



Testimony Supporting H.B. 5237: An Act Concerning the Earned Income Tax Credit

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Committee on Finance, Revenue and Bonding

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Senator Fonfara, Representative Rojas, Senator Frantz, and distinguished members of the Committee:

My name is Derek Thomas and I am submitting testimony 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 are here to testify in support of H.B. 5237, which proposes that the Department of Revenue Services study potential delivery mechanisms for the Earned Income Tax Credit (EITC), the most effective anti-child poverty program in the nation. We also suggest the consideration of additional policies to bolster the EITC, including:

- Restoring the 2011 cuts and Governor Malloy's FY 2018 and 2019 proposed cuts to the EITC;
- Examining additional delivery mechanisms, such as a rainy day EITC to help low-wage workers build emergency savings, advance EITC payments, and quarterly EITC payments, and;
- Expanding the EITC's reach to childless workers.

The EITC – a credit that helps Connecticut's low-income working families afford basic necessities – is among the nation's most successful anti-poverty programs, lifting millions of children and families out of poverty and providing critical benefits for healthy child development, educational outcomes, and future workforce success.¹ Within Connecticut, 192,042 working families received the state EITC in 2014. On average, these households had gross incomes of \$17,732 – just below what a single parent, working full-time earning the minimum wage, would have taken home before taxes — and the average credit was \$472. These dollars help working families pay for gas or car repair, afford childcare, cover housing or utility costs, or invest in a college or job training course that improves their skills. For more information on the Connecticut EITC, we encourage members of the committee to examine our recent brief and interactive maps for EITC data in all 169 Connecticut towns.²

Restoring the 2011 Cuts and Governor Malloy's FY 2018 and 2019 Proposed Cuts to the EITC

We recognize that this is a difficult budget year. However, given the deep cuts that have been enacted to balance the state budget, the EITC is more important than ever: it helps our state's vulnerable families, makes our tax code fairer, and strengthens local economies. The 2011 cut reduced the EITC from 30 percent to 27.5 percent of the federal EITC, resulting in a 20 percent decrease in the average credit. The Governor's biennial budget imposes even deeper cuts to the EITC. Raising taxes on those who can least afford it will make it harder for working families to put food on the table and meet the needs of their children.³

¹ Hoynes, Hilary and Jesse Rothstein. National Bureau of Economic Research. *Tax Policy Toward Low-Income Families*. <http://www.nber.org/papers/w22080.pdf> See also: Debot, Brandon et al. "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds." Center on Budget and Policy Priorities, October 2015.

² See our EITC brief and maps here (when DRS releases EITC data for 2015, we will update our interactive maps): <http://www.ctvoices.org/publications/restoring-connecticuts-earned-income-tax-credit-makes-sense>

³ See our analysis of the Governor's budget proposal: <http://www.ctvoices.org/ChildrenFY18Governor>

Examining Additional Delivery Mechanisms

- A Rainy Day EITC would help families save for household budget shocks with the goal of boosting financial security. Often, low-wage workers that receive the EITC have irregular income, making it difficult to build a financial cushion to pay bills, let alone deal with financial emergencies. Without savings to cover these unexpected expenses, workers may be forced to build up debt over the course of the year, making it difficult for families to move beyond living paycheck to paycheck. A Rainy Day EITC would help families address this challenge by allowing them to defer a portion of their EITC payment for six months, which would receive a modest savings match. A proposal from the Center for Economic Development would allow workers to defer 20 percent of their EITC amount for six months, which would be accompanied by a 10 percent EITC savings match by the state.⁴
- Advance EITC payments spread out a family's anticipated EITC payment out over four quarters. In this proposal, families receive a fourth of their expected EITC each quarter, which reduces reliance on costly lending options and is counted as a loan against their income tax return. A pilot project in Chicago by the Center for Economic Progress that spread out EITC payments across four quarters found that the vast majority (90 percent) of families who participated in the program preferred receiving advance quarterly payments.⁵
- Early Refund EITC payments would help working families access part of the EITC midway through the year in case of a financial emergency. A proposal described by the Center for American Progress would allow families to access a portion of their EITC starting on July 1, which would act as a sort of "earned insurance" against unforeseen financial challenges.⁶ Such a policy would help to protect families against predatory lending, and offer families the choice to receive part of their EITC early.

Expand the EITC to Childless Adults to Help All Low-Income Workers

Right now, the EITC amount received by childless workers is very small, and workers under 25 without children do not receive the EITC at all. This means these workers, including low-income young people who are just starting out in the labor force, receive none of the proven benefits of the EITC, such as promoting work, alleviating poverty, and supplementing low wages. Providing a more robust EITC to low-income childless workers and lowering the eligibility age would confer these benefits on young and low-income workers in Connecticut, and would help to ensure that our tax code is not pushing these workers deeper into poverty. The most recent estimates suggest roughly 142,000 childless workers would benefit from such a change.⁷

Thank you for your time. Please contact us with questions about our testimony or to provide additional information.

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⁴ Edin, Kathryn et al. Center for Economic Development. *Rainy Day EITC: A Reform to Boost Financial Security by Helping Low-Wage Workers Build Emergency Savings*. July 2015: http://cfed.org/assets/pdfs/The_Rainy_Day_EITC.pdf

⁵ Holt, Steve. Brookings Institute. *Periodic Payment of the Earned Income Tax Credit Revisited*. December 2015: <http://www.brookings.edu/~media/research/files/reports/2015/12/17-holt/holtperiodicpaymenteitc121515.pdf>

⁶ Boteach, Melissa. Center for American Progress. *Harnessing the EITC and Other Tax Credits to Promote Financial Stability and Economic Mobility*. October 2014: <https://cdn.americanprogress.org/wp-content/uploads/2014/10/EITC-report10.8.pdf>

⁷ Center on Budget and Policy Priorities. CT Fact Sheet: Tax Credits Promote Work and Fight Poverty: <http://apps.cbpp.org/3-5-14tax/?state=CT>