CONNECTICUT VOICES FOR CHILDREN

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EXECUTIVE SUMMARY

SUPPORTING THE ECONOMIC WELL-BEING OF CONNECTICUT'S FAMILIES AND CHILDREN:
AN OVERVIEW OF THE CT CHILD TAX CREDIT

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Executive Summary

Many of Connecticut's families, especially those with children, are struggling to make ends meet. Some new statistics highlight the scale and urgency of the problem. From 2021 to 2022, child poverty in Connecticut—using the Supplemental Poverty Measure—jumped from 3.8 percent, or about 27,000 children, to 11.1 percent, or about 82,000 children, meaning child poverty in the state more than doubled in a year. Additionally, in 2023, while 17.7 percent of all households in Connecticut reported that it was "very difficult" to pay their usual expenses, an already troublingly high statistic, the rate increases to 27.6 percent for low- and middle-income households with children, 38.9 percent for Black households with children, and 32.2 percent for Hispanic households with children. The higher rate of struggle for the latter households is due largely to the high cost of raising children. In the Northeast, it costs an average of nearly $18,400 a year for a married, middle-income family to raise a child, and the cost is even higher for families that require full-time child care, as that alone costs between about $12,600 and $19,200 a year depending on the age of the child and the type of provider.

Rather than support families with children, Connecticut's tax system contributes to the problem in two ways. The more well-known issue is that the tax system unfairly burdens low- and middle-income families compared to high-income and wealthy families, which harms the economic well-being of low- and middle-income families. The less well-known but no less important issue is that Connecticut is the only high-cost-of-living state in the U.S. with a broad-based personal income tax that does not adjust for the number of children or child care expenses, which makes the tax system especially harm the economic well-being of many low- and middle-income families with children.

Other issues harming the economic well-being of Connecticut's families and children include the distribution of income and wealth. Using new data on wealth—the less studied of the two issues—a distributional analysis shows a very high level of wealth inequality, substantial racial and ethnic wealth gaps, and substantial wealth poverty. On average from 2017 to 2021, the top 1 percent of families in Connecticut had an estimated average wealth, or net worth, of $48.3 million, while households at the 10th percentile had an average wealth of -$1,800, meaning their liabilities exceeded their assets. The result is that many families lack sufficient financial resources to maintain an adequate standard of living, especially during periods of unemployment or when experiencing other economic hardships.

To address these problems, Connecticut Voices for Children (CT Voices) is publishing two reports on supporting the economic well-being of Connecticut's families and children. The focus of this report is the proposed CT Child Tax Credit (CT CTC), and the focus of the other report is the CT Baby Bonds program.

In focusing on the CT CTC, this report has two primary, related objectives. The first primary objective is to provide an overview of economic well-being to make clear both the level of support that Connecticut's families and children require and the urgency of providing that support. The second primary objective is to provide an overview of a CT CTC, including the case for establishing the tax credit and a range of policy options. To that end, the report proceeds in two sections.

The first section of the report provides an overview of economic well-being, and it proceeds in three parts. The first part provides an overview of the growth and distribution of income. *Income* is the flow of money that a household or family receives over a given period, and it is essential to economic well-being because households and families use their income to pay for basic needs, pursue opportunities, and build a secure future while contributing to overall economic growth. The key findings include:

- Since the pandemic-induced recession, income growth has failed to keep up with rising costs, reducing the standard of living for low- and middle-income households in Connecticut.

- Connecticut has a very high level of income inequality, with the top 1 percent of tax filers making $3.4 million a year, equal to 181.7 times the income of $18,800 for households at the 10th percentile.

- Connecticut has substantial racial and ethnic income gaps, with the median Black and median Hispanic households earning $0.63 and $0.61, respectively, for each dollar the median white household earns.

- Inadequate income growth, a high level of income inequality, and substantial racial and ethnic income gaps contribute to an overall child poverty rate of 11.1 percent in Connecticut and an even higher rate for Black and Hispanic children. This is a major problem because poverty harms children "in virtually every dimension" of life, "from physical and mental health, to educational attainment and labor market success."

The second part of the first section provides an overview of the distribution of wealth. *Wealth*, or net worth, is the total value of assets after subtracting liabilities, and it is essential to economic well-being because it provides a financial resource for unexpected expenses and allows households and families to maintain an adequate standard of living during periods of unemployment or other economic hardships. The key findings include:

- Connecticut has an even higher level of wealth inequality than income inequality, with an average estimated wealth of $48.3 million for the top 1 percent of families compared to -$1,800 for households at the 10th percentile.

- The Northeast, which includes Connecticut, has substantial racial and ethnic wealth gaps, with the median Black and median Hispanic households both averaging $0.05 for each dollar in wealth for the median white household.

- An exceptionally high level of wealth inequality and substantial racial and ethnic wealth gaps contribute to an overall wealth poverty rate of 13.7 percent in Connecticut and an even higher rate for Black and Hispanic households.

The third part of the first section provides an overview of the ability of households to pay usual expenses, especially households with children. Compared to the analyses of income and wealth, this provides a timelier and more direct overview of economic well-being. The key findings include:

- Raising a child is very expensive, costing an average of $18,390 a year for a married, middle-income family in the Northeast, and it is even more expensive for families that require full-time child care, as that alone costs between $12,630 and $19,180 a year in Connecticut.

- Nearly 18 percent of households in Connecticut report that it is “very difficult” to pay usual expenses, and the rate increases significantly for low- and middle-income households with children (27.6 percent) and Black and Hispanic households with children (38.9 percent and 32.2 percent).

- More than 11 percent of households in Connecticut report that they “sometimes” or “often” do not have enough to eat, and the rate increases significantly for low- and middle-income households with children (15.2 percent) and Black and Hispanic households with children (25.2 percent and 21.6 percent).

- More than 15 percent of renter households in Connecticut report that they are not caught up on their housing payment, and the rate increases significantly for low- and middle-income renter households with children (22.6 percent) and Black and Hispanic renter households with children (33.5 percent and 20.7 percent).

The second section of the report provides an overview of the CT CTC, and it proceeds in two parts. The first part provides an overview of the case for establishing the CT CTC. The key findings include:

- Establishing a permanent, well-designed CT CTC will support the economic well-being of Connecticut’s low- and middle-income families with children. This includes helping to reduce income inequality, racial and ethnic income gaps, income poverty, wealth inequality, racial and ethnic wealth gaps, and wealth poverty, all of which will increase the ability of low- and middle-income families with children to make ends meet.

- Establishing a permanent, well-designed CT CTC will help to offset the reduction in federal support that contributed to a historic increase in child poverty. From 2021 to 2022, child poverty in Connecticut jumped sharply from 3.8 percent (about 27,000 children) to 11.1 percent (about 82,000 children).

- Establishing a permanent, well-designed CT CTC will make Connecticut’s tax system fairer. As currently designed, Connecticut’s tax system unfairly burdens low- and middle-income families compared to high-income and wealthy families, which harms the economic well-being of low- and middle-income families. The tax system also unfairly burdens many families with children compared to families without children because Connecticut is the only high-cost-of-living state with a broad-based personal income tax that does not adjust for the number of children or child care expenses, which especially harms the economic well-being of many low- and middle-income families with children.

- Establishing a permanent, well-designed CT CTC will help grow Connecticut's economy, which has grown substantially slower than both the U.S. economy and New England's economy. It will also help to generate a positive feedback loop, as a faster-growing economy will increase the state's budget capacity—both increased spending cap capacity and increased tax revenue—and that will make it possible to provide even more support for Connecticut's families and children while also managing the state's substantial debt.

The second part of the second section provides an overview of policy options for establishing the CT CTC. This part first includes a general overview of key design and eligibility features:

- To best support the economic well-being of Connecticut's families with children, especially the lowest-income families, a well-designed CT CTC would include some or all the following key design and eligibility features: full refundability, no income floor, no income-based phase-in, and no cap on the number of children.

This part then includes an overview of three policy options:

- Option 1. A maximum $600 CT CTC that is 80 percent refundable, has an income floor of $1, has an income-based phase-in at a rate of 4.5 percent, and is capped at three children per tax filer. This option would cost $298.5 million a year and support up to 550,000 children, or 74.4 percent of all children in the state.

- Option 2. A maximum $600 CT CTC that is 100 percent refundable, has an income floor of $1, has an income-based phase-in at a rate of 4.5 percent, and is capped at three children per tax filer. This option would cost $307.6 million a year and support up to 550,000 children, or 74.4 percent of all children in the state.

- Option 3. A maximum $500 CT CTC that is 100 percent refundable, has no income floor, has no income-based phase-in, and has no cap on the number of children. This option would cost $303.7 million a year and support up to 612,700 children, or 82.8 percent of all children in the state.

This part lastly includes an overview of three additional important issues related to the policy options:

- Inflation indexing is essential to maintain the support of a permanent, well-designed CT CTC.

- The CT CTC can be phased in over multiple years if necessary.

- Multiple funding options are available for the CT CTC.