Executive Summary

As addressed in our recent tax report—“Steps To A Fairer Tax System”—half of Connecticut’s families in 2021 had difficulty paying their usual expenses (e.g., food, housing, utilities). The problem has continued in 2022 and appears to be getting worse. In January, 53 percent of the state’s families had difficulty paying their usual expenses, and the percentage was even higher for certain subgroups, especially working-class and lower-middle-class families (78 percent and 62 percent), Black and Latino/a/x families (77 percent and 74 percent), and families with children (65 percent).

Although Connecticut has the second highest level of per capita personal income in the U.S., making it exceptionally wealthy overall, many families consistently struggle because Connecticut also has the second highest level of income inequality and a substantial racial income gap, meaning a small, disproportionately white portion of the population primarily benefits from the state’s overall wealth. Specifically, in the immediate term, income inequality and the racial income gap make it difficult for working- and middle-class families, especially families of color, to make ends meet; and over time, through both the “investment” and “stress” pathways, income inequality and the racial income gap negatively impact the children from working- and middle-class families, especially families of color, in “virtually every dimension, from physical and mental health, to educational attainment and labor market success, to risky behaviors and delinquency.” These problems in turn weaken Connecticut’s economy and thereby decrease the state’s ability to make critical investments and pay down long-term obligations, which ultimately hurts all of the state’s families.

Our recent report showed that Connecticut’s approach to taxation contributes to the above problems. The report also showed that making Connecticut’s tax system fairer requires tax reform, transparency, and timely support, all of which, in simple terms, would put more money in the pockets of working- and middle-class families, especially families of color.

This companion report provides a detailed overview of one especially problematic component of the tax system: Connecticut is the only high cost of living state in the U.S. with an income tax that does not adjust for family size or child care expenses, which makes the state’s unfair tax system even more unfair for working- and middle-class families with children, especially those that require child care. In addition to making it harder for families with children to make ends meet compared to the average family, the lack of tax support for the high and growing cost of raising children directly contributes to the state’s slow economic growth by slowing the state’s population growth, which is a function of both a declining natural rate of population change (i.e., the birth rate minus the death rate) and a negative net migration rate (i.e., the number of families moving to the state minus the number of families leaving).
For a basic overview of the problem, **Figure 1** shows what Connecticut’s average middle-class family pays in the federal income tax and the state income tax, and it also shows what the family would pay if it moved to two other high cost of living states: New York and California, the first and fourth most popular destinations, respectively, for families that leave Connecticut. The key finding is that the federal income tax, New York’s income tax, and California’s income tax all adjust for family size and child care expenses, meaning a family’s income tax decreases if it has children and, even more so, if it has child care expenses. This is because the high cost of raising children lowers a family’s “ability to pay,” which is the foundational principle of the income tax. Connecticut’s income tax, however, violates this principle. As a result, Connecticut’s average middle-class family with two children pays nearly as much in the state income tax as the federal income tax; it pays more in the state income tax than the federal income tax if it has child care expenses; and its state income tax burden would decrease considerably if it moved to New York or California. Put in more general terms, in failing to adjust for family size or child care expenses, Connecticut’s tax system makes it more difficult for families to have children and incentives families that already have children to leave the state, neither of which is helpful to generating an “economic comeback” that is premised on growing the number of tax payers.

To show in detail the unfair burden that Connecticut’s income tax places on families with children and to provide options to correct the problem, this report proceeds in four sections. The first section provides an overview of the high and growing cost of raising children. The second and third sections show how the federal income tax and most state income taxes provide support for the high and growing cost of raising children. The fourth section provides options for a Connecticut child tax credit that would make the tax system more supportive of families with children and thereby bring Connecticut more in line with other states and the federal income tax.