THE CASE FOR THE CONNECTICUT CHILD TAX CREDIT

CONNECTICUT VOICES FOR CHILDREN

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FEBRUARY 2022

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Glossary

Child and dependent care tax credit (CDCTC) is a tax credit included in the federal income tax and many state income taxes to help offset the high cost of child care.

Child tax credit (CTC) is a tax credit included in the federal income tax and many state income taxes to help offset the high cost of raising children.

Effective tax rate is the total amount of taxes that a family pays as a percentage of its income.

Fair tax system either, at minimum, requires all families to pay the same percentage of their income in taxes (i.e., a proportional tax system) or, ideally, requires upper-class families and the wealthiest to pay a higher percentage of their income in taxes than working- and middle-class families (i.e., a progressive tax system). It also generally requires tax transparency.

Income is the flow of money that a family receives over a given period of time, and it is derived from an array of sources, including salaries and wages, business income, investment income, and more.

Inflation indexing is the inclusion of automatic cost of living adjustments.

Racial income gap is the difference in income among populations grouped by race or ethnicity.

Refundable tax credit is paid to a tax filer regardless of their tax liability.

Tax credit directly reduces a tax filer's liability.

Tax gap is the difference between the tax owed to the government and the tax actually paid.

Tax liability is the tax owed by a family or business to the government.

Tax reform is shifting the disproportionate tax burden on working- and middle-class families to the wealthy.

Tax transparency is knowing the necessary amount of the disproportionate tax burden to shift, the impact of proposed and passed tax legislation, and the size of the tax gap.

Timely support is providing working- and middle-class families the option of receiving refundable tax credits in installments.

Unfair tax system requires working- and middle-class families to pay a higher percentage of their income in taxes than upper-class families and the wealthiest (i.e., a regressive tax system).

Introduction

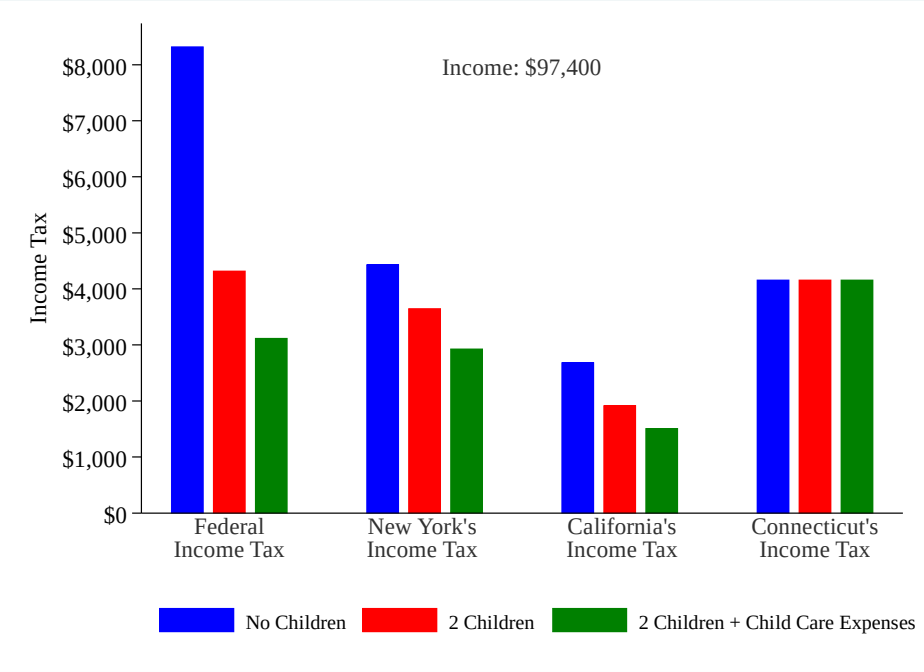
As addressed in our recent tax report—"Steps To A Fairer Tax System"—half of Connecticut's families in 2021 had difficulty paying their usual expenses (e.g., food, housing, utilities).[1] The problem has continued in 2022 and appears to be getting worse. In January, 53 percent of the state's families 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).[2]

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.[3] 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."[4] 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.[5]

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.[6]

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).

Figure 1. Federal and State Income Tax for the Average Middle-Class Family



*Data from relevant federal and state authorities and author's calculations.

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.[7] 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.[8]

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.

Summary of Key Findings

The High and Growing Cost of Raising Children

The current average cost of raising a child in the U.S. is $15,390 a year, and in Northeast, which includes Connecticut, the average cost is even higher at $16,990 a year.

The current average high cost of raising a child for all families is based on spending $3,370 a year on child care for young children. This significantly understates the current high cost of raising a child for families that require full-time child care because those families spend an average of $12,520 a year on child care alone.

Due to the growing cost of health care, child care, and education, growth in the cost of raising a child over the last two decades has outpaced growth in the typical family's income, making it increasingly unaffordable to raise a child, especially for families that require full-time child care.

The high and growing cost of raising a child, especially for families that require full-time child care, has contributed to a decline in the natural rate of population change, which has slowed population growth in the U.S. and even more so in Connecticut. This in turn has contributed to slow economic growth in the U.S. and even slower growth in Connecticut, which hurts all of the state's families.

Support for the High and Growing Cost of Raising Children: The Federal Income Tax

The federal income tax adjusts for family size through the child tax credit (CTC), lowering the income tax burden for a family with children compared to a family with the same income but no children.

The federal income tax also adjusts for child care expenses through the child and dependent care tax credit (CDCTC), further lowering the income tax burden for a family with children and full-time child care expenses compared to a family with the same income and same number of children but no child care expenses.

Support for the High and Growing Cost of Raising Children: State Income Taxes

Connecticut is one of only four states with an income tax—and one of only two states with an independent income tax—that does not adjust for family size or child care expenses to help offset the high and growing cost of raising children.

Connecticut is the only high cost of living state with an income tax that does not adjust for family size or child care expenses to help offset the high and growing cost of raising children.

Connecticut's average middle-class family with no children pays nearly twice as much in the federal income tax than the state income tax. However, due to the federal CTC and lack of a state CTC, the

same family with two children pays nearly as much in the state income tax as the federal income tax; and due to the federal CTC and CDCTC and lack of a state CTC and CDCTC, the same family with two children and child care expenses pays more in the state income tax than the federal income tax.

If Connecticut's average middle-class family moved to New York, its overall state income tax burden would be lower due to a tax cut of up to $750 per child.

If Connecticut's average middle-class family moved to California, its overall state income tax burden would be lower due to a tax cut of up to $590 per child.

Options for the Connecticut Child Tax Credit (CT CTC)

Option 1. Establish a CT CTC that is a phased-in $420 refundable credit or $600 nonrefundable credit.

Option 2. Establish a CT CTC that is a $450 refundable credit with no phase in.

Option 1a / 2a. Inflation index either CT CTC option.

Either CT CTC option would make Connecticut's tax system fairer, which would help working- and middle-class families with children make ends meet, especially if the state provides timely support.

Either CT CTC option could be combined with the existing Connecticut earned income tax credit (CT EITC) to provide a more equal or an even greater level of timely support to working-class families, which struggle to make ends meet at a higher rate and disproportionately includes families of color.

Either CT CTC option would provide support for over 600,000 children, including up to 95,000 children living in poverty, which disproportionately includes children of color.

Either CT CTC option would help grow Connecticut's economy, which would benefit all of the state's families.

Either CT CTC option could be funded over the medium to long term by closing or reducing Connecticut's estimated $2.6 billion income tax gap.

The High and Growing Cost of Raising Children

This section provides an overview of the high and growing cost of raising children—specifically, the current average high cost; the current higher average cost for families that require full-time child care; the growing cost over the last two decades; and the impact on population growth and the economy.

The current average cost of raising a child in the U.S. is $15,390 a year, and in Northeast, which includes Connecticut, the average cost is even higher at $16,990 a year. As part of its work in the area of food and nutrition, the U.S. Department of Agriculture periodically provides estimates for the direct costs of raising a child from birth through age 17. The direct costs include housing, food, transportation, clothing, health care, child care, education, and miscellaneous costs. Excluded from the estimates are (1) indirect costs, such as a parent's time and foregone earnings, and (2) costs after age 17, such as for college. Based on these fairly conservative cost parameters, **Table 1** shows that in the U.S. in 2021 the average cost for a married, middle-income family to raise a child is $277,200 in total, or $15,390 a year. In the Northeast, which includes Connecticut, the average cost is greater at $305,820 in total, or $16,990 a year.[9] As the Department of Agriculture succinctly puts it, "The direct and indirect costs of raising children are considerable, absorbing a major share of the household budget."[10]

The current average high cost of raising a child for all families is based on spending $3,370 a year on child care for young children. This significantly understates the current high cost of raising a child for families that require full-time child care because those families spend an average of $12,520 a year on child care alone. In the U.S., the combination of child care and education is the third-highest cost, averaging $2,480 a year overall, or $3,370 a year for the youngest children. In the Northeast, this is the second-highest cost, averaging $3,330 a year overall, or $4,100 a year for the youngest children. Addressing the measurement of this combined cost category, the Department of Agriculture explains, "For preschool children, most of this budgetary-component expenditure is for child care," which "includes families with sporadic babysitting, as well as part- and full-time child care; therefore, these expenses may appear low when compared to full-time care expenses that many parents experience."[11]

Although the Department of Agriculture does not provide an estimate for the average cost of full-time child care, the Department of Treasury estimates that "the average family with at least one child under age 5 would need to devote about 13 percent of family income to pay for child care, a number that is unaffordable for most families."[12] Applying the Department of Treasury's child care cost rate to the Department of Agriculture's income estimates, **Table 2** shows that the average married, middle-income family in the U.S. spends $12,520 a year on full-time child care for a child under 5, compared to the average of $3,370 on child care for all families with children that age, which, as noted, "includes families with sporadic babysitting, as well as part- and full-time child care." Even higher, in the Northeast, the average married, middle-income family pays $12,700 a year for full-time child care, compared to the average of $4,100 on child care for all families with children that age.[13] In both locations—the U.S. as a whole and the Northeast—child care is far and away the highest cost category for families that require full-time child care.

Table 1. Average Annual and Total Direct Costs Per Child for a Married, Middle-Income Family

United States, 2021 Dollars

Age	Total	Housing	Food	Trans-portation	Clothing	Health Care	Child Care & Education	Misc.
0 - 2	$15,030	$4,420	$1,830	$2,300	$740	$1,390	$3,370	$980
3 - 5	$15,120	$4,420	$1,960	$2,370	$590	$1,300	$3,370	$1,110
6 - 8	$14,680	$4,420	$2,640	$2,450	$590	$1,330	$2,010	$1,240
9 - 11	$15,610	$4,420	$3,100	$2,500	$770	$1,500	$2,010	$1,310
12 - 14	$15,440	$4,420	$3,220	$2,690	$850	$1,460	$1,680	$1,120
15 - 17	$16,480	$4,420	$3,230	$2,920	$820	$1,530	$2,450	$1,110
Average Per Year	$15,390	$4,420	$2,660	$2,540	$730	$1,420	$2,480	$1,150
Total 0 - 17	**$277,200**	**$79,560**	**$47,880**	**$45,720**	**$13,140**	**$25,560**	**$44,640**	**$20,700**

Northeast, 2021 Dollars

Age	Total	Housing	Food	Trans-portation	Clothing	Health Care	Child Care & Education	Misc.
0 - 2	$16,480	$5,070	$1,880	$2,200	$990	$1,250	$4,100	$990
3 - 5	$16,560	$5,070	$2,000	$2,260	$850	$1,160	$4,100	$1,120
6 - 8	$16,150	$5,070	$2,710	$2,330	$850	$1,200	$2,730	$1,260
9 - 11	$17,080	$5,070	$3,170	$2,380	$1,050	$1,360	$2,730	$1,320
12 - 14	$17,100	$5,070	$3,300	$2,570	$1,150	$1,310	$2,560	$1,140
15 - 17	$18,580	$5,070	$3,310	$2,800	$1,120	$1,380	$3,780	$1,120
Average Per Year	$16,990	$5,070	$2,730	$2,420	$1,000	$1,280	$3,330	$1,160
Total 0 - 17	**$305,820**	**$91,260**	**$49,140**	**$43,560**	**$18,000**	**$23,040**	**$59,940**	**$20,880**

*Data from the U.S. Department of Agriculture, U.S. Bureau of Labor Statistics, and author's calculations. Rounded to the nearest tenth.

Table 2. Average Cost of Full-Time Child Care for Children Under 5

Location	Middle-Income Group		Average Cost of Full-Time Child Care	
	Income Range	Average	Percent of Income	Dollar Amount
United States	$69,800 to $126,600	$96,300	13%	$12,520
Northeast	$69,800 to $126,600	$97,800	13%	$12,700

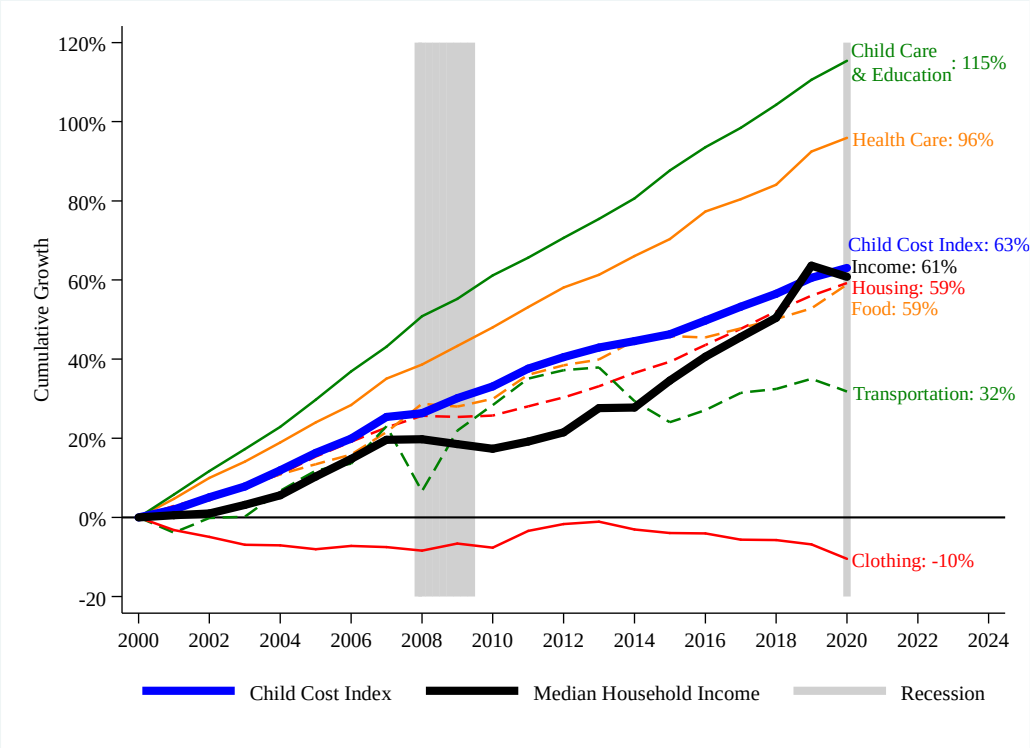
*Data from the U.S. Department of Agriculture, U.S. Department of Treasury, U.S. Bureau of Labor Statistics, and author's calculations. Rounded to the nearest tenth.

Due to the growing cost of health care, child care, and education, growth in the cost of raising a child over the last two decades has outpaced growth in the typical family's income, making it increasingly unaffordable to raise a child, especially for families that require full-time child care. The Department of Agriculture's periodic estimates for the direct costs of raising a child are not comparable over time because of methodological changes. It is possible, however, to estimate the relative affordability of raising a child over time using a combination of historical price data from U.S. Bureau of Labor Statistics and historical income data from the U.S. Census Bureau. For the period from 2000 through 2020, **Figure 2** shows the following variables: growth in the median household income in the U.S.; growth in the major cost categories of raising a child (housing, food, transportation, clothing, health care, and the combination of child care and education); and growth in the "child cost index," which is simply a weighted index of the growth in the major cost components of raising a child.[14] For the period as a whole, the key finding is that growth in the cost of raising a child (63 percent) outpaced growth in the typical family's income (61 percent) due primarily to the growing cost of health care (96 percent) and child care and education (115 percent). For the more recent period, the key finding is that the Great Recession of 2007–09 widened the gap between growth in the cost of raising a child and growth in income, and the coronavirus pandemic-induced recession of 2020 then reversed the short-lived growth in income that exceeded the growth in the cost of raising a child.

Two other points are worth addressing. First, the category weights for the child cost index here are based on the Department of Agriculture's average cost for each category, which, as addressed earlier, significantly understates the cost of child care for families that require full-time care. If the weight for the cost of child care is increased to account for families that require full-time care, growth in the cost of raising a child outpaces growth in the typical family's income by a much greater amount. Second, in 2021, the consumer price index increased 7 percent, the highest level since 1982. Although income data for 2021 are not yet available, the historic increase in prices makes it likely that the growth gap in the cost of raising a child and the typical family's income increased from 2020 to 2021.[15]

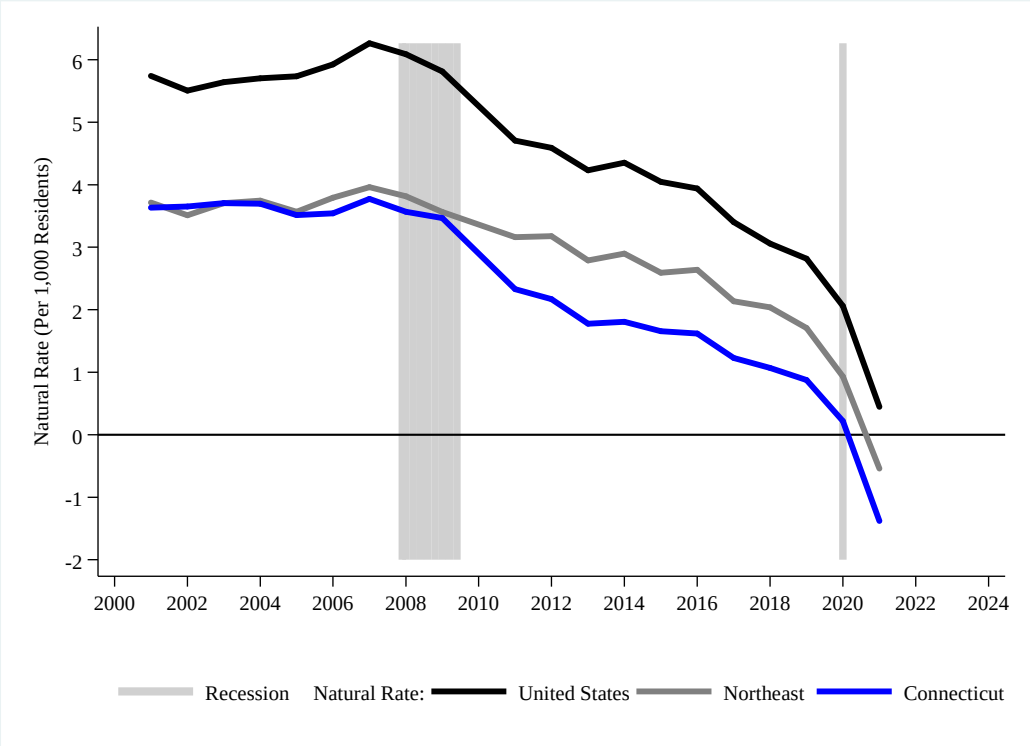
The high and growing cost of raising a child, especially for families that require full-time child care, has contributed to a decline in the natural rate of population change, which has slowed population growth in the U.S. and even more so in Connecticut. This in turn has contributed to slow economic growth in the U.S. and even slower growth in Connecticut, which hurts all of the state's families. The rate of population change includes two components: (1) the net migration rate, which is the rate of families moving to the state minus the rate of families leaving the state; and (2) the natural rate, which is the birth rate minus the death rate. **Figure 3** shows that in the U.S., and even more so in the Northeast and Connecticut, the natural rate of population change began to decrease in response to the Great Recession of 2007–09, which made it increasingly unaffordable to raise a child and lowered the birth rate.[16] Along with a negative net migration rate on average in Connecticut, the declining natural rate in the U.S. and Connecticut contributed to a slowdown in population growth. Notably, last decade, Connecticut had the lowest positive population growth of any state during the slowest decade of population growth in the U.S. since the 1930s.[17] The slowdown in population growth in turn contributed to slow economic growth in the U.S. and even slower growth in Connecticut, which hurts all of the state's families and is reviewed in detail in our 2021 economic report.[18]

Figure 2. Growth in the Cost of Raising a Child and the Typical Family's Income



*Data from the U.S. Bureau of Labor Statistics and author's calculations.

Figure 3. Decline in the Natural Rate of Population Change



*Data from U.S. Census Bureau.

Support for the High and Growing Cost of Raising Children: The Federal Income Tax

This section provides an overview of how the federal income tax helps to offset the high and growing cost of raising children. It proceeds in two parts. The first part provides an overview of the key components of the federal income tax for families with children. The second part provides an overview of the federal income tax burden for the average middle-class family in Connecticut with or without children and with or without child care expenses.

Key Components of the Federal Income Tax for Families with Children

As reviewed below and presented in **Table 3**, the federal income tax currently includes a tax deduction, tax brackets, and tax credits, all of which impact a family's federal income tax burden.[19] In 2021, the income tax included substantial one-year changes to two key tax credits. As a result, the focus in this section—especially the calculation of the federal income tax—is largely on the income tax parameters in 2020, which are likely a closer approximation to the income tax parameters over the next few years.

Income Tax Deduction/Exemption

An income tax deduction or exemption indirectly reduces a tax filer's liability by reducing their taxable income. In 2017, the federal income tax had a standard deduction of $12,700 for married tax filers (i.e., married filing jointly) and a personal exemption of $4,050. For example, this reduced the level of taxable income for a married family with no children by $20,800 (the standard deduction plus two personal exemptions), and it reduced the level of taxable income for a married family with two children by $28,900 (the standard deduction plus four personal exemptions).[20] Beginning in 2018, the Tax Cut and Jobs Act (TJCA) raised the standard deduction, set the personal exemption to zero, and increased the child tax credit, which is discussed below.[21] By 2020, the inflation-indexed standard deduction had increased to $24,800 for married tax filers.

Income Tax Brackets

Income tax brackets include specific ranges of income subject to specific tax rates. In 2020, the brackets for a married tax filer ranged from 10 percent on the first $19,750 in taxable income to 37 percent on taxable income above $622,050.

Income Tax Credits

Unlike an income tax exemption or deduction, which indirectly reduce a tax filer's liability by reducing their taxable income, an income tax credit directly reduces a tax filer's liability. The federal income tax includes two primary credits to help offset the high cost of raising children: the child tax credit (CTC) and the child and dependent care tax credit (CDCTC).

Child Tax Credit

The CTC is a refundable tax credit that helps to offset the high cost of raising children in general. For reference, a "refundable" tax credit is paid to a tax filer if it exceeds their income tax liability, whereas a "nonrefundable" tax credit is capped by the amount of income tax liability. **Figure 4** provides an overview of the permanent CTC and recent temporary changes, all of which is reviewed below.[22]

Permanent Law. Under permanent law, which was in effect in 2017 and will go back into effect in 2026, the CTC works as follows: after exceeding an income threshold of $3,000, the credit is phased in (i.e., it increases for each additional dollar earned) until reaching a maximum level for a specific income range. If a tax filer's income exceeds that specified income range, the credit is phased out (i.e., it decreases for each additional dollar earned) until the credit is no longer available. The maximum credit is $1,000 per child up to age 16, it is fully refundable, and the phase-out threshold is $75,000 for single filers and $110,000 for married filers.

Tax Cut and Jobs Act. Under the TCJA, the CTC includes the following changes for the years 2018 through 2020 and 2022 through 2025: the phase-in threshold is lowered to $2,500; the maximum credit is increased to $2,000 per child up to age 16, but only $1,400 is refundable; and the phase-out threshold is increased to $200,000 for single filers and $400,000 for married filers.

American Rescue Plan Act. Under ARPA, the CTC included the following changes for 2021: the phase-in threshold and phase-in process were both eliminated; the maximum credit was increased to $3,600 per child up to age 5 and $3,000 up to age 17; the credit was fully refundable; the initial phase-out began at $75,000 for single filers and $150,000 for married filers, which lowered the credit to the TCJA level; and the second phase-out began at $200,000 for single filers and $400,000 for married filers.

Child and Dependent Care Tax Credit

The CDCTC is a nonrefundable tax credit that helps to offset the high cost of child care. **Figure 5** provides an overview of the permanent CDCTC and recent temporary changes, all of which is reviewed below.[23]

Permanent Law. Under permanent law, the CDCTC works as follows: the credit equals the maximum credit rate, ranging from 35 percent to 20 percent based on income level, multiplied by the amount of qualifying child care expenses, a maximum of $3,000 for one child and $6,000 for two or more children. Because the credit is nonrefundable, it phases in with income tax liability and generally provides a maximum credit of $600 for one child or $1,200 for two or more children, and it has no phase out.

American Rescue Plan Act. Under ARPA, the CDCTC included the following changes for 2021: the credit was made refundable, which increased the phase-in rate; the maximum qualifying expenses were increased to $8,000 for one child and $16,000 for two or more children, which increased the maximum credit; and two income phase outs were created, the first at $125,000, the second at $400,000.

Table 3. Key Components of the Federal Income Tax for Families with Children, 2020

Income Tax Deduction and Exemption

	Single Tax Filer	Married Tax Filer
Standard Deduction	$12,400	$24,800
Personal Exemption	$0	$0

Income Tax Brackets

	Single Tax Filer	Married Tax Filer
10%	$0 to $9,875	$0 to $19,750
12%	$9,876 to $40,125	$19,751 to $80,250
22%	$40,126 to $85,525	$80,251 to $171,050
24%	$85,526 to $163,300	$171,051 to $326,600
32%	$163,301 to $207,350	$326,601 to $414,700
35%	$207,351 to $518,400	$414,701 to $622,050
37%	Over $518,400	Over $622,050

Child Tax Credit

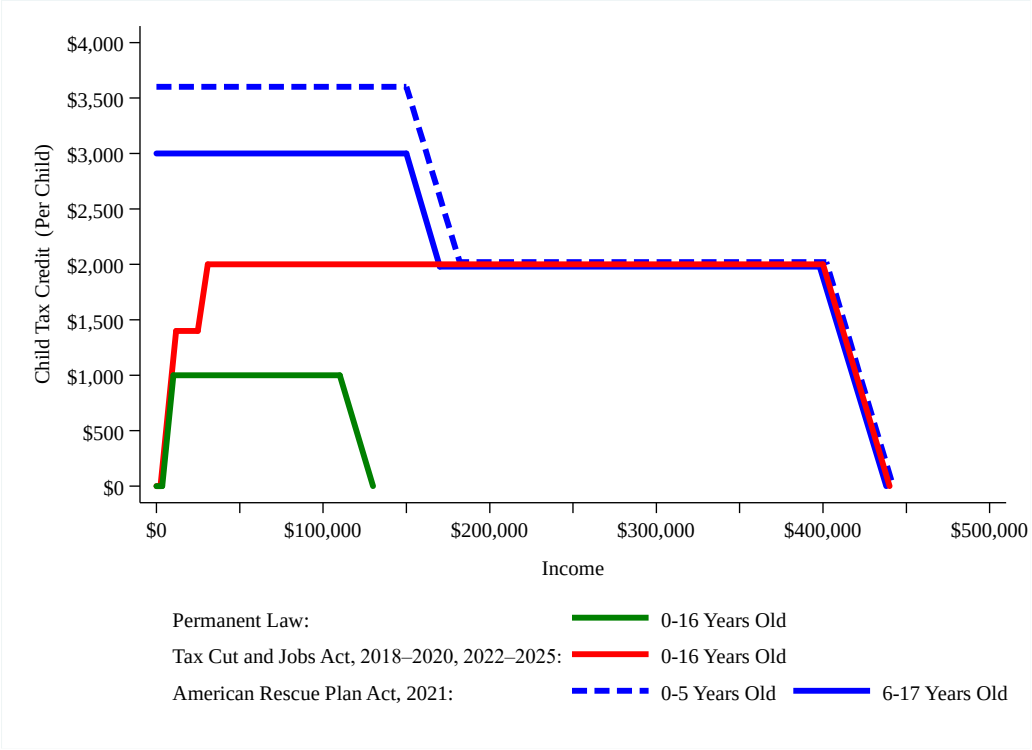
	Single Tax Filer	Married Tax Filer
Maximum Credit	$2,000 per child	$2,000 per child
Refundable Portion	$1,400 per child	$1,400 per child
Phase-In Threshold	$2,500	$2,500
Phase-In Rate	15%	15%
Phase-out Threshold	$200,000	$400,000
Phase-Out Rate	5%	5%

Child and Dependent Care Tax Credit

	Single Tax Filer	Married Tax Filer
Maximum Credit for Income Below $15,000	$1,050 for one child $2,100 for 2 or more children	$1,050 for one child $2,100 for 2 or more children
Maximum Credit for Income Above $43,000	$600 for one child $1,200 for 2 or more children	$600 for one child $1,200 for 2 or more children
Maximum Qualifying Expenses	$3,000 for one child $6,000 for 2 or more children	$3,000 for one child $6,000 for 2 or more children
Maximum Credit Rate	35%	35%
Minimum Credit Rate	20%	20%

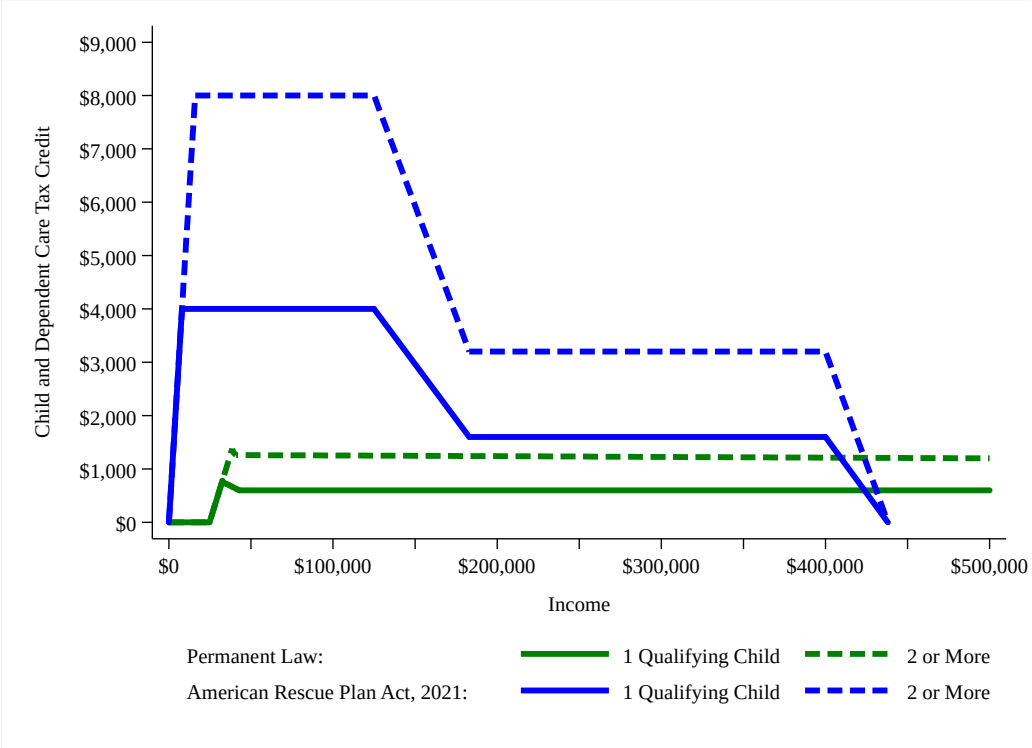
*Data from the Internal Revenue Service.

Figure 4. The Child Tax Credit, Married Tax Filer



*Data from the Internal Revenue Service, Congressional Research Service, and author's calculations.

Figure 5. The Child and Dependent Care Tax Credit, All Tax Filers



*Data from the Internal Revenue Service, Congressional Research Service, and author's calculations.

Federal Income Tax for the Average Middle-Class Family in Connecticut

Table 4 provides an overview of Connecticut's pre-tax income distribution.[24] The working class is defined as the bottom 50 percent of tax filers, and the average family makes $22,500. The middle class is defined as the next 40 percent of tax filers, and the average family makes $97,400. The upper class is defined as the next 9 percent of tax filers, and the average family makes $352,800. The wealthy is defined as the top 1 percent of tax filers, and the average family makes $3,083,600. For the sake of simplicity throughout the report, the tax burden at the federal level and in other states is calculated using Connecticut adjusted gross income (CT AGI) rather than federal AGI and each state's own version of AGI. Moreover, as noted, the focus is on the income tax burden in 2020, which is likely a closer approximation of the income tax burden over the next few years compared to the income tax burden in 2021 that incorporated substantial one-year changes.

Table 5 shows the federal income tax burden—in dollars and effective tax rate—for the average middle-class family in Connecticut.[25] For reference, a family's effective income tax rate is the total amount of income tax that it pays as a percentage of its income. Two key findings are reviewed below.

The federal income tax adjusts for family size through the CTC, lowering the income tax burden for a family with children compared to a family with the same income but no children. The average wealthy family generally has a higher federal income tax burden—in dollars and effective tax rate—than the average middle-class family because the average wealthy family has a greater "ability to pay," which is the foundational principle of the income tax. Similarly, the average middle-class family with no children generally has a higher federal income tax burden than the average middle-class family with children because the former family has a greater ability to pay taxes compared to the latter family that is spending an average of $16,990 a year per child in the Northeast. Specifically, in 2020, the average middle-class family in Connecticut with no children had a federal income tax burden of about $8,320 (or 8.5 percent) compared to about $4,320 (or 4.4 percent) for the average middle-class family with two children because the latter family benefitted from the CTC.

The federal income tax also adjusts for child care expenses through the CDCTC, further lowering the income tax burden for a family with children and full-time child care expenses compared to a family with the same income and same number of children but no child care expenses. In the same way that the average wealthy family has a greater ability to pay taxes than the average middle-class family, and the average middle-class family with no children has a greater ability to pay taxes than the average middle-class family with children, the average middle-class family with children but no child care expenses has a greater ability to pay taxes than the average middle-class family with children that require full-time child care, which costs an average of $12,700 a year per child in the Northeast. Specifically, in 2020, the average middle-class family in Connecticut with two children but no child care expenses had a federal income tax burden of about $4,320 (or 4.4 percent) compared to about $3,120 (or 3.2 percent) for the average middle-class family with two children and full-time child care expenses because the latter family benefitted from the CDCTC in addition to the CTC.

Table 4. Connecticut's Pre-Tax Income Distribution

Income Group	Percent of Tax Filers	Pre-Tax Income	
		Range	Average
Working-Class Families	Bottom 50%	Up to $48,000	$22,500
Middle-Class Families	Next 40%	$48,801 to $200,000	$97,400
Upper-Class Families	Next 9%	$200,001 to $1,000,000	$352,800
Wealthy Families	Top 1%	Over $1,000,000	$3,083,600

*Data from CT Department of Revenue Services and author's calculations.

Table 5. Federal Income Tax
for the Average Middle-Class Family in Connecticut, 2020

Family Characteristics	Average Middle-Class Family		
Tax Filing Status	Married	Married	Married
Number of Children	0	2	2
Child Care Expenses	No	No	Yes
Tax Dedution/Exemption			
Pre-Tax Income	$97,400	$97,400	$97,400
Standard Deduction	$24,800	$24,800	$24,800
Total Taxable Income	$72,600	$72,600	$72,600
Tax Brackets			
10%: $0 to $19,750	$1,975	$1,975	$1,975
12%: $19,751 to $80,250	$6,342	$6,342	$6,342
22%: $80,251 to $171,050	-	-	-
24%: $171,051 to $326,600	-	-	-
32%: $326,601 to $414,700	-	-	-
35%: $414,701 to $622,050	-	-	-
37%: Over $622,050	-	-	-
Total Tax Liability Before Credits	$8,317	$8,317	$8,317
Tax Credits			
Child Tax Credit	$0	$4,000	$4,000
Child and Dependent Care Tax Credit	$0	$0	$1,200
Total Tax Credits	$0	$4,000	$5,200
Income Tax			
In Dollars	$8,317	$4,317	$3,117
Effective Tax Rate	8.5%	4.4%	3.2%

*Data from the Internal Revenue Service and author's calculations.

Support for the High and Growing Cost of Raising Children: State Income Taxes

This section provides an overview of how state income taxes help to offset the high and growing cost of raising children. It proceeds in four parts. The first part provides a 50-state overview. The second and third parts provide an overview of income tax support in New York and California, respectively. The fourth part provides an overview of Connecticut's lack of income tax support.

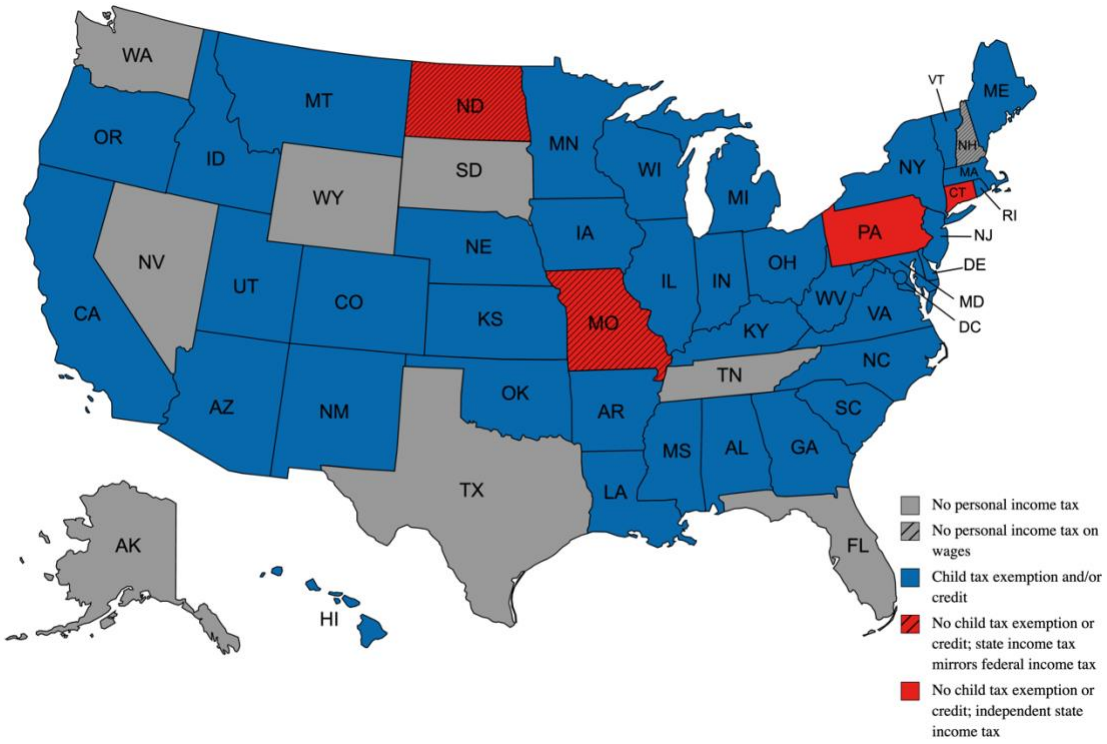
50-State Overview of Income Tax Support

Connecticut is one of only four states with an income tax—and one of only two states with an independent income tax—that does not adjust for family size or child care expenses to help offset the high and growing cost of raising children. Like the federal income tax, most state income taxes adjust for family size and/or child care expenses to help offset the high and growing cost of raising children. For an overview, **Figure 6** shows that of the 41 states that have a personal income tax on wage income, 38 states have (1) an exemption for children that indirectly reduces a family's tax liability and/or (2) a tax credit for children—in the form of a child tax credit (CTC), a child and dependent care tax credit (CDCTC) or both—that directly reduces a family's tax liability.[26] Of the four remaining states, two—Missouri and North Dakota—do not have an exemption for children because their income tax mirrors in part the federal income tax, which, as noted, temporarily removed the personal exemption that a family could claim for children and expanded the CTC in its place. This leaves only two states—Connecticut and Pennsylvania—that have an independent state income tax on wage income that does not help to offset the high and growing cost of raising children.

Connecticut is the only high cost of living state with an income tax that does not adjust for family size or child care expenses to help offset the high and growing cost of raising children. As reviewed earlier, the cost of raising a child varies throughout the U.S. For a comprehensive overview of the relative cost of living in each state, **Figure 7** shows the average price level expressed as a percentage of the U.S. average.[27] A state with a price level below 100 is a relatively low cost of living state, whereas a state with a price level above 100 is a relatively high cost of living state. Of the four states with an income tax that does not adjust for family size or child care expenses, three states—Missouri (a price level of 92.5), North Dakota (92.0), and Pennsylvania (97.6)—are relatively low cost of living states. This leaves Connecticut (a price level of 103.4) as the only high cost of living state in the U.S. with an income tax that does not help to offset the high and growing cost of raising children.

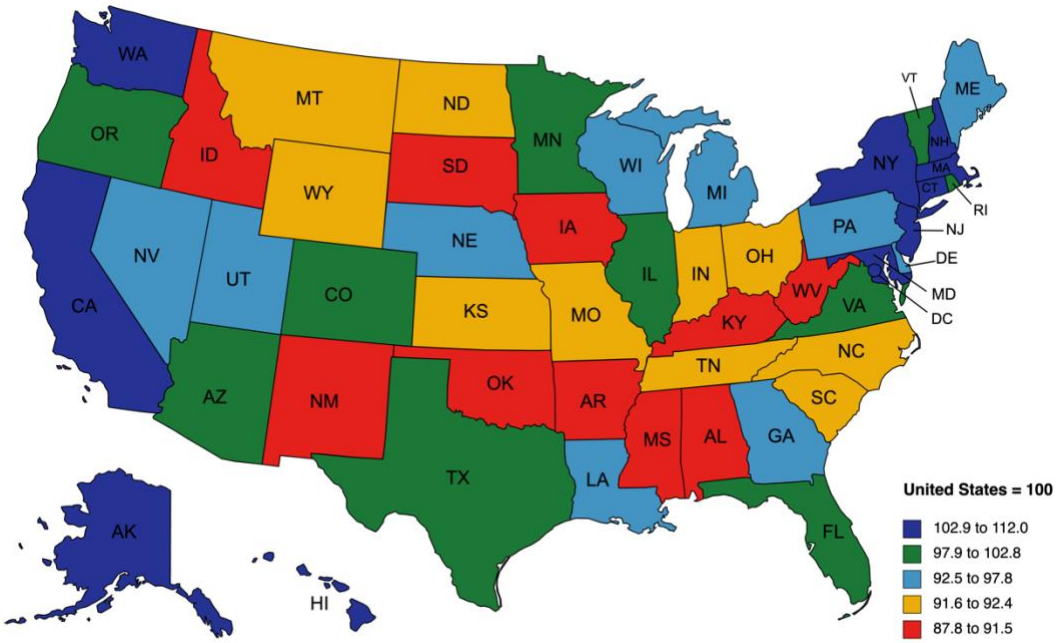
To be sure, Connecticut has an earned income tax credit (the CT EITC) that provides support for many families. However, the CT EITC also provides support for childless workers, meaning it is not specifically designed to help offset the high and growing cost of raising children. The credit is also largely limited to the working class (i.e., tax filers making less than about $57,500) and, like the federal government, a majority of states have an EITC in addition to the support reviewed above that is specifically designed to adjust for family size and/or child care expenses.[28]

Figure 6. State Income Tax Support for the High and Growing Cost of Raising Children



*Data from the Tax Foundation, Tax Credits for Workers and Families, and each state's relevant tax authority.

Figure 7. Cost of Living by State



*Data from the U.S. Bureau of Economic Analysis.

New York's Income Tax Support

To show in detail how other state income taxes help to offset the high and growing cost of raising children, below is an overview of New York's income tax. New York is selected for three reasons. First, like Connecticut, New York is a high cost of living state. Second, New York is the top state for tax filers leaving Connecticut, making it arguably the most important state for a comparison of income taxes. Third, New York has a higher top statutory income tax rate (8.82 percent) than Connecticut (6.99 percent). This is one of the most prominent measures in general for assessing whether a state has a high or low tax burden, but, as demonstrated here, it provides no insight into whether New York's income tax burden is high or low for most families, especially those with children and child care expenses.

As presented in **Table 6** and reviewed below, New York's income tax currently includes a tax deduction and exemption, tax brackets, and tax credits, all of which impact a family's income tax burden.[29]

Income Tax Deduction/Exemption

Similar to the federal income tax before the TCJA temporarily replaced the personal exemption with an expanded CTC, New York's income tax includes a standard deduction and a dependent exemption that a family can claim for children. Both tax components indirectly reduce a family's income tax liability and the latter helps to offset the high and growing cost of raising children. In 2020, the standard deduction was $16,050 for a married filer, and the dependent exemption was $1,000 per child.

Income Tax Brackets

Similar to the federal income tax, New York's income tax includes progressive tax brackets. In 2020, the brackets for a married filer ranged from 4 percent on the first $17,150 of taxable income to 8.82 percent on taxable income above $2,155,350.

Income Tax Credits

Similar to the federal income tax, New York's income tax includes a CTC and CDCTC, both of which directly reduce a family's tax liability and help to offset the high and growing cost of raising in children. In 2020, the state's CTC—officially named the Empire State child credit—equaled the greater of 33 percent of the permanent federal CTC or $100 per qualifying child for single filers making up to $75,000 and married filers making up to $110,000. The state's CDCTC equaled a percentage of the federal CDCTC, ranging from a high of 110 percent for tax filers making up to $25,000 and to a low of 20 percent for tax filers making more than $150,000.

New York's Income Tax for the Average Middle-Class Family

New York's income tax adjusts for family size through its dependent exemption and CTC, lowering the income tax burden for the average middle-class family with children. In New York, the state income tax burden for the average middle-class family (using Connecticut's income distribution) is about $4,430 (or 4.5 percent). If a family has two children, its state income tax burden is about $3,650 (or 3.7 percent) due to the state's dependent exemption and CTC, which provide a total tax reduction of about $780 (or $390 per child).

New York's income tax also adjusts for child care expenses through its CDCTC, further lowering the income tax burden for the average middle-class family with children and child care expenses. Compared to the income tax burden of about $4,430 (or 4.5 percent) for the average middle-class family with no children, New York's income tax burden for the average middle-class family with two children and child care expenses is about $2,930 (or 3 percent) due to the dependent exemption, CTC, and CDCTC, which provide a total tax reduction of about $1,500 (or $750 per child).

Table 6. Income Tax if Connecticut's Average Middle-Class Family Moved to New York

Family Characteristics	**Average Middle-Class Family**		
Tax Filing Status	Married	Married	Married
Number of Children	0	2	2
Child Care Expenses	No	No	Yes
Tax Dedution/Exemption			
Pre-Tax Income	$97,400	$97,400	$97,400
Standard Deduction	$16,050	$16,050	$16,050
Dependent Exemption	$0	$2,000	$2,000
Total Taxable Income	$81,350	$79,350	$79,350
Tax Brackets			
4%: $0 to $17,150	$686	$686	$686
4.5%: $17,151 to $23,600	$290	$290	$290
5.25%: $23,601 to $27,900	$226	$226	$226
5.9%: $27,901 to $43,000	$891	$891	$891
6.09%: $43,001 to $161,550	$2,336	$2,214	$2,214
6.41%: $161,551 to $323,200	-	-	-
6.85%: $323,201 to $2,155,350	-	-	-
8.82%: Over $2,155,350			
Total Tax Liability Before Credits	$4,428	$4,307	$4,307
Tax Credits			
Child Tax Credit	$0	$660	$660
Child and Dependent Care Tax Credit	$0	$0	$720
Total Tax Credits	$0	$660	$1,380
Income Tax			
In Dollars	$4,428	$3,647	$2,927
Effective Tax Rate	4.5%	3.7%	3.0%

*Data from NY Department of Taxation and Finance and author's calculations.

California's Income Tax Support

To further show in detail how other state income taxes help to offset the high and growing cost of raising children, below is an overview of California's income tax. California is selected for three reasons, all similar to those for selecting New York. First, like Connecticut, California is a high cost of living state. Second, California is the fourth most popular state for tax filers leaving Connecticut, making it arguably one of the most important states for a comparison of income taxes. Third, California has the highest top statutory income tax rate in the U.S. (13.3 percent). Again, this is one of the most prominent measures in general for assessing whether a state has a high or low tax burden, but, as demonstrated here, it provides no insight into whether California's income tax burden is high or low for most families, especially those with children and child care expenses.

As presented in **Table 7** and reviewed below, California's income tax includes a tax deduction, tax brackets, and tax credits, all of which impact a family's income tax burden.[30]

Income Tax Deduction/Exemption

Similar to the federal income tax, California's income tax includes an inflation-indexed standard deduction, which indirectly reduces a family's income tax liability. In 2020, the standard deduction was $9,202 for married filers.

Income Tax Brackets

Similar to the federal income tax, California's income tax includes progressive tax brackets that are inflation indexed. In 2020, the brackets for a married filer ranged from one percent on the first $17,864 of taxable income to 13.3 percent on taxable income above $1,198,024.

Income Tax Credits

The state's income tax includes an inflation-indexed personal exemption credit that was $248 for married filers in 2020. Also, similar to the federal income tax, California's income tax includes a CTC and CDCTC, both of which directly reduce a family's tax liability and help to offset the high and growing cost of raising in children. In 2020, the state's inflation-indexed CTC—officially labeled a dependent exemption but it operates as a tax credit—equaled $383 per child. The state's CDCTC equaled a percentage of the federal CDCTC, ranging from a high of 50 percent for tax filers making up to $40,000 and to a low of 34 percent for tax filers making up to $100,000.

California's Income Tax for the Average Middle-Class Family

California's income tax adjusts for family size through its CTC, lowering the income tax burden for the average middle-class family with children. In California, the state income tax burden for the average middle-class family (using Connecticut's income distribution) is about $2,680 (or 2.8 percent). If a family has two children, its state income tax burden is about $1,920 (or 2 percent) due to the state's CTC, which provides a total tax reduction of about $770 (or $380 per child).

California's income tax also adjusts for child care expenses through its CDCTC, further lowering the income tax burden for the average middle-class family with children and child care expenses. Compared to the income tax burden of about $2,680 (or 2.8 percent) for the average middle-class family with no children, California's income tax burden for the average middle-class family with two children and child care expenses is about $1,500 (or 1.5 percent) due to the CTC and CDCTC, which provide a total tax reduction of about $1,170 (or $590 per child).

Table 7. Income Tax if Connecticut's Average Middle-Class Family Moved to California

Family Characteristics	**Average Middle-Class Family**		
Tax Filing Status	Married	Married	Married
Number of Children	0	2	2
Child Care Expenses	No	No	Yes
Tax Dedution/Exemption			
Pre-Tax Income	$97,400	$97,400	$97,400
Standard Deduction	$9,202	$9,202	$9,202
Total Taxable Income	$88,198	$88,198	$88,198
Tax Brackets			
1%: $0 to $17,864	$179	$179	$179
2%: $17,865 to $42,350	$490	$490	$490
4%: $42,351 to $66,842	$980	$980	$980
6%: $66,843 to $92,788	$1,281	$1,281	$1,281
8%: $92,789 to $117,268	-	-	-
9.3%: $117,269 to $599,016	-	-	-
10.3%: $599,017 to $718,814	-	-	-
11.3%: $718,815 to $1,198,024	-	-	-
12.3%: Over $1,198,024	-	-	-
Total Tax Liability Before Credits	$2,929	$2,929	$2,929
Tax Credits			
Personal Exemption Credit	$248	$248	$248
Child Tax Credit	$0	$766	$766
Child and Dependent Care Tax Credit	$0	$0	$408
Total Tax Credits	$248	$1,014	$1,422
Income Tax			
In Dollars	$2,681	$1,915	$1,507
Effective Tax Rate	2.8%	2.0%	1.5%

*Data from CA Franchise Tax Board and author's calculations.

Connecticut's Lack of Income Tax Support

To show in detail the extent to which Connecticut is an outlier as a high cost of living state with an income tax that fails to help offset the high and growing cost of raising children, below is an overview of Connecticut's income tax in comparison to the federal income tax, New York's income tax, and California's income tax.

As presented in **Table 8** and reviewed below, Connecticut's income tax includes a tax exemption, tax brackets, and tax credit, all of which impact a family's income tax burden.[31]

Income Tax Deduction/Exemption

Similar to New York and California, both of which provide an income tax deduction—$16,050 and $9,202, respectively, for married filers—Connecticut's income tax includes what it labels an exemption, up to a maximum of $24,000 for married filers. However, unlike the income tax deduction in New York and California, the average middle-class family receives no income tax exemption in Connecticut because the exemption is entirely phased out for married filers making more than $71,000. Also, unlike New York, which provides an exemption of $1,000 per dependent in addition to the state's standard deduction, Connecticut's income tax does not include an exemption that adjusts for family size.

Income Tax Brackets

Similar to New York and California, Connecticut's income tax includes progressive tax brackets. The brackets for a married filer range 3 percent on the first $20,000 of taxable income to 6.99 percent on taxable income over $1 million. Connecticut's income tax brackets also include two relatively complicated processes—the "three percent tax rate phase out add back" and "tax recapture"—that replace the lower brackets with higher brackets as a tax filer's income level increases.

Income Tax Credit

Similar to California, which includes a personal exemption credit of $248 for married filers, Connecticut's income tax includes a personal tax credit that equals a percentage of a tax filer's liability based on their income level. The credit ranges from a high of 75 percent for married filers making up to $30,000 and to a low of 0 percent for married filers making more than $100,500. The credit currently equals $313 for the average middle-class family. However, unlike California's personal exemption credit, which is indexed to inflation and therefore increases each year, Connecticut's personal tax credit is not indexed to inflation and will decrease to $0 once the average middle-class family's income increases from $97,400 to more than $100,500. Also, unlike New York and California, both of which provide a state CTC and a CDCTC, Connecticut's income tax includes no CTC or CDCTC.

Connecticut's Income Tax for the Average Middle-Class Family

Unlike the federal income tax and nearly every other state income tax, Connecticut's income tax does not adjust for family size or child care expenses, which puts an unfair tax burden on families with children, especially those that require full-time child care. Connecticut's average middle-class family with either no children, two children, or two children and full-time child care expenses pays about $4,160 (or 4.3 percent) in the state income tax due to the lack of a state CTC and CDCTC. This violates the foundational tax principle of "ability to pay" because a family with children spends on average $16,990 each year per child and a family with full-time child care expenses spends on average $12,700 each year per child on child care alone in addition to the other substantial direct costs of raising a child.

Connecticut's average middle-class family with no children pays nearly twice as much in the federal income tax than the state income tax. However, due to the federal CTC and CDCTC and lack of a state CTC and CDCTC, Connecticut's average middle-class family with two children pays nearly as much in the state income tax as the federal income tax, and it pays more in the state income tax than the federal income tax if it has child care expenses. Connecticut's average middle-class family with no children pays about $4,160 in the state income tax, which is substantially less than the $8,320 it pays in the federal income tax. However, Connecticut's average middle-class family with two children pays only about $4,320 in the federal income tax, nearly the same as it pays in the state income tax, due to the tax reduction of $4,000 (or $2,000 per child) from the federal CTC. Moreover, Connecticut's average middle-class family with two children and full-time child care expenses pays only about $3,120 in the federal income, which is $1,040 less than it pays in the state income tax, due to the tax reduction of $5,200 (or $2,600 per child) from the federal CTC and CDCTC.

If Connecticut's average middle-class family moved to New York, its overall state income tax burden would be lower due to a tax cut of up to $750 per child. If Connecticut's average middle-class family with two children moved to New York, it would pay about $3,650 in the state income tax, which is $510 less than it pays in Connecticut. This is because New York's dependent exemption and CTC provide a tax reduction of about $780 (or $390 per child). Even more, if Connecticut's average middle-class family with two children and full-time child care expenses moved to New York, it would pay about $2,930 in the state income tax, which is $1,230 less than it pays in Connecticut. This is because New York's dependent exemption, CTC, and CDCTC provide a tax reduction of about $1,500 (or $750 per child).

If Connecticut's average middle-class family moved to California, its overall state income tax burden would be lower due to a tax cut of up to $590 per child. If Connecticut's average middle-class family with two children moved to California, it would pay about $1,920 in the state income tax, which is about $2,240 less than it pays in Connecticut. This is in large part because California's CTC provides a tax reduction of about $770 (or $380 per child). Even more, if Connecticut's average middle-class family with two children and full-time child care expenses moved to California, it would pay about $1,510 in the state income tax, which is $2,650 less than it pays in Connecticut. This is in large part because California's CTC and CDCTC provide a tax reduction of about $1,170 (or $590 per child).

Table 8. Income Tax for the Average Middle-Class Family

Connecticut's Income Tax

Family Characteristics	Middle Class	Middle Class	Middle Class
Tax Filing Status	Married	Married	Married
Number of Children	0	2	2
Child Care Expenses	No	No	Yes
Tax Dedution			
Pre-Tax Income	$97,400	$97,400	$97,400
Exemption	$0	$0	$0
Total Taxable Income	$97,400	$97,400	$97,400
Tax Brackets			
3%: $0 - $20,000	$600	$600	$600
5%: $20,001 to $100,000	$3,870	$3,870	$3,870
5.5%: $100,001 to $200,000	-	-	-
6%: $200,001 to $400,000	-	-	-
6.5%: $400,001 to $500,000	-	-	-
6.9%: $500,001 to $1,000,000	-	-	-
6.99%: Over $1,000,000	-	-	-
Total Liability Before Credits	$4,470	$4,470	$4,470
Tax Credits			
Personal Tax Credit	$313	$313	$313
Child Tax Credit	$0	$0	$0
Child and Dependent Care Tax Credit	$0	$0	$0
Total Tax Credits	$313	$313	$313
Income Tax Liability			
In Dollars	$4,157	$4,157	$4,157
Effective Tax Rate	4.3%	4.3%	4.3%

Federal Income Tax

Income Tax			
In Dollars	$8,317	$4,317	$3,117
Compared to Connecticut	+$4,160	+$160	-$1,040

New York's Income Tax

Income Tax			
In Dollars	$4,428	$3,647	$2,927
Compared to Connecticut	+$271	-$510	-$1,230

California's Income Tax

Income Tax			
In Dollars	$2,681	$1,915	$1,507
Compared to Connecticut	-$1,476	-$2,242	-$2,650

*Data from relevant federal and state tax authorities and author's calculations.

Options for the Connecticut Child Tax Credit

This section provides options for establishing a Connecticut Child Tax Credit (CT CTC) that would help to offset the high and growing cost of raising of children and bring Connecticut's income tax more in line with other state income taxes, especially those in other high cost of living states like New York and California. Although some states, as demonstrated, include both a CTC and CDCTC, we recommend first establishing a CTC because it would help a larger number of families and allows for greater flexibility in how the support is used.

Figure 8 provides an overview of the options for a CT CTC, **Table 9** provides an overview of timely support for both options, and **Table 10** provides cost estimates, all of which is reviewed below.[32]

Option 1. Establish a CT CTC that is a phased-in $420 refundable credit or a $600 nonrefundable credit.
Following the release of our 2020 report tax report that recommended establishing a CT CTC and provided several options, the Connecticut Finance, Revenue, and Bonding Committee passed a revenue package in 2021 that included a CT CTC consisting of a phased-in $420 refundable credit or $600 nonrefundable credit per child under the age of 17 and up to a maximum of three children.[33] The design of this proposed CT CTC incorporates features of both the TCJA- and ARPA-based federal CTC. Like the TCJA-based federal CTC, it includes a phase-in and is partially refundable. Like the APRA-based credit, it has no initial income threshold. To understand how this proposed CT CTC works, consider a married tax filer with two children: the credit phases in as the tax filer's income increases to $18,667; the tax filer receives the maximum refundable credit of $840 ($420 per child) if their income is between $18,677 and $49,750; the nonrefundable portion of the credit phases in as the tax filer's income increases to $53,000; the tax filer receives the maximum nonrefundable credit of $1,200 ($600 per child) if their income is between $53,000 and $200,000; the credit phases out as the tax filer's income increases to $210,000; and the tax filer receives no credit if their income exceeds that amount.

Option 2. Establish a CT CTC that is a $450 refundable credit with no phase in.
Our 2020 tax report also included a proposal for a fully refundable CT CTC with no phase in. To make the cost of options here about the same we have modified the earlier proposal. Specifically, option 2 is a $450 refundable credit per child under the age of 17, with no limit on the number of children and no phase in, and the phase out begins for single tax filers making more than $100,000 and married tax filers making more than $200,000. This proposal is more like the ARPA-based credit. To understand how it works, consider a married tax filer with two children: the tax filer receives a refundable credit of $900 ($450 per child) if their income is less than $200,000; the credit phases out as the tax filer's income increases to $210,000; and the tax filer receives no credit if their income exceeds that amount.

Option 1a / 2a. Inflation index either CT CTC option.
Our 2022 tax report showed how the failure to inflation index the key components of the income tax—exemption, brackets, and credits—has operated as a hidden annual tax increase on working- and middle-class families. Inflation indexing either CT CTC option would prevent this process.[34]

Either CT CTC option would make Connecticut's tax system fairer, which would help working- and middle-class families with children make ends meet, especially if the state provides timely support. As noted in the introduction, 53 percent of Connecticut's families had difficulty paying their usual expenses this past January, 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).[35] This is due in part Connecticut's historic level of income inequality, a substantial racial income gap, and an unfair tax system that exacerbates both problems. Establishing a CT CTC would help correct those problems by making Connecticut's tax system fairer. To better understand the impact of both CT CTC options, below is an overview by income group and race and ethnicity.

CT CTC Option 1—Income-Group Overview. The average working-class family with two children would receive a tax cut of $840, which is equal to 3.7 percent of its pre-tax income and could be provided in payments of $70 a month or $140 every other month. The average middle-class family with two children would receive a tax cut of $1,200, which is equal to 1.2 percent of its pre-tax income and could be provided in installments of $100 a month or $200 every other month.

CT CTC Option 2—Income-Group Overview. The average working-class family with two children would receive a tax cut of $900, which is equal to 4 percent of its pre-tax income and could be provided in payments of $75 a month or $150 every other month. The average middle-class family with two children would also receive a tax cut of $900, which is equal to 0.9 percent of its pre-tax income and could be provided in installments of $75 a month or $150 every other month.

CT CTC Option 1—Race-Ethnicity Overview. The median Black household with two children and the median Latino/a/x household with two children would receive a tax cut of $840, which is equal to 1.7 percent of their pre-tax income and could be provided in payments of $70 a month or $140 every other month. The median white household would receive a tax cut of $1,200, which is equal to 1.4 percent of its pre-tax income and could be provided in installments of $100 a month or $200 every other month.

CT CTC Option 2—Race-Ethnicity Overview. The median Black household with two children and the median Latino/a/x household with two children would receive a tax cut of $900, which is equal to 1.8 percent of their pre-tax income and could be provided in payments of $75 a month or $150 every other month. The median white household would also receive a tax cut of $900, which is equal to 1 percent of its pre-tax income and could be provided in installments of $75 a month or $150 every other month.

Under options 1 and 2, the average working-class family would receive a larger tax cut as a percent of its income than the average middle-class family, and both would receive a larger tax cut than the average upper-class and wealthy families that receive no tax cut. Likewise, the median Black and Latino/a/x households would receive a larger tax cut as a percent of their income than the median white household. Both options would therefore make the tax system fairer and help lower-income families make ends meet, especially if the state provides timely support. However, as shown, option 2 would be even more effective because all of the qualifying families would receive the same support in dollars.

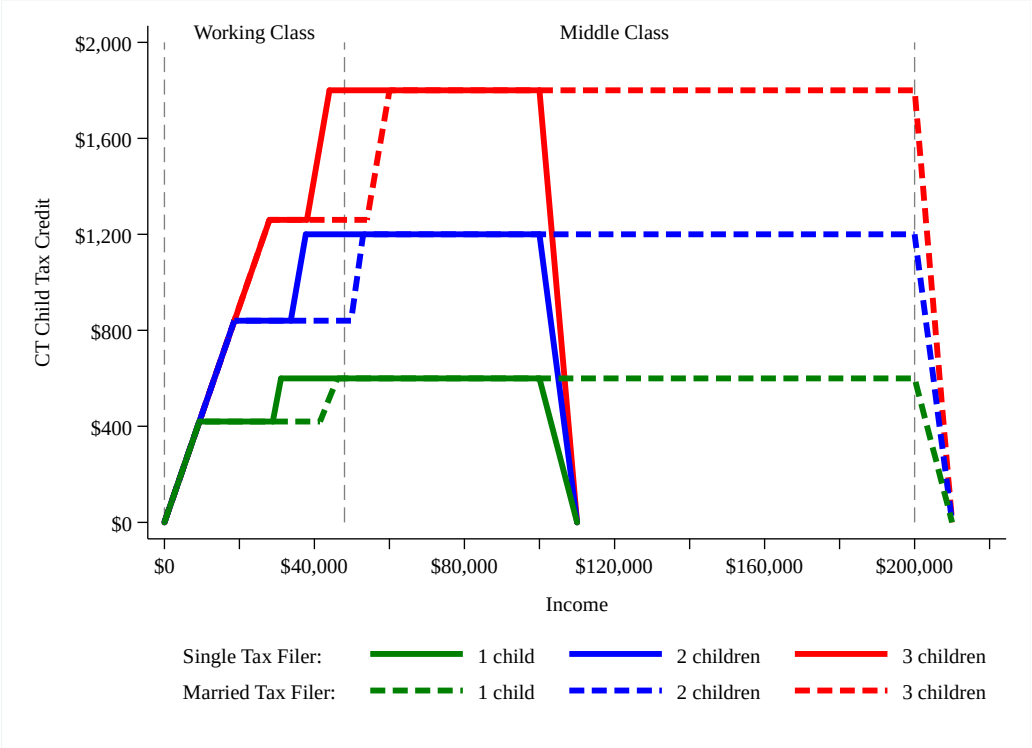
Either CT CTC option could be combined with the existing Connecticut earned income tax credit (CT EITC) to provide a more equal or an even greater level of timely support to working-class families, which disproportionately includes families of color. As detailed in our 2022 tax report, the CT ETIC provides the average working-class family with two children a refundable tax credit of about $1,820, and it provides the median Black household with two children and the median Latino/a/x household with two children about $320 and $300, respectively. In contrast, the average middle-class family and the median white household do not qualify for the CT EITC.[36] Therefore, policymakers could either (1) combine the existing CT EITC and CT CTC option 1 to ensure that working-class families and the median Black and Latino/a/x households receive a more equal level of timely support in dollars compared to middle-class families and the median white household, or (2) combine the existing CT EITC and CT CTC option 2 to ensure that working-class families and the median Black and Latino/a/x households receive an even greater level of timely support in dollars because a higher percentage of those families are having difficulty paying their usual expenses.

Either CT CTC option would provide support for over 600,000 children, including up to about 95,000 children living in poverty, which disproportionately includes children of color. The Institute on Taxation and Economic Policy (ITEP), a nonprofit, nonpartisan think tank, estimates that over 600,000 children would benefit from CT CTC option 1 and even more would benefit from option 2 due to the removal of the limit on the number of credits per family.[37] Additionally, the U.S. Census Bureau estimates that in Connecticut 101,000 children (14 percent) live in poverty, including 24,000 Black children (27 percent) and 53,000 Latino/a/x children (29 percent).[38] Of the children living in poverty, an estimated 96,000 are under age 17 and would potentially qualify for support under either CT CTC option because neither option includes an income threshold. However, option 2 would provide substantially more support for children living in poverty because even families with very low incomes would receive the full credit for each child compared to only part of the credit under option 1.

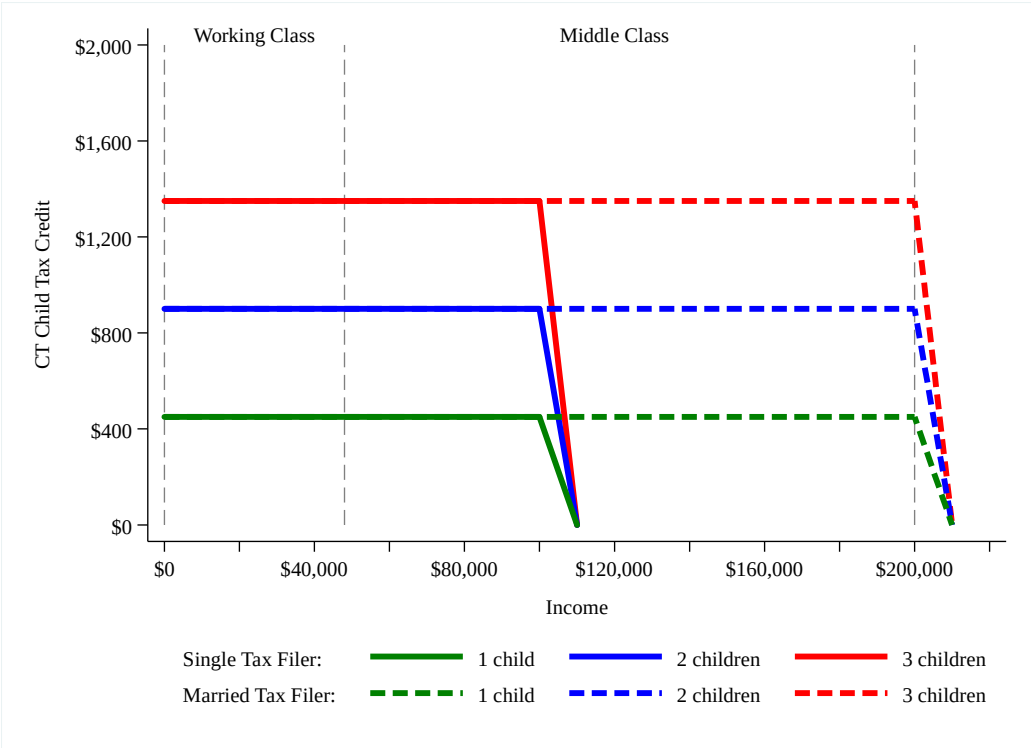
Either CT CTC option would help grow Connecticut's economy, which would benefit all of the state's families. Based in large part on variation in the consumption and savings practices of families at different income levels, the "fiscal multiplier"—the ratio of the change in economic output to the change in government spending or taxes—varies substantially for different policies. In particular, a fiscal multiplier greater than one means that economic output increases by more than a dollar for each additional dollar in government spending or tax cuts due to the direct effect on economic output as well as the positive indirect effects that arise when the direct effect spreads throughout the economy. As detailed in our 2021 economic report, Moody's Analytics—the firm that provides economic projections for Connecticut's Office of Fiscal Analysis—estimates that a $1 tax cut in the form of the CTC has an estimated expansionary effect on economic output equal to $1.25. This means that establishing a $300 million CT CTC would increase the state's economic output by $375 million, though the net effect would ultimately depend on how the CT CTC is funded.[39] In addition to this short-term economic boost, establishing a CT CTC would help grow Connecticut's economy over the medium- to long-term by making it more affordable for working- and middle-class families to stay here and have more children, which in turn would benefit all of the state's families by increasing the tax base for making critical investments and paying down long-term obligations.

Figure 8. Connecticut Child Tax Credit Options

Option 1. Phased-In $420 Refundable Credit or $600 Nonrefundable Credit



Option 2. $450 Refundable Credit, No Phase In



*Data from CT General Assembly, CT Department of Revenue Services and author's calculations.

Table 9. Timely Support Overview for Connecticut Child Tax Credit Options

Working- and Middle-Class Families, Married Tax Filers

	Option 1			Option 2		
	1 Child	**2 Children**	**3 Children**	**1 Child**	**2 Children**	**3 Children**
Average Working-Class Family						
Income	$22,500	$22,500	$22,500	$22,500	$22,500	$22,500
CT CTC: Total In Dollars	$420	$840	$1,013	$450	$900	$1,350
CT CTC: Percent of Income	1.9%	3.7%	4.5%	2.0%	4.0%	6.0%
Bimonthly Support (6 payments)	$70	$140	$169	$75	$150	$225
Monthly Support (12 payments)	$35	$70	$84	$38	$75	$113
Average Middle-Class Family						
Income	$97,400	$97,400	$97,400	$97,400	$97,400	$97,400
CT CTC: Total In Dollars	$600	$1,200	$1,800	$450	$900	$1,350
CT CTC: Percent of Income	0.6%	1.2%	1.8%	0.5%	0.9%	1.4%
Bimonthly Support (6 payments)	$100	$200	$300	$75	$150	$225
Monthly Support (12 payments)	$50	$100	$150	$38	$75	$113

Median Household by Race and Ethnicity, Married Tax Filers

	Option 1			Option 2		
	1 Child	**2 Children**	**3 Children**	**1 Child**	**2 Children**	**3 Children**
Median Black Household						
Income	$48,900	$48,900	$48,900	$48,900	$48,900	$48,900
CT CTC: Total In Dollars	$600	$840	$1,260	$450	$900	$1,350
CT CTC: Percent of Income	1.2%	1.7%	2.6%	0.9%	1.8%	2.8%
Bimonthly Support (6 payments)	$100	$140	$210	$75	$150	$225
Monthly Support (12 payments)	$50	$70	$105	$38	$75	$113
Median Latino/a/x Household						
Income	$49,200	$49,200	$49,200	$49,200	$49,200	$49,200
CT CTC: Total In Dollars	$600	$840	$1,260	$450	$900	$1,350
CT CTC: Percent of Income	1.2%	1.7%	2.6%	0.9%	1.8%	2.7%
Bimonthly Support (6 payments)	$100	$140	$210	$75	$150	$225
Monthly Support (12 payments)	$50	$70	$105	$38	$75	$113
Median White Household						
Income	$85,800	$85,800	$85,800	$85,800	$85,800	$85,800
CT CTC: Total In Dollars	$600	$1,200	$1,800	$450	$900	$1,350
CT CTC: Percent of Income	0.7%	1.4%	2.1%	0.5%	1.0%	1.6%
Bimonthly Support (6 payments)	$100	$200	$300	$75	$150	$225
Monthly Support (12 payments)	$50	$100	$150	$38	$75	$113

*Data from CT General Assembly, CT Department of Revenue Services and author's calculations.

Either CT CTC option could be funded over the medium to long term by closing or reducing Connecticut's estimated $2.6 billion income tax gap. In the short term, Connecticut has a projected budget surplus that could fund either CT CTC option. Moreover, as detailed in our 2022 tax report, Connecticut has an estimated $2.6 billion annual income tax gap due to a combination of "opaque income sources that accrue disproportionately to higher earners" and the limited, decreasing resources available to the Connecticut Department of Revenue Services to ensure tax compliance. Closing or even reducing a portion of Connecticut's income tax gap would be sufficient to fund either CT CTC option and would further make the tax system fairer because the wealthy are likely the primary beneficiaries of the current income tax gap.[40]

Table 10. Cost Estimate for Connecticut Child Tax Credit Options

Option	OFA Estimate	ITEP Estimate
Establish a CT CTC that is a phased-in $420 refundable credit or $600 nonrefundable credit	$300 million	$279 million
Establish a CT CTC that is $450 refundable credit with no phase in	-	$275 million
Add inflation indexing, 2 percent to 4 percent	-	$9 million to $19 million

*Data from the Institute on Taxation and Economic Policy (ITEP) and the CT Office of Fiscal Analysis (OFA).

Conclusion

This past January, 53 percent of Connecticut'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—"Steps To A Fairer Tax System"—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 provided 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 income 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 and a negative net migration rate. To address these problems, this report provided options for establishing a Connecticut child tax credit that would help to offset the high and growing cost of raising of children and bring Connecticut's income tax more in line with the federal income tax and other state income taxes. This is an essential first step in generating an "economic comeback" that is premised on growing the number of tax payers.

Acknowledgements

Connecticut Voices for Children's fiscal and economic policy research is funded by the Stoneman Family Foundation and the Melville Charitable Trust. For assistance on this report, CT Voices thanks the Institute on Taxation and Economic Policy.

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