TAX REFORM
CAN FUND THE NECESSARY INVESTMENTS THAT HELP OUR CHILDREN REACH THEIR FULL POTENTIAL

What Do Connecticut Families Need?

It is true that our economy is recovering. However, access to high-quality and affordable housing, health care, child care and education is too far out of reach for many children and families. Our state’s children and families are relying on Connecticut policymakers to act with urgency.

Connecticut’s children and families need a state-level Child Tax Credit to offset the high and growing 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.

Connecticut’s children and families need access to affordable early care and education so that children have a strong foundation from which to learn and parents can meaningfully participate in the workforce.

Connecticut’s children and families need safe and affordable housing. Evictions and homelessness are on the rise, especially for households with children, and both of which hurt health, mental health and educational outcomes as well as perpetuate poverty.

Connecticut’s children and families need access to affordable, continuous and comprehensive healthcare. Access can advance health equity for our most vulnerable residents.

Connecticut’s children and families need affordable higher education at our public institutions as well as equitable investments in our K-12 education system, inclusive of increased special education, so that all children are set up for future success.
How Can We Resource These Investments in our State’s Children?

All the investments that Connecticut families need can be funded through tax reform that adds more progressivity to our tax code. This means that a higher proportion of Connecticut’s state and local taxes—resident tax dollars that government collects to fund the critical infrastructure we all have benefited from at some point—are resourced by a bigger percentage of income and wealth from the highest earning groups and those inheriting extreme wealth, instead of from low- and middle-income groups. In short, we believe our tax code should be based on one’s ability to pay.

Our tax system exacerbates income and wealth inequality. The top 1% of tax filers in Connecticut make $3.4 million a year and those that are at the 10th percentile earning $18,800 per year. The lowest income earners have an effective state and local tax rate of 39.9% compared to 7.3% for the highest income tax filers, according to the CT Department of Revenue Services. Even when the 2023 tax reforms are applied, the tax system unfairly burdens low- and middle-income tax filers, which exacerbates the high level of income inequality. Our tax system can be both fairer and resource all the critical investments needed for children to live free from poverty and for families to live with economic security.

JUST FACTS

From 2021 to 2022, child poverty in Connecticut jumped sharply from 3.8% (~27,000 children) to 11.1% (~82,000 children).

Last year in Connecticut, 17.7% of all households reported extreme difficulty in paying usual expenses, increasing to 27.6% among low- and middle-income households with children.

By race and ethnicity, 18% of white, 38.9% of Black, and 32.2% of Hispanic households with children find it "very difficult" to meet expenses.

More than 15% 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%) and Black and Hispanic renter households with children (33.5% and 20.7%).
WE RECOMMEND FOUR BROAD APPROACHES

Eliminate or reduce Connecticut’s tax gap.
- Hire more Department of Revenue Service (DRS) auditors to increase tax filing compliance from high income tax filers. This could potentially generate up to $2.6 billion/year.
- Require DRS to regularly publish a report on Connecticut’s tax gap, in addition to the statutorily required tax incidence analysis, that includes the DRS’ annual audit rate by income level; the estimated size of CT’s annual tax gap and the estimated distribution of the tax gap by income level; and the tax gap by individual vs corporate tax.

Eliminate or reduce high cost, high growth expenditures.
- According to the state’s economic impact analysis, CT loses tens of millions each year from the film tax credits. Repurpose the film tax credits to benefit children; doing so would help make Connecticut a state where families want to root and grow.
- Five other tax cuts worth reducing or eliminating: Computer and Data Processing Services; Motor Vehicles and Vessels Purchased by Non-Residents to Use Out of State; Aircraft Repair and Manufacturing; Renovation and Repair for Residential Real Property; $2.5 million Cap on Unitary Liability.

Reform Connecticut’s tax revenue restrictions.
- Stop using revenue to pay down additional pension debt beyond what’s required.
- Eliminate the revenue cap—which limits the percentage use of all revenue sources—and use the average, newly unrestricted revenue to invest in families.

Increase taxes on the wealthy.
- Increase the estate and gift tax by reducing the exemption, increasing the top tax rate, and/or eliminating or increasing the maximum lifetime tax.
- Increase the top income tax rate on investment income (capital gains). For example, increasing the current top tax rate on capital gains from 6.99% to 7.99% for single and married tax filers making more than $500,000 and $1 million, respectively, would raise an additional estimated $150 million/year.
- Increase the top income tax rate on all taxable income. For example, establishing a top tax bracket of 7.99% for single and married tax filers making more than $1 million and $2 million, respectively would raise ~$300 million/year.
- Establish a statewide property tax on high value homes.

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