



The Effect of an Earned Income Tax Credit in Connecticut

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EXECUTIVE SUMMARY :

The federal Earned Income Tax Credit, or EITC, acts as a major national anti-poverty program by providing income supplements to low wage workers in the form of income tax credits. The credit is refundable, meaning that an employee eligible for a tax credit larger than the amount of taxes he/she pays will receive a tax refund. This allows the program to help low-income individuals from a variety of situations. The federal EITC initially won support in Congress because it encourages employment, providing poverty assistance only to those who choose to work. To date, 20 states have adopted similar state programs, most of which use federal standards, simply providing an additional tax credit to supplement the federal program. A state EITC program in Connecticut would have the following positive effects:

- Approximately 5 percent of Connecticut's population, 157, 759 tax filers received the federal EITC in 2003. These same individuals and families would receive added poverty relief from a state program.
- Reducing income tax burdens for low income individuals would help to offset the regressive nature of state and local taxes, most notably sales taxes.
- Increased poverty relief to low-income individuals and families would work to counter Connecticut's growing problem of wealth polarization and income inequality.
- A state EITC would further increase employment. These new wages would serve as an economic stimulus since low-wage workers have high marginal propensities to consume.
- The increased incentive to work provides would greater motivation to move from welfare to work, reducing demands on the state budget.
- This proposal, a state ETIC benefit set at 20 percent of the federal benefit, would cost \$49.2 million annually.

SECTION A: INTRODUCTION AND HISTORY OF THE EARNED INCOME
TAX CREDIT

Introduction to the EITC:

The federal Earned Income Tax Credit, or EITC, serves as a major national anti-poverty program. It aims to encourage and reward employment by supplementing the wages of low-income workers. In principle, the federal EITC seeks to keep all working citizens above a poverty threshold, above which the credit is gradually phased out. Currently, the EITC serves as the largest means-based federal anti-poverty assistance program. The success of the federal EITC has inspired similar supplemental programs in twenty states.¹ Generally using similar criteria as on the federal level, state programs provide the financial support for additional income supplements in order to reduce poverty and reward work.

The EITC is a refundable credit against federal income taxes for low-wage workers. As a result, individuals must work to qualify for the credit,² and the credit varies depending on earnings.³ The EITC is “refundable,” meaning that if the amount of tax credit a worker qualifies for exceeds the amount of federal income taxes he or she pays, the worker receives a refund from the federal government. Essentially, the EITC allows claimants to pay less income tax, no income tax, or receive a tax refund.⁴ This refundable nature allows the EITC to help even those who pay very little federal income tax.⁵

As a result of expansions in 1986, 1990, 1993 and 2001, the EITC has become the largest

¹ The Hatcher Group. “State EITC Online Resource Center.” 30 May 2006 <www.stateeitc.org>.

² National Center for Children in Poverty, The Federal Earned Income Tax Credit. NCCP Policy Profiles. <http://www.nccp.org/policy_long_description_7.html>

³ Greenstein Robert, The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor. The Center for Budget and Policy Priorities: 2005. 21 Jan. 2006 <<http://www.cbpp.org/7-19-05eic.htm>>

⁴ Internal Revenue Service, EITC: Frequently Asked Questions and Answers. <<http://www.irs.gov/individuals/article/0,,id=119267,00.html>>.

⁵ Greenstein Robert, The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor. The Center for Budget and Policy Priorities: 2005. <<http://www.cbpp.org/7-19-05eic.htm>>

means-based low-income assistance program in the United States, annually spending only \$4 billion less than the total amount spent on Temporary Assistance for Needy Families (TANF) and food stamps combined.⁶ In 2003, 20.8 million taxpayers received the EITC for a total amount of \$38 billion in assistance.⁷ In 2002, 156,500 Connecticut families claimed the federal EITC for a total of \$244.6 million. These families made up about 5% of all those who filed taxes in Connecticut in 2002.⁸

How the EITC Works:

The size of tax credit that individuals receive is based on their income and family size. In 2004, families with two or more children qualified for the EITC if they earned less than \$34,458 while families with one child qualified if they earned less than \$30,338.⁹ For families with very low incomes, the credit amount increases as their incomes increase. Once a family reaches a certain income, the credit plateaus and then begins to decrease. The size of the credit then decreases with increasing family income until reaching the qualification level, or the level at which the family no longer receives any income supplement from the EITC. For example, in a family with two or more children, the size of the EITC increases by 40 cents per dollar earned until the family's income reaches \$10,750. After earnings reach this threshold, the size of the EITC remains constant (plateaus) with increasing family earnings. At an earnings level of \$15,050, the credit begins to phase out until it equals zero when earnings reach \$34,458, the

⁶ Hotz, V. Joseph and Scholz, John. The Earned Income Tax Credit. National Bureau of Economic Research Working Paper No. 8078. January, 2001.

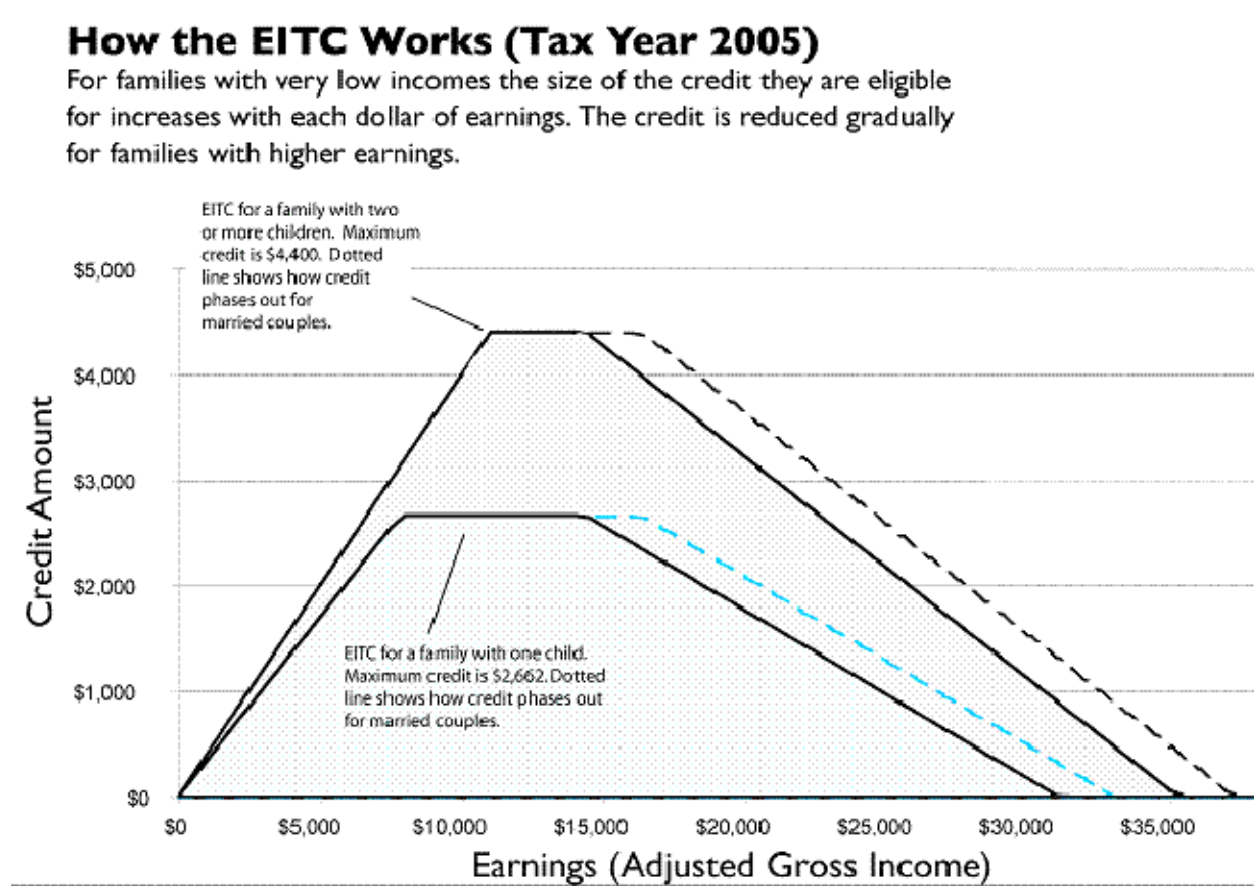
⁷ Internal Revenue Service, EITC: Frequently Asked Questions and Answers.
<<http://www.irs.gov/individuals/article/0,,id=119267,00.html>>

⁸ Voices for the Children. The Earned Income Tax Credit—What It Could Do for Connecticut and How it Could Do So Much More. February, 2005.

⁹ Internal Revenue Service, EITC Information and Resources for Individuals, Preparers, and Partners.
<<http://www.irs.gov/individuals/article/0,,id=96456,00.html>>

qualification level.¹⁰

Figure 1: EITC Benefit by Income Level¹¹



History of the EITC:

The federal EITC developed out of a series of debates concerning a negative income tax, or NIT, policy in the 1960s and 1970s. A negative income tax distributes money to people below a certain income threshold to give everyone in the society a minimum income, regardless of whether or not they work. President Johnson and other congressional leaders opposed the adoption of a NIT because of the inherent work disincentive. In order to keep all citizens above a

¹⁰ National Center for Children in Poverty, The Federal Earned Income Tax Credit. NCCP Policy Profiles. <http://www.nccp.org/policy_long_description_7.html>

¹¹ Greenstein, op. cit.

minimum poverty threshold, a NIT necessarily provides the greatest benefit to those who do not work. In his 1964 economic report, President Johnson captured the prevailing national sentiment by noting, “[We] could simply...provide the necessary income supplements to their less fortunate citizens...But this ‘solution’ would leave untouched most of the roots of poverty.” Despite this policy defeat, President Nixon offered a similar NIT proposal only three years later by introducing the Family Assistance Plan, or FAP. The chairman of the Senate Finance Committee at the time, Senator Russell Long (D-LA), led the opposition with similar arguments, primarily that FAP would discourage work. In 1972, Long offered his own alternative, the Earned Income Tax Credit, which targeted relief to the working poor. After three years of persistence, Senator Long secured passage of a trial period for his EITC in 1975. This initial EITC was a simple program with benefits that did not adjust for family size or inflation. After the initial 18-month trial period expired, Congress renewed the temporary program until making the EITC permanent in 1978.

Once established, the federal EITC remained largely unchanged until 1986. During the period between 1975 and 1984, however, the program’s impact eroded by 35 percent due to a lack of inflation indexing. As cost of living increased, the credit’s nominal value remained the same, providing less purchasing power to recipients than in previous years. In 1984, lawmakers sought to remedy this problem by expanding EITC benefits to match the real benefit of the original 1975 program, as well as indexing the program benefit to inflation in order to prevent future erosion problems. Again in 1990, the EITC underwent another expansionary revision. In the midst of budget deficits, President George H. W. Bush participated in budgetary negotiations with congressional leaders. In altering the tax code to mitigate rising deficits, the negotiators utilized the EITC as a means of preventing a burden on low-income individuals. With these

reforms, the EITC, for the first time, distinguished between different groups of recipients. In particular, it created different benefit levels for families with different numbers of children. The next phase of reforms in 1993 continued this process of recipient differentiation by creating a benefit for childless low-income workers as well.¹² The Congressional tax reforms of 2001 encompassed the EITC as well, eliminating the marriage penalty for EITC benefits.¹³ The marriage penalty was a feature of the EITC that provided married couples with lower benefits than single parents, even if they had the same income.

Through this three-decade development and expansion, the EITC grew to become the largest means-based federal anti-poverty program in the United States. The 1993 reform alone provided a tax cut for 15 million low-income Americans. In 2002, the federal EITC lifted 4.9 million people, including 2.7 million children, out of poverty in the US.¹⁴ In the lowest income bracket, a working parent with one child receives a thirty-four cent supplement for every dollar earned, and a parent with two children receives forty cents. Beyond these direct benefits, the federal EITC also encourages work.¹⁵

State EITC Programs:

Recognizing the success of the federal EITC program, twenty states have created state-funded EITC programs to supplement the federal tax credit. To date, Colorado, Delaware, the District of Columbia, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts,

¹² Ventry, Jr., Dennis J. "The Collision of Tax and Welfare Politics: The Political History of the Earned Income Tax Credit, 1969-99." The Brookings Institution. 22 Dec. 2005 <http://www.jcpr.org/wpfiles/ventry_eitc99_update.PDF?CFID=1011526&CFTOKEN=12489479>.

¹³ Carusso, Adam, and C. Eugene Steuerle. "Saying 'I Do' After the 2001 Tax Cuts." Center for Budget and Policy Priorities (2002). 21 Jan. 2006 <<http://www.taxpolicycenter.org/publications/template.cfm?PubID=310552>>.

¹⁴ Joseph Llobrera and Bob Zahradnik, "A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2004" May 14, 2004

¹⁵ "President Clinton Proposes to Expand the Earned Income Tax Credit in order to Increase the Reward for Work and Family." Joint Center for Poverty Research (2001). 22 Dec. 2005 <www.jcpr.org/eitc0111d.PDF>.

Minnesota, Nebraska, New Jersey, New York, Oklahoma, Oregon, Rhode Island, Vermont, Virginia, and Wisconsin have all implemented state programs. While each state has its own benefits, all of these programs generally resemble the federal program and use federal eligibility as their own qualifying standard. Delaware, Iowa, Maine, and Virginia, however, differ from the federal program and the majority of state programs by offering a non-refundable tax credit.¹⁶ As a result, if a citizen of one of these states is entitled to claim a benefit greater than the tax owed, he or she does not receive a refund for the difference. Though less substantial, these non-refundable programs have similar intent to the federal EITC. Colorado's EITC program is only in effect when state revenue produces a "qualified budget surplus," which did not occur in 2004.¹⁷ Additionally, New Mexico offers a program called the "Low-Income Comprehensive Tax Rebate." Though it has the same objective as the refundable federal EITC, the program uses its own eligibility criteria rather than the federal standard.

Previous Connecticut EITC proposals, including the 2006 legislature's SB 147, "An Act Creating an Earned Income Credit Against the Personal Income Tax," use the same eligibility criteria as the federal EITC. Since such a program would be considered a revenue adjustment rather than an appropriations bill, and, as a result, the cost does not fall within the state's spending cap.¹⁸ Ten proposals have been introduced in the Connecticut legislature since 2000, ranging in size; however, the two most recent proposals from 2006 both stipulated a credit equal to twenty percent of the federal EITC credit. Such a proposal would cost between \$40-50 million annually, bringing poverty relief to approximately 160,000 low-income residents.¹⁹

¹⁶ Hatcher, op. cit.

¹⁷ "State EITC Programs: An Overview." Tax Credit Resources. Community Resources Information, Inc. 4 Jan. 2006 <<http://www.taxcreditsources.org/pages.cfm?contentID=39&pageID=12&Subpages=yes>>.

¹⁸ "Legislative Priorities for the 2001 Legislative Session of the General Session." CT Commission of Children. 7 Jan. 2006 <<http://www.cga.ct.gov/coc/Legislative%20Priorities%202001.htm>>.

¹⁹ "Chapter Board Approves 2006 Legislative Agenda." National Association of Social Workers: Connecticut Chapter. 31 Dec. 2005. 20 Jan. 2006 <<http://www.naswct.org/Legislation/Agenda2006/>>

SECTION B: POVERTY STANDARDS AND POVERTY IN NEW HAVEN AND
CONNECTICUT

Poverty Defined:

The standard used by the United States Census Bureau to measure poverty in the United States is based on the income of a family in relation to the amount a family consumes, along with the size and composition of the family. A person, or family, is at the poverty level if their income equals the cost of a minimum diet multiplied by three to allow for other basic needs. The Census Bureau uses a set of money income thresholds, adjusted for family size and composition, to determine the poverty line. All families with incomes falling below this line are considered to be in poverty. The thresholds are adjusted for inflation using the Consumer Price Index, or CPI-U, though they do not vary geographically to take into account differences in the cost of living. The poverty definition uses before-tax income and excludes capital gains and non-cash benefits such as public housing, healthcare, and food stamps.²⁰

2006LegislativeAgenda.shtml>.

²⁰ "Poverty-How the Census Bureau Measure Poverty." Poverty. 14 Dec. 2005 U.S. Census Bureau. 17 Dec. 2005 <<http://www.census.gov/hhes/www/poverty/povdef.html>>.

Figure 2: 2004 Poverty Thresholds²¹

Size of Family Unit	Related children under 18 years									
	Weighted average thresholds	None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One person (unrelated individual)	9,645									
Under 65 Years	9,827	9,827								
65 Years and Older	9,060	9,060								
Two Persons	12,334									
Under 65 Years	12,714	12,694	13,020							
65 Years and Older	11,430	11,418	12,971							
Three Persons	15,067	14,776	15,205	15,219						
Four Persons	19,307	19,484	19,803	19,157	19,223					
Five Persons	22,831	23,497	23,838	23,108	22,543	22,199				
Six Persons	25,788	27,025	27,133	26,573	26,037	25,241	24,786			
Seven Persons	29,236	31,096	31,290	30,621	30,154	29,285	28,271	27,159		
Eight Persons	32,641	34,778	35,086	34,454	33,901	33,115	32,119	31,082	30,818	
Nine or More Persons	39,048	41,836	42,039	41,480	41,010	40,240	39,179	38,220	37,983	36,520

Poverty Measurements:

There are two established poverty measurements in the United States: the poverty threshold and the poverty guideline. The Census Bureau for Population Statistic Calculations releases poverty thresholds annually, while the Department of Health and Human Services publishes yearly poverty guidelines. Poverty guidelines are used mainly for “administrative

²¹ "Poverty-Definitions." Poverty. 14 Dec. 2005. U.S. Census Bureau. 17 Dec. 2005 <<http://www.census.gov/hhes/www/poverty/definitions.html>>.

purposes — for instance, determining financial eligibility for certain federal programs.”²² The Federal Earned Income Tax Credit, a major means-tested program, however, is different in that it does not use poverty guideline numbers for determining eligibility.

Poverty in Connecticut:

At first glance, poverty in Connecticut does not appear to be a significant problem. In 2004, Connecticut earned the title of “wealthiest state in the nation” with the highest per capita income, \$42,104. It exceeded its closest rival, Massachusetts, by \$3,336.²³ These statistics, however, fail to accurately portray the economic status of the state’s general populace. Despite these impressive income data, Connecticut is home to numerous areas of high poverty which are statistically masked by nearby wealthy areas. While “4.7% of Connecticut households have annual incomes of \$200,000+ and 20.1% have incomes of \$100,000 or more, 7.0% have incomes of less than \$10,000 and 31.8% less than \$34,999.”²⁴ Although the state’s poverty rate is only 8.0%, four major urban areas have poverty rates at least double the statewide figure, including New Haven, with a state-high rate for major cities of 30.6%.²⁵

Another inaccuracy in describing the state of poverty in Connecticut is rooted in the disregard of regionalism in federal poverty definitions. “The federal poverty level is not adjusted for regional cost-of-living differences,” which is especially significant since the cost

²² “The 2004 HHS Poverty Guidelines.” 2004 Federal Poverty Guidelines. 16 Dec. 2005. United States Department of Health and Human Services. 17 Dec. 2005 <<http://aspe.hhs.gov/poverty/04poverty.shtml>>.

²³ “State Rankings - Statistical Abstract of the United States.” US Census Bureau. 13 Aug. 2006. <<http://www.census.gov/statab/ranks/rank29.html>>.

²⁴ Dawkins, Pam. “Data: State losing fight on poverty.” MSNBC. 25 Dec. 2005. The Connecticut Post. 3 Jan. 2005 <<http://www.msnbc.msn.com/id/10279777/from/RL.3/>>.

²⁵ “State and County QuickFacts.” US Census Bureau. 30 July 2006 <<http://quickfacts.census.gov/>>.

of living in Connecticut is one-fifth higher than the national average.²⁶ Furthermore, the federal poverty level is based on the assumption that food will constitute one third of a family's budget, which is not typically the case. The "self sufficiency" standard for Connecticut, calculated by Diana Pierce for the State of Connecticut's "Office of Workforce Competitiveness" attempts to remedy these problems associated with the federal poverty level. The "self sufficiency" standard for Connecticut "measures how much income is needed for a family of a certain composition in a given place to adequately meet their needs—without public or private assistance."²⁷ For example, a family of four living on an income of \$19,130 is on the poverty line based on federal guidelines; however, the self-sufficiency standard for a family of four living in Connecticut varies between \$40,000 and \$60,000 depending on which region or city one resides in.²⁸

The poverty rate in Connecticut has slowly been on the rise over the last few years after an extended period of decline. Since 2001, when the general state poverty rate hit a low of 7.1%, that number has risen consistently over the years, and is now at 8.0%.²⁹

Major Cities in Connecticut:

The five largest cities in Connecticut by population are Bridgeport, New Haven, Hartford, Stamford, and Waterbury.³⁰

²⁶ Dawkins, Pam. "Data: State losing fight on poverty." *MSNBC*. 25 Dec. 2005. The Connecticut Post. 3 Jan. 2005 <<http://www.msnbc.msn.com/id/10279777/from/RL.3/>>.

²⁷ Pearce, Diana. "The Real Cost of Living in 2005: The Self-Sufficiency Standard for Connecticut". December 2005. <<http://www.sixstrategies.org/includes/productviewdetailsinclude.cfm?productID=502&strProductType=resource>>.

²⁸ *ibid*

²⁹ State and County QuickFacts, *op. cit.*

³⁰ "Connecticut." *Connecticut*, 2005. Infoplease. 21 Jan. 2006 <<http://www.infoplease.com/ipa/A0108191.html>>.

Figure 3: Income by City in Connecticut³¹

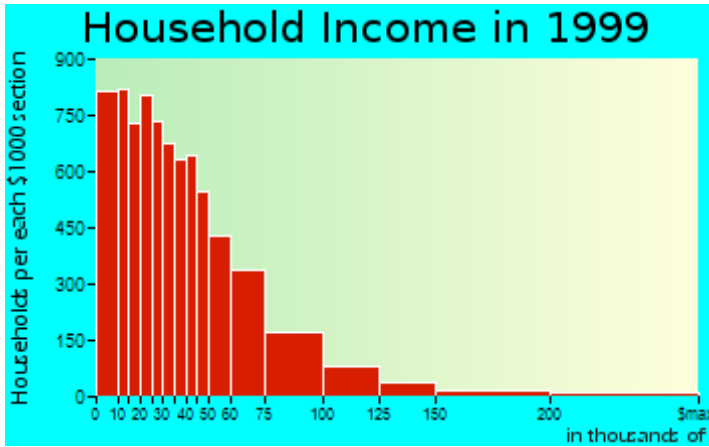
City	Population	Median Household Income	Percent of Population below the Poverty Line
Bridgeport	139,664	\$34,658	18.4%
New Haven	124,512	\$29,604	24.4%
Hartford	124,387	\$24,820	30.6%
Stamford	120,107	\$60,556	7.9%
Waterbury	108,130	\$34,285	16.0%
Connecticut	3,510,297	\$56,409	8.0%
United States	296,410,404	\$43,318	12.5%

As seen in the statistics, the median household incomes in these major population centers are all lower than the state and national average while the poverty levels are all higher, with the exception of Stamford. Nevertheless, like Connecticut in general, Stamford suffers from economic skewing in its data reporting. Stamford's high property values, costly rents, and numerous low-income housing projects reveal the reality that much of Stamford's population is either very wealthy or very poor.

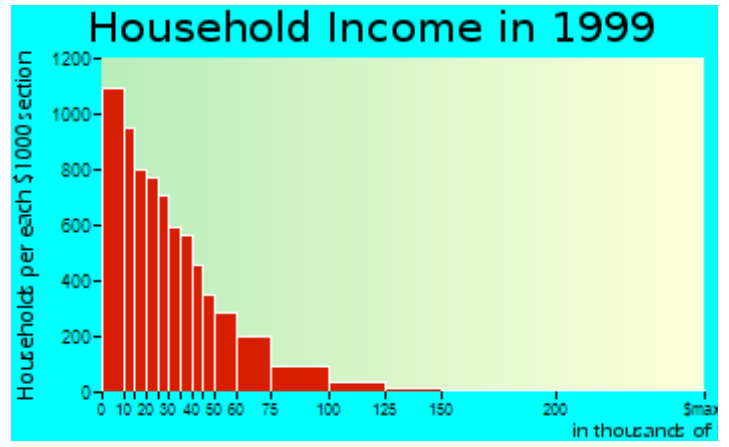
³¹ State and County QuickFacts, op. cit.

Figure 4: Distribution of Income Among Households³²

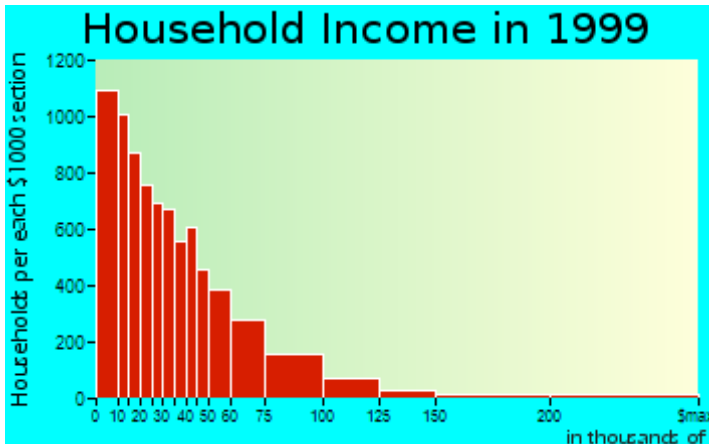
Bridgeport, Connecticut:



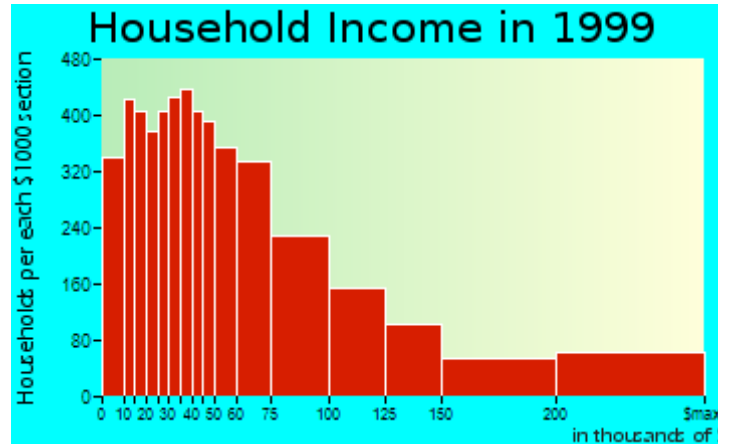
Hartford, Connecticut:



New Haven, Connecticut:

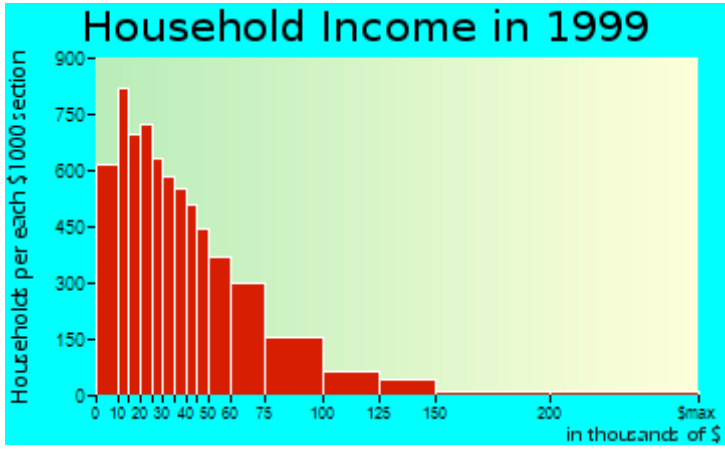


Stamford, Connecticut:



³² City-Data.com. 30 July 2006 <<http://www.city-data.com>>.

Waterbury, Connecticut:



SECTION C: EFFECTS OF THE EARNED INCOME TAX CREDIT IN
CONNECTICUT

Poverty Alleviation and a State Earned Income Tax Credit in Connecticut:

Earned Income Tax Credits have been widely shown to significantly decrease poverty, particularly child poverty. In 2002, the federal EITC lifted 4.9 million people, including 2.7 million children, out of poverty in the US.³³ Without the federal EITC, the child poverty rate would be almost one-fourth higher. In 2003, 22.1 million families and individuals received the EITC. Families with children received, on average, \$2100 from the EITC.³⁴

A state EITC in Connecticut would be particularly successful at alleviating poverty because 63% of the 33,000 families living in poverty in Connecticut have at least one working parent.³⁵ The Connecticut EITC that we are proposing would use the same qualifying standards as the federal EITC and simply provide additional benefits equal to 20 percent of the federal EITC, supplementing the federal program. In this way, a state EITC would increase the benefit of the federal EITC without requiring an additional complicated qualifying process. All families receiving the federal EITC would also receive a Connecticut state EITC. In 2003, 157,759 tax filers in Connecticut received the EITC.³⁶ This number represents almost 5% of Connecticut's population.³⁷

³³ Joseph Llobrera and Bob Zahradnik, "A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2004" May 14, 2004

³⁴ Greenstein, op. cit.

³⁵ Geballe, Shelley. *A State Earned Income Tax Credit (EITC) Key Background*. Connecticut Voices for Children. March 8, 1999.

³⁶ National Center for Children in Poverty. *Federal Earned Income Tax Credit (EITC) Participation and Spending*. State Earned Income Tax Credit. <http://www.nccp.org/policy_index_8.html>

³⁷ US Census Bureau. Profiles of General Demographic and Characteristics: Connecticut. http://factfinder.census.gov/servlet/QTTable?_bm=y&-geo_id=04000US09&-qr_name=DEC_2000_SF1_U_DP1&-ds_name=DEC_2000_SF1_U>

Decreased Regressivity of Connecticut State and Local Taxes:

Currently, combined state and local tax rates in Connecticut are regressive. Connecticut residents with incomes in the bottom 20%, those with an average income of \$26,800, pay a higher gross percentage of their income in state and local tax than residents whose incomes place them in the top 5% and 1% of earners. The lowest 20% of workers in Connecticut pay an average of 11.5% of their incomes in state and local taxes. In contrast, the top 5% of workers pay only 7.6% of their incomes in taxes and the top 1% pay even less in taxes, only 6.8% of their total incomes.³⁸ A state EITC would lessen this income tax regressivity by decreasing, or in some cases completely eliminating, the amount of state income taxes that low-wage workers pay.

Alleviation of Growing Economic Inequality:

Income inequality increased in Connecticut during the 1990s. Several important statistics stand out:

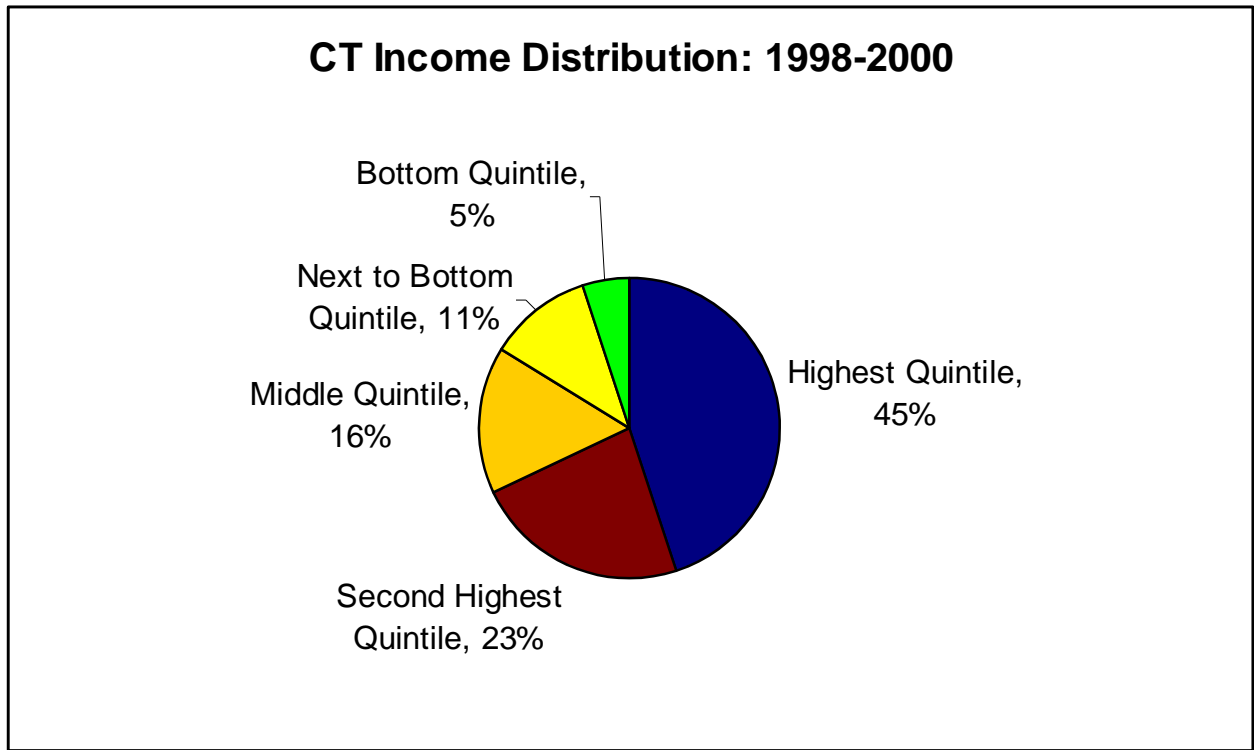
- Connecticut was one of only 13 states where the real incomes of the poorest 20% fell during the 1990s.
- Connecticut was one of only 10 states where the real income of the people in the 20-40% income segment also fell.³⁹
- During the 1990s the income gap between the richest 20% of families and the poorest 20% of families grew more than any other state.
- The poorest 20% of Connecticut residents lost more real income than those in any other state during the 1990s, an average of -19.4% or -\$4672⁴⁰.

³⁸ Geballe, Shelley. *A State Earned Income Tax Credit (EITC) Key Background*. Connecticut Voices for Children. March 8, 1999.

³⁹ Hall, Douglas and Geballe, Shelley. *Pulling Apart in Connecticut: An Analysis of Trends in Family Income*. Connecticut Voices for Children. April 2002.

A State Earned Income Tax Credit could help to reverse these trends by increasing the incomes of working families and providing greater work incentive, raising the labor force participation rate.

Figure 5: Income Distribution in Connecticut from 1998-2000⁴¹



Impact of the State EITC on Different Parts of Connecticut:

As the following table detailing the effects of the Earned Income Tax Credit in different cities and the map detailing the EITC as a percentage of total tax returns by zip code show, the EITC plays a much bigger role in the urban areas of Connecticut. Hartford, Bridgeport, New Haven, and Waterbury account for a large share of the EITC claims, with each city having at

⁴⁰ Ibid

⁴¹ Ibid

least 9,000 EITC claims a year. Overall, urban areas in Connecticut filed just 23% of tax returns, but received 54% of the EITC money collected in Connecticut.⁴²

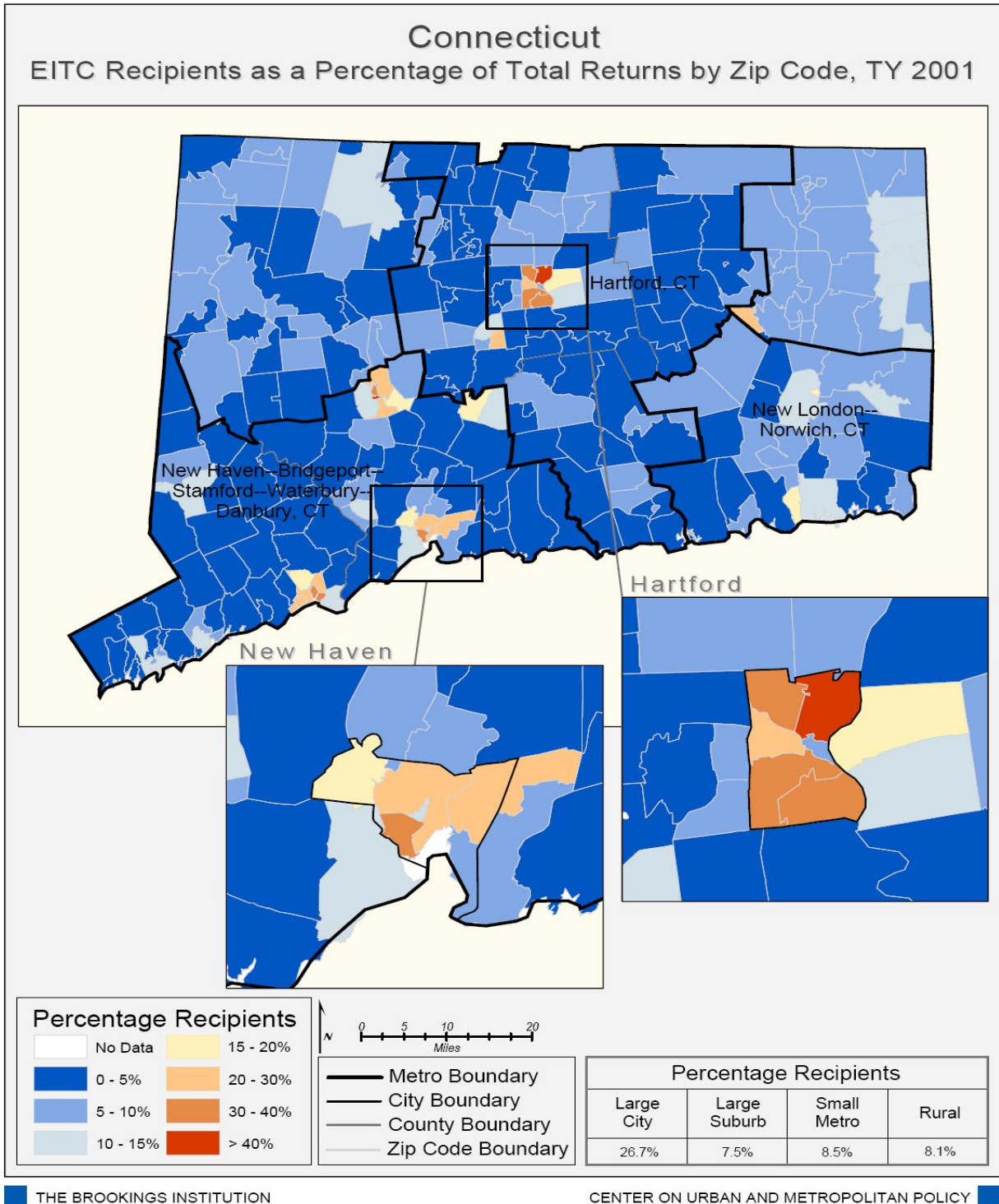
Figure 6: EITC Recipients by City⁴³

Town	Returns with EITC (#)	Returns with EITC as % all returns (%)	Sum of EITC (\$)	Average EITC \$ per recipient (\$)	CT EITC at 20% federal EITC (\$)
Hartford	15,491	32	26,539,005	1,713	5,307,801
Bridgeport	13,673	23	22,545,337	1,649	4,509,067
New Haven	11,018	23	18,114,263	1,644	3,622,853
Waterbury	9,642	20	16,220,660	1,682	3,224,132
New London	2,276	19	3,771,351	1,657	754,270
New Britain	5,859	18	10,202,809	1,741	2,040,562
Windham	1,711	18	3,008,558	1,758	601,712
Meridian	3,811	14	6,291,159	1,651	1,258,232
Danbury	3,043	9	4,287,910	1,409	857,582
Stamford	4,434	8	6,455,422	1,456	1,291,084
Total for 10 Cities	70,958	19	117,436,474	1,655	23,487,295

⁴² Geballe, Shelley; Hall, Douglas; and Scalettar, Ellen. *The Earned Income Tax Credit: Still Lagging Behind in Connecticut*. Connecticut Voices for Children. Budget Connections. July 2004.

⁴³ Ibid

Figure 7: EITC Recipients by Zip Code⁴⁴



⁴⁴ Berube, Alan and Tiffany, Tacher. *The "State" of Low-Wage Workers: How the EITC Benefits Urban and Rural Communities in the 50 States*. February 2004. http://www.brookings.edu/es/urban/publications/eitc/20040203_berube.htm.

Increased Employment and Economic Growth:

Rebecca Blank, the Dean of the Gerald R. Ford School of Public Policy at the University of Michigan, has written that there is “unanimous agreement” that the Earned Income Tax Credit increases employment for single parents.⁴⁵ To put the Earned Income Tax Credit’s ability to increase employment in perspective, Meyer and Rosenbaum (2001) found that the EITC was responsible for 37 % of female-headed families who became employed between 1992 and 1996.⁴⁶

The increase in employment for low-wage workers will serve as an excellent economic stimulus. Low-wage workers have a very high marginal propensity to consume because they have to spend a larger proportion of their money in order to meet basic needs. In a 2004 study, Ryan Edwards found that the average EITC-recipient in the U.S. immediately spends about 70% of his/her paycheck while the economy-wide propensity to consume is only 50%.⁴⁷ Additionally, low-wage workers who are already working will spend a larger amount of their money in the local economy on meeting basic needs since they will have higher incomes.

Decreased Welfare Use:

University of Chicago Professor Jeffrey Grogger found in 2003 that “The EITC (Earned Income Tax Credit) has been an important factor in reducing welfare use in recent years.”⁴⁸

Welfare reform was supposed to help transition welfare recipients into work, but the average welfare recipient receives a job that pays \$8,000 to \$12,000 annually, putting them near or below

⁴⁵ Robert Greenstein, “The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor” Center on Budget and Policy Priorities, August 2005

⁴⁶ Bruce D. Meyer and Dan T. Rosenbaum, “Making Single Mothers Work: Recent Tax and Welfare Policy and its Effects.” New York: Russell Sage Foundation, 2001

⁴⁷ Edwards, Ryan D. (2004). Macroeconomic Implications for the Earned Income Tax Credit. *National Tax Journal*, 57, 45-66.

⁴⁸ Jeffrey Grogger, “Welfare Policy, Welfare, and Work” *The Review of Economic and Statistics*, May 2003, 85 (2): 394-408

the poverty line depending on family size.⁴⁹ By supplementing wages, the Earned Income Tax Credit serves as a positive incentive for impoverished Americans to transfer from welfare to the work force. The EITC increases the number of jobs which can provide a source of income above the poverty line. Connecticut Voices for Children found that a state Earned Income Tax Credit would assist in helping welfare recipients transfer to work because it would help them support their children while working a full-time low-wage job.⁵⁰

In sum, Earned Income Tax Credits are effective in decreasing welfare roles because they “make work pay.” By decreasing welfare recipients, the Earned Income Tax Credit will ultimately reduce the cost of welfare for the state budget.

Impact on Connecticut State Budget:

The Center for Budget and Policy Priorities has estimated the cost that a state EITC would have in every state.

Figure 8: Cost of a Connecticut EITC⁵¹

Cost of Federal EITC in CT for Fiscal Year 2004	Percent of Total US Claims	Cost of State EITC Set at 5% of Federal Credit	Cost of State EITC Set at 10% of Federal Credit	Cost of State EITC Set at 20% of Federal Credit
\$246 million	0.67%	\$12.3 million	\$24.6 million	\$49.2 million

The cost to the state budget would be partially offset by the increased tax revenues from economic growth and the decreased welfare use caused by the Earned Income Tax Credit.

⁴⁹ Nicholas Johnson, “A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2001 Summary.” December 27, 2001.

⁵⁰ Ellen Scalettar, “An Earned Income Tax Credit for CT” 2003, <http://www.ctkidslink.org/publications/bud02EITCFctshOneCT03.pdf>

⁵¹ Center for Budget and Policy Priorities. *How Much Would a State Earned Income Tax Credit Cost.* April 28, 2003. <<http://www.cbpp.org/11-11-99sfp.htm>>

Proposal:

Although the Earned Income Tax Credit has been effective, additional increases in the size of the Earned Income Tax Credit can yield even greater results. University of Chicago Professor Jeffrey Grogger found that a \$1000 increase in the maximum Earned Income Tax Credit results in a 3.6 percentage point increase in employment.⁵² Thus, a state Earned Income Tax Credit, as has been enacted by 20 states, can boost the effectiveness of the federal Earned Income Tax Credit.

Most states that have enacted the Earned Income Tax Credit simply give recipients a certain percentage of the federal Earned Income Tax Credit rather than creating an entirely new formula.⁵³ This system is beneficial because it minimizes administrative costs. Sixteen states have refundable tax credits while four have enacted non-refundable credits. Refundable credits are far more beneficial because many Earned Income Tax Credit recipients will receive almost no additional money from a state Earned Income Tax Credit if the credit can not go beyond the amount that the low-wage worker pays in income taxes.

Our proposal is:

That chapter 229 of the general statutes be amended to allow a refundable tax credit equal to twenty percent of the earned income credit allowed under the federal Income Revenue Code.

⁵² Jeffrey Grogger, “Welfare Policy, Welfare, and Work” *The Review of Economic and Statistics*, May 2003, 85 (2): 394-408

⁵³ Joseph Llobrera and Bob Zahradnik, “A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2004” May 14, 2004.