

Connecticut's Earned Income Tax Credit (EITC)

In a Low-Wage Economy, the EITC is More Important than Ever
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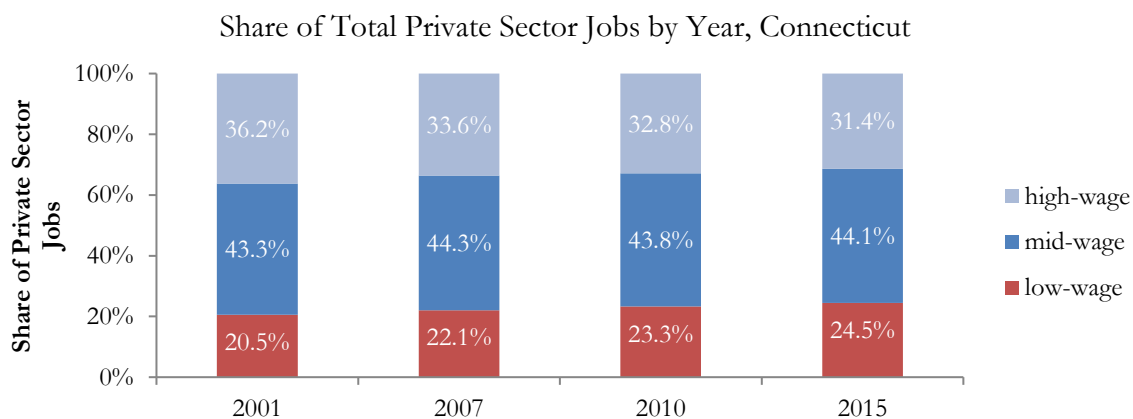
Every job should allow parents to provide food, shelter, and financial security for their children. Connecticut's Earned Income Tax Credit (EITC) is among the state's most sensible and effective tools for helping working families struggling to get by on low wages. The refundable tax credit — currently set at 27.5 percent of the federal EITC — boosts working families' paychecks by offsetting their payroll taxes. This proven anti-poverty tool is now at risk, however, as all four budget proposals under consideration at the statehouse include reductions to the tax credit.

The Benefits of Connecticut's State EITC

In 2015, nearly 200,000 low- and moderate-income households received the state EITC. On average, these households had gross incomes of under \$18,500 — less than what a single parent working full-time for the minimum wage would have taken home before taxes. The average state credit among these households was about \$565, a 6 percent decrease from the average in 2011 (\$602). When layered on top of the federal credit, **the Connecticut EITC boosted about 6,600 people over the poverty line and eased poverty for another 99,000.**¹

The EITC encourages and rewards *working* families. The credit can be claimed only by people who earn income through work and is structured to encourage people to work more. Beginning with the first dollar earned, a worker's EITC grows with each additional dollar of earnings — incentivizing people to work more — until the credit reaches maximum value before phasing out gradually as incomes rise.

This support is all the more important at a time when child poverty remains high and low-wage work is more prevalent. Over the last fifteen years, the share of jobs in low-wage industries has increased by 20 percent while the share of work in high-wage industries has declined by 13 percent.^{2,3}



Source: CT Voices analysis of QCEW data. Includes all three-digit NAICS codes for private industry.

The EITC promotes positive children’s outcomes such as healthy development, educational attainment, and long-term adult success. Children who benefit from tax credit expansions such as the EITC see improvements in infant health indicators, reduction in early onset of disabilities, improvement in school test scores, and increased likelihood of completing high school and attending college.⁴ The EITC represents an investment not just in today’s children but also in tomorrow’s workforce. The education and skill gains associated with the EITC will likely pay off for many years to both the individual, through higher earnings and employment, and the state, through increased income tax revenue.⁵

The EITC helps fix our upside-down, family-unfriendly tax code. Many regard the EITC as an important correction to the state’s tax code. First, it is one of the only provisions in the state tax code that recognizes the financial responsibilities of raising a family. In a state without other pro-family tax policies such as a state Child Tax Credit, Child Care Credit, or Dependent Exemption, the state EITC provides a much-needed break for working families. Second, it benefits low-income taxpayers, standing apart from the many loopholes that benefit the well-connected at the expense of the rest of us.⁷

By the Numbers: Connecticut’s EITC (2015 data) ⁶	
Total Households Claiming EITC	193,838
Total Credit Amount	\$109,561,558
Average State Credit Amount	\$565
Average Filer Income of EITC Claimant	\$18,492

See our interactive maps for EITC data by town:
<https://public.tableau.com/profile/connecticut.voices.for.children#!/>

The EITC at Risk

State-Level Threats

In 2011, Connecticut lawmakers took historic action to establish an EITC equal to 30 percent of a filer’s federal credit. Only two years later, due to a budget deficit, the legislature reduced the credit to 25 percent, pledging to increase it to 27.5 percent in 2014 and fully restore it to 30 percent in 2015. The legislature fulfilled their 2014 promise but in 2015 delayed the final increase to July 2017.⁸

Now, policymakers are considering not only reneging on their pledge to restore the tax credit to 30 percent, but also reducing the credit permanently. Both the Governor and Republican leadership propose lowering the EITC to 25 percent, while Democratic leadership proposes reducing the credit to 26.25 percent.⁹ House Republicans go one step further: under their proposal, if the credit amount exceeds the income tax owed, then the state would no longer issue a check for the remaining balance to help make work pay.¹⁰ This would effectively do away with the program.¹¹

Reducing the EITC in 2013 resulted in a \$17 million tax increase for the state’s poorest workers. The newest round of proposed cuts would cost working families \$25 million per year,¹² imposing a tax hike on nearly 200,000 Connecticut families who are working hard but not making enough to get by.

Anticipated Federal Threats

President Trump's budget proposal would cut spending on the federal EITC and Child Tax Credit by \$40 billion, primarily by reducing the number of taxpayers who are eligible for the credits. In part, the President's proposal would require recipients who currently use an Individual Taxpayer Identification Number to provide a Social Security Number, a provision aimed at undocumented immigrants.^{13,14} According to Tax Credits for Working Families, this would "exacerbate the racial wealth gap by preventing many immigrant taxpayers and their children from benefiting from the credits...putting more than four million Latino children and their families (nationally) at greater risk of poverty and hunger."¹⁵ As with other work supports and anti-poverty programs, state lawmakers should be cautious of cuts in current budget negotiations due to enormous disinvestments in President Trump's budget.

Protect and Strengthen Connecticut's EITC

At this time of increased need, Connecticut should consider steps to protect and strengthen the EITC by incorporating savings incentives and improving distribution methods to ensure that working families can meet the needs of their children. While we recognize that this is a difficult budget year, Connecticut must weigh its short-term fiscal priorities against its long-term goals of equity and shared prosperity. The EITC is a proven tool that sides of the political aisle have supported. During a year in which all parties need to come to the table to solve our state's challenges, protecting a bipartisan tax credit that immediately impacts tens of thousands of children should be an achievable goal.

Early Refund EITC Payments

Early refund EITC payments would help working families access part of the EITC midway through the year in case of a financial emergency. A proposal described by the Center for American Progress would allow families to access a portion of their EITC starting on July 1, acting as a sort of "earned insurance" against unforeseen financial challenges.¹⁶ Such a policy would help to protect families against predatory lending and offer families the choice to receive part of their EITC early.

Advance EITC Payments

Advance EITC payments spread out a family's anticipated EITC payment out over four quarters. Under one proposal, families would receive a fourth of their expected EITC each quarter, which would reduce reliance on costly lending options and would be counted as a loan against their income tax return.¹⁷ A pilot project in Chicago by the Center for Economic Progress that spread out EITC payments across four quarters found that the vast majority (90 percent) of families who participated in the program preferred receiving advance quarterly payments.¹⁸

Citations

- ¹ Unpublished calculations of 2013-2015 Census Bureau data from CBPP.
- ² Noonan, Ray and Thomas, Derek. Connecticut Voices for Children. State of Working Connecticut, 2016 Report. September 2016. Retrieved from: <http://www.ctvoices.org/publications/state-working-connecticut-2016>.
- ³ Thomas, Derek and Noonan, Ray. Connecticut Voices for Children. *American Community Survey 2015 Report*. September 2016: <http://www.ctvoices.org/publications/ACS-2015-data>.
- ⁴ Marr, et al. CBPP. *EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds*. October 2015: <http://www.cbpp.org/sites/default/files/atoms/files/6-26-12tax.pdf>.
- ⁵ *ibid*
- ⁶ CT Voices analysis of tax year 2015 data prepared by the Connecticut Department of Revenue Services (DRS).
- ⁷ Connecticut Department of Revenue Services. *Tax Incidence Report 2014* <http://www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf>.
- ⁸ Rappa, John. Office of Legislative Research. *State Tax Changes 2011-2016*. October 2016: <https://www.cga.ct.gov/2016/rpt/pdf/2016-R-0256.pdf>.
- ⁹ Noonan, Ray et al. Connecticut Voices for Children. *A Better Approach to Budgeting: Concerns about the Austerity Approach of State Budget Proposals*. May 2017: <http://www.ctvoices.org/BetterApproach>.
- ¹⁰ Phaneuf, Keith. *GOP asks far more of labor to offset eroding CT tax receipts*. May 2017: <https://ctmirror.org/2017/05/16/gop-asks-far-more-of-labor-to-offset-eroding-ct-tax-receipts/>.
- ¹¹ *Ibid*. According to Phaneuf, "the Republican budget estimates that about 93 percent of the \$133 million paid out currently under the state program would be retained by the state."
- ¹² Office of Fiscal analysis score of budget proposals and CT Voices analysis of DRS Earned Income Tax Credit Data. See <https://data.ct.gov/dataset/Connecticut-Earned-Income-Tax-Credit-By-Town/4vva-amjy>.
- ¹³ White House. *Major Savings and Reforms Budget Of The U. S. Government Fiscal Year 2018*. May 2017 <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/msar.pdf>
- ¹⁴ According to estimates by the Brookings Institution, nearly 600,000 Connecticut residents live in households eligible for the credit, including more than 240,000 children. EITC recipients largely worked in the retail trade and health care industries, and a majority had never attended college. Brookings estimated that 49 percent of EITC-eligible filers in Connecticut are white; 19 percent are black, and about 26 percent are non-white Latino.
- Brookings Institution. *Earned Income Tax Credit (EITC) Interactive and Resources*. December 2016: <https://www.brookings.edu/interactives/earned-income-tax-credit-eitc-interactive-and-resources/>.
- ¹⁵ Pescatore, Lauren. Tax Credits for Working Families. *Trump Reverses Course on EITC in Budget Proposal*. May 2017. <http://www.taxcreditsforworkersandfamilies.org/news/trump-reverses-course-eitc-budget-proposal/>
- ¹⁶ Boteach, Melissa. Center for American Progress. *Harnessing the EITC and Other Tax Credits to Promote Financial Stability and Economic Mobility*. October 2014: <https://cdn.americanprogress.org/wp-content/uploads/2014/10/EITC-report10.8.pdf>.
- ¹⁷ Holt, Steve. Brookings Institute. *Periodic Payment of the Earned Income Tax Credit Revisited*. December 2015: <http://www.brookings.edu/~media/research/files/reports/2015/12/17-holt/holtperiodicpaymenteitc121515.pdf>.
- ¹⁸ *Ibid*.