted some 36,000 children in Connecticut above the poverty line – and more than 5.1 million kids in the United States.¹³ Connecticut should build on the successful federal child tax credit – just as it has done with the federal EITC through its state earned income credit – as an effective and well-targeted way to make a major state investment in our future workforce.

More than 400,000 Connecticut families claimed the federal child tax credit in the 2011 tax year, the latest year for which the IRS currently provides data. Together, these households received nearly $490 million from the credit, including both the refundable and non-refundable portions (Figure 2).

![CT Federal Child Tax Credit Claims by Income, 2011](image)

**Figure 2.** Source: CT Voices calculations based on IRS Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2011.

The data are clear – the credit is effective at helping low- and middle-income families who make up the majority of Connecticut tax filers, while also providing a boost to larger families with moderately higher incomes. More than half – 58 percent – of all returns claiming the federal child tax credit reported adjusted gross income below $50,000 in 2011; these returns claimed more than half of the total credit amount in 2011 (51 percent of the nearly $490 million claimed by Connecticut filers went to these families).¹⁴ This is in proportion to the overall makeup of tax filers in Connecticut: in 2011, filers with income under $50,000 made up 58 percent of all returns filed. In short, the credit is reaching low- and moderate-income families – thanks, in large part, to the expanded refundability implemented in the 2009 ARRA legislation.

On a per-return basis, the distribution of child tax credit dollars differs somewhat – due in large part to the association between larger family size and higher incomes,¹⁵ as well as to the location of the phase-in range under current law.¹⁶ Families with incomes between $75,000 and $100,000 claimed the largest average child tax credit per

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¹⁴ CT Voices calculations based on IRS tax year 2011 data.
¹⁶ Under current law, families with incomes greater than $3,000 but less than $9,667 receive a credit of less than $1,000. In contrast, the credit does not begin to phase out until $110,000 for a married couple filing jointly – as a result, a broad swath of middle-income families qualify for the full $1,000 per-child credit.
return in 2011, with an average credit of $1,592 that year. Figure 3 lays out the distribution of the average credit amount per return by size of income.

Together, the 400,000 households claiming the credit – representing nearly 8 in 10 Connecticut tax filers – illustrate the middle-class orientation of the child tax credit, while also reflecting the important and substantial extension of the credit to low-income families that occurred in 2009. A state child tax credit with similar parameters would improve tax fairness for middle- and moderate-income families with kids in our state, while the refundable component would provide a needed boost for families with lower incomes.

**Figure 3.** Source: CT Voices calculations based on IRS Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2011.

**V. New York Can Provide a Model for Connecticut**

New York’s Empire State Child Credit is a model Connecticut should look to. Since the credit piggybacks on the federal credit, it would be relatively easy to implement and would align our tax code more closely with a neighboring state’s. New York’s credit, implemented in 2006, is calculated as 33 percent of the filer’s federal child tax credit amount or $100 per qualifying child, whichever is greater, with a maximum value of $330 per child.¹⁷ It is also refundable. Some 792,000 filers claimed more than $356 million in 2010, according to the most recent data available from New York.¹⁸

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¹⁷ [http://www.tax.ny.gov/pit/credits/empire_state_child_credit.htm](http://www.tax.ny.gov/pit/credits/empire_state_child_credit.htm). For the purposes of figuring the New York child tax credit, a qualifying child is a child who qualifies for the federal credit and is at least four years of age. Our proposed Connecticut credit would follow the federal guidelines, which state that a child need only be below the age of 17 to qualify for the credit.

A refundable Nutmeg State Child Credit pegged at 33 percent of the federal credit would immediately boost the take-home pay of more than 400,000 families in our state, increasing net income by more than $117 million for these households based on 2013 income estimates.\(^{19}\)

To offset the revenue loss from the tax credit, Connecticut policymakers should make permanent the recent repeal of the sales tax exemption for clothing and footwear costing less than $50.\(^{20}\) Permanent repeal of this exemption, which is set to go back into effect in FY 2016, would generate nearly $140 million in new revenue based on the current state budget – more than offsetting the cost of a new, refundable child tax credit.\(^{21}\) Importantly, the proposed credit would help to offset the sales tax increase for low- and moderate-income families with kids, as would the current state EITC.

**Conclusion**

In light of substantial declines in the proportion of the state budget benefitting young people and Connecticut’s unusually child-unfriendly tax code, policymakers should implement a state child tax credit. Such a credit would give an immediate boost to more than 400,000 low- and moderate-income families in Connecticut, as well as improve fairness in our tax code. By ensuring that a family’s personal income tax liability reflects their reduced capacity to pay taxes due to the significant costs of child-rearing, Connecticut would more closely align itself with other states while creating a substantial and targeted tax expenditure that clearly and reliably invests in kids.

\(^{19}\) Institution on Taxation and Economic Policy tax simulation model. This revenue estimate assumes a state child tax credit in the amount of 33\% of the filer’s federal credit attributable to qualifying children, or $100, whichever is greater, and limits the credit to filers with AGI below $75,000 for single filers and $110,000 for joint filers.

\(^{20}\) Sec. 79 of P.A. 13-184, *An Act Concerning Expenditures and Revenue for the Biennium Ending June 30, 2015*, provides for a restoration of this exemption beginning on June 1, 2015. This results in a minor revenue loss in FY 2015.
