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Testimony Before the Human Services Committee in Support of
S.B. 163, An Act Concerning A State Earned Income Credit
Submitted by Jim Horan, Executive Director
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February 21, 2008

Good morning Senator Harris, Representative Villano, and members of the Human Services Committee. I am Jim Horan, Executive Director of the Connecticut for Human Services (CAHS), a statewide nonprofit advocacy organization that works to reduce poverty. I am testifying this morning in support of S.B. 163, An Act Concerning A State Earned Income Credit.

S.B. 163 would create a state Earned Income Tax Credit (EITC) that would piggyback on the federal EITC. A state EITC would provide tax relief to hard-working, low-income families, helping them close the gap between what they earn and what it takes to make ends meet. It would also put about $57 million into the state's economy, with the greatest impact in low-income neighborhoods that really need an economic stimulus.

Filers would receive a state credit equal to 20% of their federal credit under this bill. In Connecticut, that would average $331, based on an average federal credit of $1,655. In tax year, 172,838 Connecticut households—10.3% of all households filing federal income tax returns—in every urban, suburban, and rural community claimed the federal EITC, returning $286 million to low-wage earners.

Twenty-two states and the District of Columbia have enacted state EITCs, including almost all of Connecticut's neighbors in the Northeast. Nebraska, Michigan, New Mexico, North Carolina, and Louisiana passed State EITCs in the past two years. It's time for our state to follow their lead. Here's why:

- **A state EITC can make a significant difference for hard-working families:** The National Center for Children in Poverty found that the federal EITC reduces poverty for young children by nearly 25% - more than any government program. A state EITC builds on the benefits of the federal EITC. It alleviates the regressive nature of sales and property taxes, and makes the state tax system more equitable.

- **The EITC has a history of bipartisan support:** The federal EITC was enacted in 1975 under President Ford, and expanded under the first President Bush and President Clinton. President Reagan called the EITC "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." State EITCs have been enacted under Republican and Democratic governors.

- **A state EITC would stimulate Connecticut's economy and provide a vehicle to build assets.** Working families use the EITC to pay off debt, buy basic necessities, finance a car to get to work, and invest in education. Families can save all or part of the EITC as a first step to build assets and financial security.

The beauty of a state EITC is its simplicity. Since it piggybacks on the federal EITC, there is only modest cost for administration. These bills propose a 20% refundable credit, meaning that they would provide working families with a refund equal to one-fifth of the federal EITC, even if they don't owe state taxes.

Working families with annual incomes up to about $40,000 qualify for the federal EITC, which would be the same threshold for a Connecticut EITC. Working families with incomes between $11,750 and $16,000 would benefit the most.

A 20% state EITC would cost would cost about $57 million annually, minus sales taxes it would generate. An EITC would be a tax expenditure, so it would fall outside the state spending cap.

$57 million is a significant investment. But the EITC at the federal level and in other states has a proven record in encouraging people to work, stimulating the economy, and lifting families out of poverty. Several states have increased the percentage of their state EITCs in recent years, including New York (to 30%) and Vermont (to 32%), because they recognize their value. You should invest in the EITC to make Connecticut a better place to live and work for low-income families.

Thank you for holding this hearing, and for the opportunity to testify.