Study Concerning

A STATE EARNED INCOME TAX CREDIT

Pursuant to Section 133 of Public Act 07-1, June Special Session

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Connecticut General Assembly
Office of Legislative Research

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Research and Writing

Robin Cohen
Daniel J. Duffy
Janet Kaminski Leduc
Judith S. Lohman
Kevin E. McCarthy
Rute Pinhel
Susan Price
John G. Rappa
Carrie Rose
Kristin Sullivan

Reviewer

Mary M. Janicki

Editor

Saul Spigel

Production Coordinator

Tangy Stroman

Special Thanks

Rob Wysock, Office of Fiscal Analysis
Catherine Conlin, Program Review & Investigations

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PREFACE

LEGISLATIVE CHARGE

Section 133 of Public Act 07-1, June Special Session requires the Office of Legislative Research to study certain issues concerning a state earned income tax credit (EITC). (See Appendix A for the text of the act.) These issues can be divided into those that affect specific groups of people and those that affect the economy. The first group concerns how an EITC would affect people with incomes below the poverty line, children in low-income families, and members of the armed forces. The second group concerns how an EITC would affect labor force participation and local economies.

The law requires OLR to study the following specific questions:

1. The number of Connecticut residents whose income, as a result of a state EITC, would rise above the federal poverty level.

2. The impact of such a credit on local economies, including the amount of money received from the credit that is spent in economically distressed neighborhoods.

3. The effect of such a credit on the state's labor force participation.

4. The effect of such a credit on members of the armed forces of the United States.

5. The effect of such a credit on children in low-income families.

GENERAL ASSUMPTIONS

Because the law did not specify any particular level or type of state EITC for this study, we based our analyses on past legislative proposals for a Connecticut earned income tax credit. We assumed that a state credit would be a percentage of the federal earned income tax credit and that it would be refundable. Within these parameters, we looked at two possible credits: one set at 10% of the federal credit and one at 20%. A state EITC's parameters determine the magnitude of its effects on people and local economies.

The law did not define such terms as "economically distressed," "neighborhood," "local economies," and "low-income." Consequently, in some cases, we made assumptions about how to define them for purposes of this study. Our assumptions about, and definitions for, these terms are described in the appropriate chapters of this report. Often our definitions have been shaped by the available data.

Other assumptions are listed in individual chapters below.

METHODOLOGY AND SOURCES

We began our study of the questions posed by the law with a wide-ranging survey of available literature on earned income tax credits. These studies highlighted the myriad factors that determine how an EITC affects people and economies and identified the type of data and statistical methods we would need to estimate the impact of a Connecticut EITC. We then inventoried the data that is currently available and determined whether it would allow us to answer the questions the law poses.

Virtually all of the many studies of such credits deal solely with the impact of the federal credit, not a state credit. In cases where specific data for Connecticut was lacking, we relied on these studies to draw analogies about the impact of a state credit. But we caution that conclusions based on federal credit impacts may not hold for a Connecticut state credit, particularly if the state credit is substantially smaller than the federal credit.

In addition, the impact of a state credit in Connecticut may differ from the experience of other states. For example, if another state has a lower threshold for liability for state income tax than Connecticut, participation in its state EITC program might be higher than it would in Connecticut, where 2007 state income tax liability starts at $19,050 for a head of household and $24,050 for joint filers. Another factor that could affect participation rates is the extent to which Connecticut publicizes its credit and encourages eligible residents to claim it.

In our study of the questions posed, we were often forced to use imperfect data or found that there was no reliable data on a particular point. Throughout this report, we attempt to identify the data shortcomings that affected our ability to answer the questions.

EXECUTIVE SUMMARY

INTRODUCTION TO THE EARNED INCOME TAX CREDIT

The federal EITC was enacted in 1975. It provides a refundable tax credit to low-income workers. A refundable credit means that if a taxpayer owes no taxes or if his or her tax liability is less than the credit, he or she receives a refund of the difference.

Federal credit amounts vary by income, tax filing status, and number of children. For 2007, the maximum qualifying income is $39,783 for a married couple with two or more children. The maximum credit is $4,716 for a single or married worker with two or more children.

A person must file an income tax return to receive the federal credit. In 2005, 165,026 Connecticut federal income tax filers claimed the federal EITC; the average credit they received was $1,658.

Twenty-two of the 42 states with state income taxes have state earned income tax credits. All of these state credits are percentages of the federal credit ranging from 3.5% to 50%. Like the federal credit, 19 of the 22 state credits are refundable. Since 1998, members of the Connecticut General Assembly have introduced 21 bills to establish a state credit here, but none has become law. Most of the proposals have called for a refundable state EITC equal to 10% or 20% of the federal EITC.

STUDY DESIGN

Section 133 of Public Act 07-1, June Special Session requires the Office of Legislative Research to study and report on the effects a state earned income tax credit would have on (1) Connecticut residents living in poverty, (2) local economies, (3) labor force participation, (4) military personnel, and (5) children in low-income families. We researched available literature on the impacts of the federal earned income tax credit and those in other states and gathered available data necessary to conduct the study. Where data was lacking, we drew analogies from the literature and made certain assumptions, which are detailed throughout the report.

In assessing the impact of a state EITC, we modeled credits based on past legislative proposals. Thus, we assumed a state credit that piggybacks on the federal credit. If a taxpayer is eligible for the federal credit, he or she would be eligible for the assumed state credit. We also assumed the credit would be refundable and would be set at 10% or 20% of the federal credit.

FISCAL IMPACT OF STATE EITC

For this report, the Office of Fiscal Analysis estimated that a 10% state EITC would result in revenue losses of $29.4 million in FY 09 and $32.4 million in FY 10. A 20% EITC would have a revenue impact of $58.8 million in FY 09 and $64.8 million in FY 10.

FINDINGS AND CONCLUSIONS

Poverty Level Incomes

Because the assumed Connecticut state credits are small compared to the federal credit and other available income support, it appears that a state credit would raise relatively few of the 52,378 Connecticut families with below-poverty incomes in 2006 above the federal poverty level (FPL). Those whose incomes would be increased above FPL fall into narrow income ranges that are already quite close to the FPLs for their family sizes.

Available data on incomes by family size is not precise enough to allow us to estimate with certainty the number of state families whose incomes would rise above the FPL if the state enacted a 10% or 20% credit. It appears that approximately 17,000 families have incomes within ranges for which a state credit could have that effect, but the number for whom it actually would is likely to be smaller.

A look at families receiving cash assistance from the Temporary Family Assistance (TFA) program and subject to the program's work requirements shows that, with a federal EITC and a TFA benefit, a state EITC of 10% or 20% would raise the income of a family of three above poverty if the family breadwinner works between 17 and 17.5 hours per week. If such a person worked the program average of 28 hours per week, it would be the TFA benefit rather than either the federal or state EITC that pushes his or her income above poverty. Likewise, a family whose breadwinner works full-time for the state's $7.65 per hour minimum wage would be pushed over the FPL by his or her wages or by wages plus the federal EITC, not by a state EITC. The only such worker whose income does not exceed poverty even with a federal and state credit is one with a larger family (five or more).

Economic Effects

The economic effects of a state EITC depend on many factors, including how many eligible taxpayers claim the credit and how and where they decide to spend the money they receive. Studies of the economic effects of EITCs have looked at (1) how EITC recipients use their credits and (2) the economic outputs, such as spending and job creation, that can be attributed to the credits.

Taxpayers receiving federal EITCs can choose to receive their credits as a lump sum or spread out over the year. Research suggests that the lump sum generates greater economic effects as recipients use the money to make larger purchases or pay off debt. But policymakers have recently instituted programs to encourage recipients to save the money for future needs. One example is Connecticut's Individual Development Account (IDA) program.

Whether EITCs affect the local more than the regional or state economy depends on the number of times the money circulates in the economy. Research from other states suggests that the EITC's economic impact on an area depends partly on the area's size and the number of EITC claimants who live there. Internal Revenue Service (IRS) data from the 2005 tax year shows the highest concentrations of federal EITC recipients live in Connecticut's largest cities, however a lack of data on the locations of different types of businesses prevents our gauging the impact of a credit on local and neighborhood economies.

Labor Force Participation Rates (LFPR)

Connecticut's labor force participation rate was 69.2% in November 2007 and has remained stable through periods of economic growth or recession. The EITC may influence several of the many factors that influence labor force participation, such as the wages a person will need to accept a given job and the negative effect a credit has on other types of benefits, such as Food Stamps.

Relatively few studies have addressed the impact of state or federal earned income tax credits on labor force participation. Some studies found the credit had a modest effect and some found no effect. Researchers have determined that the federal EITC has had a prominent role in bringing single mothers into the workforce. We assume that the impact of a state credit increases with the size of the credit (though the relationship is not necessarily linear) and that a refundable credit has a bigger effect than a nonrefundable one. But based on studies in other states, the assumed size of a Connecticut EITC, and the historic stability of Connecticut's LFPR, we believe a state credit would have at best a marginal effect on the state's LFPR.

Armed Forces Members

Basic military pay scales for 2007 show that pay for many enlisted ranks and some entry-level officer ranks would allow the active duty military personnel in those ranks who have children to qualify for the federal EITC in 2007, if their spouses are either not working or working but not earning significant wages.

Using Department of Defense demographic data, we estimate that 1,066 or about 15% of the military families stationed in Connecticut are eligible for the federal EITC. The number of those who would be eligible for a state earned income tax credit depends on how many are Connecticut residents for tax purposes.

Since over 98% of the active duty military personnel stationed in Connecticut are stationed at the New London submarine base, the Groton-New London area would see the biggest economic impact from a state credit available to military families.

Children in Low-Income Families

Although there is little research on the specific effect of state and federal earned income tax credits on children in low-income families, several studies document the positive effect of increased family incomes on children's academic performance. The direct benefit for children depends on the uses to which such families put their EITC income. Children can also benefit indirectly from expenditures that make a parent more employable.

CHAPTER I: INTRODUCTION TO THE EARNED INCOME TAX CREDIT

THE FEDERAL EARNED INCOME TAX CREDIT

Congress enacted the federal earned income tax credit in 1975. The credit is designed to offset the impact of Social Security and Medicare taxes on low-income individuals and to encourage them to work instead of relying on welfare benefits. It does so by offering a refundable tax credit to low-income individuals and families with or without children.

People who work and earn incomes below certain levels qualify for the credit. Credit amounts vary according to a taxpayer's income and the number of children in the family. Income limits and credit amounts are adjusted annually for inflation. The credit is called "refundable" because even those people who owe no federal income taxes or owe less than the credit amount receive the excess of the credit in the form of a refund. (Working poor people typically do not owe federal taxes but pay a significant portion of their income in Social Security and Medicare taxes.)

Recipients can choose to receive the credit as a lump sum payment, like a regular income tax refund, or can receive part of it in each paycheck throughout the year. The latter option is called "advance payment." To receive an advance payment, the employee must have at least one child. The amount an employee can receive as an advance payment is limited. The limit for the 2007 tax year is $1,712. The advance payment limit is adjusted annually for inflation.

To receive a federal EITC, a worker must file a federal income tax form for the year and specifically claim the credit. The credit is available only to those who were U.S. citizens or resident aliens for the entire tax year.

Federal EITC Filing Categories

A person's federal EITC varies according to income, number of children, and filing status. To claim the federal credit, a person must file a tax return as single, head of household, or married filing jointly. For purposes of determining the credit amounts, single and head of household are combined into one category. For each income level in the two filing categories, there are three possible EITC amounts depending on whether a filer has no children, one child, or two or more children.

Thus, to determine a person's federal EITC, one must know (1) the person's federal adjusted gross income, (2) filing status (single/head of household or married filing jointly), and (3) the number of children (none, one, or two or more).

Federal EITC Income Limits

The federal EITC is available only for filers who have wages and whose federal adjusted gross income (AGI) falls below certain limits. The limits vary according to EITC category. As with other federal income tax thresholds and exemptions, the federal EITC income limits are adjusted every year for inflation.

For the 2007 tax year, a person qualifies for a federal EITC if he or she has at least $1 of earned income, investment income of $2,900 or less, and a maximum AGI and maximum earned income of:

- $12,590 ($14,590 for married filing jointly) with no children,
- $33,241 ($35,241 for married filing jointly) with one child, and
- $37,783 ($39,783 for married filing jointly) with two or more children.

Federal EITC Credit Amounts and Distribution

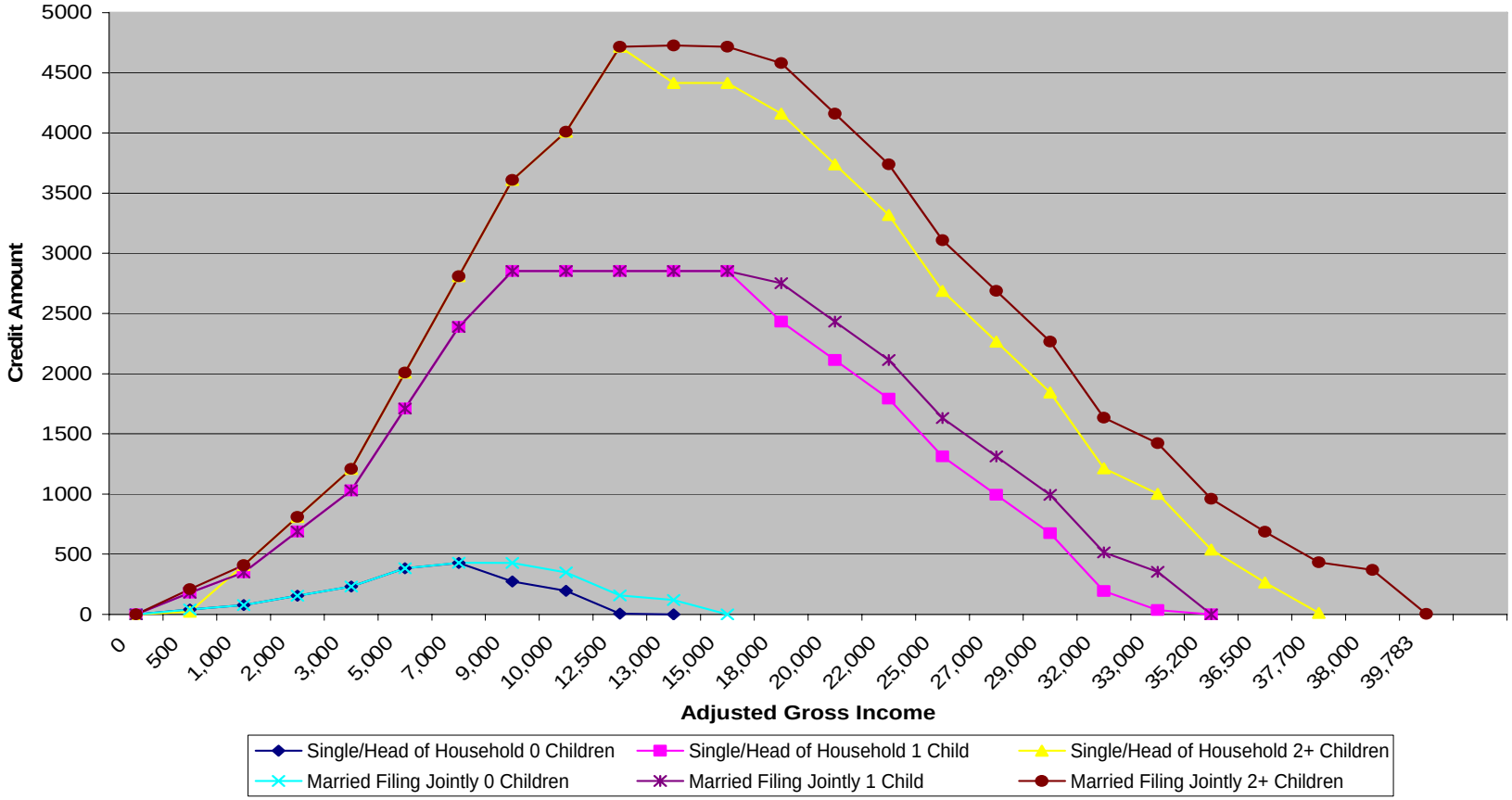
Like the income limits, EITC credit amounts are adjusted annually for inflation.

Credit amounts follow a bell curve for all six filing categories (see Chart I-1). Credits are lowest for those with the lowest and highest eligible incomes and highest for those in the middle of the qualifying income range. Although the credits start as equal for single/head of household and joint filers within each category at lower incomes, because the credit phases out at a higher income level for joint filers, amounts diverge according to filing status as they phase down from the maximums.

Maximum credits for the 2007 tax year are:

- $428 for a worker with no children
- $2,853 for a worker with one child
- $4,716 for a worker with two or more children

CHART I-1: FEDERAL EARNED INCOME TAX CREDIT DISTRIBUTION



THE FEDERAL EARNED INCOME TAX CREDIT IN CONNECTICUT

The most recent Internal Revenue Service data shows that 165,026 Connecticut income tax filers claimed the federal EITC in the 2005 tax year. This number is just over 10% of the total Connecticut returns filed for that year. The average federal credit was $1,658.

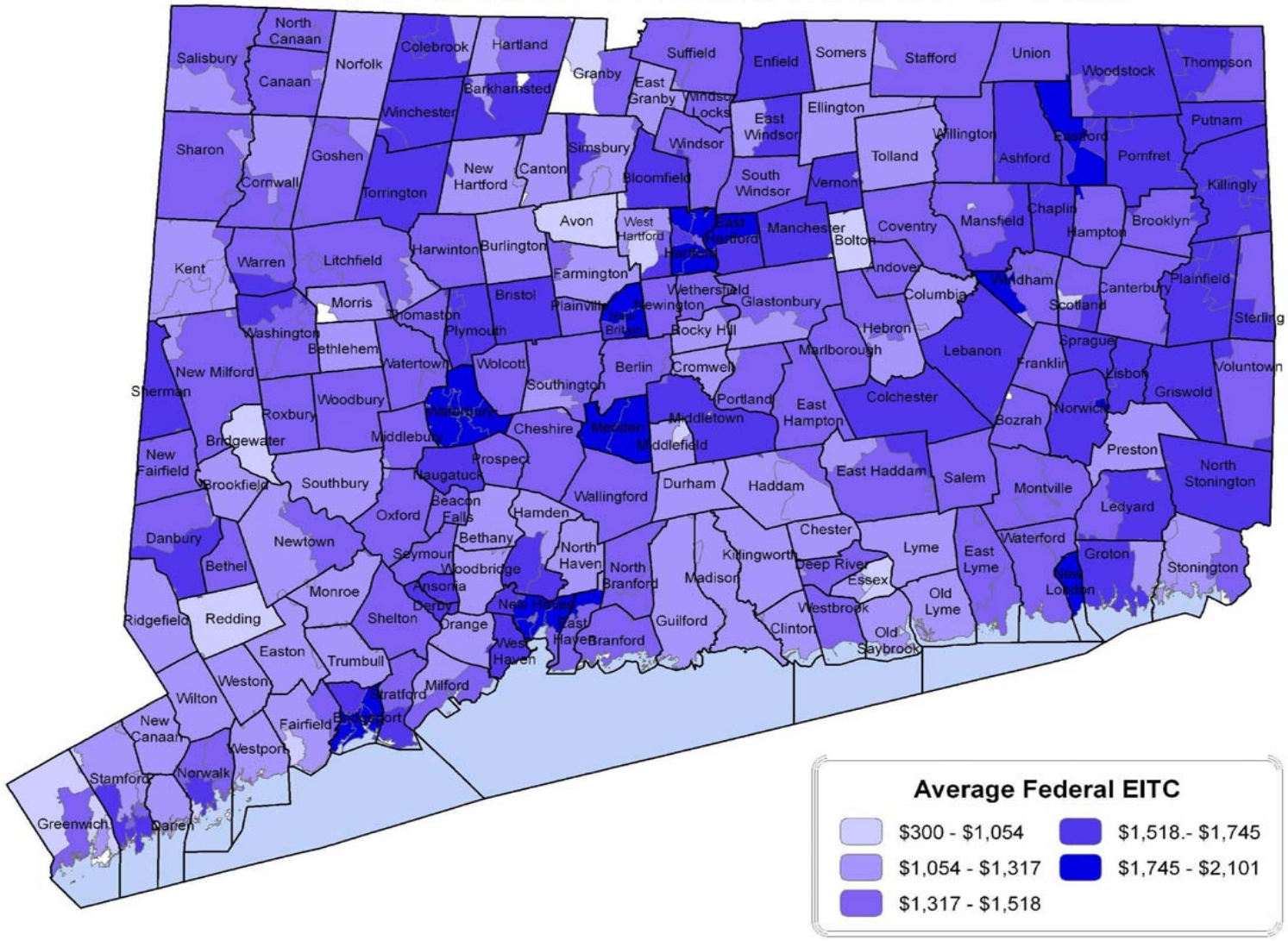
Of those claiming the federal credit, 61,657 had federal AGIs of under $10,000; 73,098 had AGIs between $10,000 and 25,000; and 30,271 had AGIs between $25,000 and $50,000. The average federal credit each of these groups received in 2005 and the assumed state credits at 10% and 20% of the federal credit are shown in Table I-1.

TABLE I-1: CT AVERAGE FEDERAL AND ASSUMED STATE EITC FOR 2005, BY AGI BRACKET

Federal AGI	*Filers Claiming Federal EITC*	*Total Federal EITCs Claimed 2005*	*Average 2005 Federal Credit*	*Assumed 10% State EITC*	*Assumed 20% State EITC*
Under $10,000	61,657	$64,021,000	$1,038	$104	$208
10,000 - $24,999	73,098	180,341,000	2,467	247	493
25,000-49,999	30,271	29,692,000	981	98	196
TOTAL/AVERAGE	**165,026**	**$274,054,000**	**$1,658**	**$166**	**$332**

Map I-1 shows the average 2005 federal EITC for each Connecticut zip code area. Map information comes from the IRS. White spaces represent zip code areas in which fewer than 10 returns were filed and for which the IRS suppressed its data reporting.

MAP I-1: AVERAGE FEDERAL EITC BY ZIP CODE



IMPACT OF THE FEDERAL EARNED INCOME TAX CREDIT

Several studies have documented the history and effects of the federal earned income tax credit, including its impact on income and poverty, work effort, household spending and asset development, and the economy. To summarize, researchers have concluded the following:

- The federal EITC lifts more than four million people out of poverty each year, more than half of them children.
- The federal EITC has played a critical role in bringing single mothers into the workforce.
- Taxpayers claiming the federal credit most often receive it as a lump sum payment during tax season.
- Most families use the credit for short- and medium-term needs (e.g., paying off debt, paying current bills, buying furniture, and repairing vehicles).
- A minority of families apply the credit toward longer-term asset development (e.g., saving to buy a house).
- The number of households receiving the credit can have a potentially large effect on local economies, particularly in cities, as the money cycles through the community.
- Data resource limitations prevent precise studies of the impact of the federal EITC. For example, the EITC participation rate cannot be known because a majority of people eligible for but not claiming it do not file tax returns. Thus, tax records do not contain the information necessary to identify these people.

STATE EARNED INCOME TAX CREDITS

Twenty-two of the 42 states with state income taxes have their own EITCs. Colorado is not included in this total because its state EITC is currently suspended for lack of funding. Of the 22 active state credits, 19 are fully or partially refundable. All state EITCs are based on the federal EITC and provide a state income tax credit equal to a percentage of the federal credit amount. Percentage amounts range from a low of 3.5% of the federal credit to a high of 50%. Some state credits have varying percentages depending on income or number of children.

The first state EITC was enacted in 1986. Six states passed state EITCs in the 1980s and seven more followed in the 1990s. Since 2000, 12 states have enacted state EITCs. Three states enacted credits in 2007. Many of the states have increased their credits several times since first passing them and have also made them refundable.

Table I-2 provides information on each state's EITC as of the date of this report.

TABLE I-2: STATES WITH EARNED INCOME TAX CREDITS

State	*% of Federal EITC*	*Refundable*	*Year Passed*	*Changes Since Enactment*	*Citation*
COLORADO	10%	Yes	1989	Colorado's EITC was funded by a state surplus. It is currently suspended.	CRS §39-22-124
DELAWARE	20%	No	2005	None	30 Del. Code Ch. 11, § 1117 as amd by SB 230 (2005)
ILLINOIS	5%	Yes (subject to availability of funds from the federal Temporary Assistance for Needy Families (TANF) block grant and the state's ability to meet its required maintenance of effort.)	2000	The state EITC was to expire after two years, on June 1, 2003. In 2003, the legislature made the credit permanent and also made it refundable, subject to federal funds availability.	35 ILCS § 5/212
INDIANA	6%	Yes	1999 (scheduled to expire in 2011)	Indiana's first state EITC was not based on the federal EITC. The state switched to a credit based on the federal EITC in 2003.	Indiana Code § 6-3.1-21
IOWA	7%	Yes	1989	Increased from 6.5% in 2007 and made refundable.	Iowa Code § 422.12B, as amd. by S.J. 1578 (2007)
KANSAS	17%	Yes	1998	In 2002, the Kansas legislature increased the credit to 15% of the federal EITC from 10%. The cost was partially offset by federal money through the EITC's designation as maintenance of effort for TANF purposes. In 2007, it increased the credit to 17% of the federal EITC, effective for the 2007 tax year.	KSA § 79-32, 205, as amd by HB 2031 (2007)
LOUISIANA	3.5%, effective January 1, 2008	Yes	2007	None	Act 278, Reg. Session 2007
MAINE	5%	No	1999 law effective in 2000 tax year	Credit reduced to 4.92% for the 2003, 2004, and 2005 tax years.	36 MSA § 5219-S
MARYLAND	20% or 50%	20% credit is refundable, 50% credit is not. Taxpayers may claim either credit but not both.	1987 (refundable portion passed in 1998)	1998 & 1999 – 10% 2000 – 12.5% 2001 – 15% 2002 – 18% 2004 – 20%	Md. Code § 10-704
MASSACHUSETTS	15%	Yes	1997	Credit increased from 10% to 15% in 1999, effective with tax years starting on or after 1/1/01.	62 Mass G.L. § 6(h)

State	*% of Federal EITC*	*Refundable*	*Year Passed*	*Changes Since Enactment*	*Citation*
MICHIGAN	10% through 2008, 20% in 2009 & after	Yes	2006	None	Act 372, Public Acts of 2006
MINNESOTA	Varies depending on income. Families with children may claim from 25% to 45% of federal credit. Childless taxpayers get 25%. Average credit is 33%.	Yes	1992 (restructured in 1997/98)	Increases were passed in 2002. Another increase is scheduled for 2008.	Minn. Stats § 290.0671
NEBRASKA	10%	Yes	2006	Increased from 8%; 10% credit takes effect in 2008.	LB 968, effective April 6, 2006
NEW JERSEY	20% in 2007 22.5% in 2008 25% in 2009 and after	Yes	2000	When passed in 2000, the law required the following phased increase in the credit percentage: 10% in 2000 15% in 2001 17.5% in 2002 20% in 2003 and after. 2007 law added credit increases for 2008 and 2009 and after and eliminated a previous $20,000 income limit on those who qualify for a state credit.	NJSA § 54A:4-6, as amd. by P.L. 2007, c. 109
NEW MEXICO	8%	Yes	2007, effective starting in 2007 tax year	None	HB 436, Ch. 45
NEW YORK	30%	Yes	1994	Original credit was 7.5% of federal credit. The credit increased to 10% in 1995. Later in 1995, the legislature increased the percentage to 20% starting with the 1996 tax year. Legislation enacted in 1999 increased the EITC to 22.5% in tax year 2000, and to 25% in tax years beginning after 2000. The rate reverts to 20% if the federal government reduces New York's TANF grant allocation, or does not permit spending on the EITC to apply toward the TANF maintenance of effort requirement. Legislation enacted in 2000 further increased the EITC to 27.5% in 2002 and to 30% after 2002. 2006 legislation created an enhanced state EITC for certain noncustodial parents in lieu of the existing state EITC. To qualify, claimants must be state residents, age 18 and over, and have a minor child with whom they do not reside. They must also have made child support	McKinney's Ann. Laws of NY, Tax Law, Ch. 60, § 606 (d-1)

State	% of Federal EITC	Refundable	Year Passed	Changes Since Enactment	Citation
				payments pursuant to a court order through a state support collection unit for at least half of the tax year. The enhanced credit is equal to the greater of (1) 20% of the federal EITC the taxpayer would otherwise be able to claim for one qualifying child as a custodial parent or (2) 2.5 times the federal EITC for taxpayers without qualifying children. The enhanced credit is refundable and is available for the 2006 through 2012 tax years.	
NORTH CAROLINA	3.5%	Yes	2007, effective January 1, 2008 (expires after the 2012 tax year)	None	S.L. 2007-323, § 31-4
OKLAHOMA	5%	Yes	2001, effective January 1, 2002	None	Okla. Stats. § 68-2357.43
OREGON	5%, then 6% in 2008 and after	Yes, starting with 2006	1997	Credit made refundable in 2005, effective January 1, 2006	ORS § 315.266
RHODE ISLAND	25%	15% refundable	1986	Credit reduced from 27% to 25% as a result of federal tax changes (RI income tax is piggybacked on federal taxable income)	RI Gen Laws Ann. § 44-30-2.6
VERMONT	32%	Yes	Passed in 1987, effective June 16, 1988	25% increased to 32% in 1999	32 Vt. Stats. Ann. § 5828b
VIRGINIA	20%	No	2004	From 2000 to 2005, VA offered a low-income tax credit of $300 each for the taxpayer, spouse, and dependent, if the taxpayer's VA AGI was no more than 100% of poverty. A 2004 omnibus tax reform law gave taxpayers a choice of the low-income tax credit or a credit equal to 20% of federal EITC, starting in the 2006 tax year.	Va. Code § 58.1-339.8
WISCONSIN	4% for one child, 14% for two children, 43% for three or more children	Yes	1989	Credit percentages increased	Wis. Stats. § 71.07(9e)

Sources: Center on Budget and Policy Priorities, National Conference of State Legislatures, National Governor's Association, State EITC Online Resource Center, state statutes.

EARNED INCOME TAX CREDIT PROPOSALS IN CONNECTICUT

Since 1998, 21 bills have been proposed in the Connecticut General Assembly to establish a state EITC. All of the proposals would have established a state credit that was (1) available to those who qualify for and claim the federal credit and (2) a percentage of the federal credit. None of these proposals became law. In 2007, an act that included a 20% refundable state EITC passed the General Assembly but was vetoed by the governor (PA 07-248).

Table I-3 lists each bill introduced in the General Assembly since 1998 that would have established a Connecticut EITC, along with the type of credit, and the final disposition.

TABLE I-3: PROPOSED EITC LEGISLATION IN CONNECTICUT

Year	*Bill Number*	*Credit Amount (% of Federal EITC)*	*Refundable*	*Final Disposition*
1998	SB 532	10%	Yes	Senate - Passed File 525 w/Senate A House – No action
1999	HB 6161	10%	Yes	Ref. to Finance – No action
	HB 6186	15%	No	Ref. to Finance – No action
	SB 116	Not specified	No	Ref. to Finance – No action
	SB 788	Not specified	Yes	Ref. to Finance – No action
	SB 1173	10%	Yes	Senate - Ref. File 586 to Appropriations Appropriations – No action
2001	HB 6939	10%	Yes	House – Ref. File 383 to Appropriations Appropriations – JF substitute bill deleting EITC provision
	SB 1338	10%	Yes	Senate – Move File 728 to Foot of Calendar
2002	HB 5131	20%	No	Ref. to Finance – No action
	SB 1338	10%	Yes	Senate – Ref. File 522 to Appropriations Appropriations – No action
2005	SB 236	20%	Yes	Ref. to Finance – No action
2006	SB 135	20%	Yes	Ref. to Finance – No action
	SB 147	20%	Yes	Human Services – JF to Finance Finance – No action
	SB 676	10%	Yes	Senate – Recommit File 548 to Finance
2007	HB 5127	Not specified	No	Ref. to Finance – No action
	HB 6649	20%	Yes	House – Ref. File 42 to Finance Finance – No action
	SB 146	20%	Yes	Senate – Move File 28 to Foot of Calendar
	SB 810	20%	No	Human Services – incorporate into SB 146 (see above)
	SB 1385	20%	Yes	Senate – Ref. File 402 to Transportation Transportation – Vote to hold
	SB 1390	20%	Yes	Senate – Move File 690 to Foot of Calendar
	PA 07-248	20%	Yes	Governor vetoed

ESTIMATED STATE FISCAL IMPACT OF 10% AND 20% STATE EARNED INCOME TAX CREDITS

For this report, the Office of Fiscal Analysis projected the state fiscal impact if Connecticut allowed taxpayers to claim a portion (10% or 20%) of their federal EITC against the state personal income tax.

Data, Methodology, and Assumptions

The estimates are based on the following data, methodology, and assumptions:

- Estimates of a state EITC were developed using published IRS data on the total value of federal EITC claims filed by Connecticut residents.
- Recent trends in federal data show that the number of Connecticut returns claiming the federal EITC has grown by 2% per year and the total amount claimed has grown by 4.5% per year. These growth rates were applied to the most recent federal EITC data (2005) to develop projections for the number of taxpayers who would claim a state credit and the total amounts that would be claimed for 2008 and 2009.
- Since awareness of a state EITC may be limited in the first few years after it is enacted, the estimates were reduced by 10% in the first year and 5% in the second year.
- The estimate assumes that the credit would be effective starting with the 2008 tax year. The state credit would be claimed as a refund in the same year that the federal credit was claimed, and begin in April 2009 when taxpayers file their 2008 tax returns

Estimate

Table I-4 shows the anticipated state revenue loss as a result of adopting a state EITC equal to 10% or 20% of the federal EITC.

TABLE I-4: REVENUE IMPACT OF A STATE EITC

	FY 09	***FY 10***
Percent of Federal Credit		
10% Credit	($29,400,000)	($32,400,000)
20% Credit	($58,800,000)	($64,800,000)
Returns claiming the credit	165,000	177,700

Enacting the credit is also expected to result in the following administrative costs to the Department of Revenue Services:

- A one-time cost of approximately $200,000 for systems development and computer programming.
- An ongoing cost of approximately $275,000 per year beginning in FY 09 to process EITC claims.

CHAPTER II: STATE EARNED INCOME TAX CREDIT AND POVERTY LEVEL INCOMES

This section addresses the question of how many Connecticut residents have incomes that would rise above federal poverty level (FPL) as a result of a state EITC.

DATA SOURCES

This question requires information on:

- Number of Connecticut families with incomes below federal poverty levels who have earned income (wages)
- The amount of that earned income
- Their family size and tax filing status

The data sources available are:

- U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2007
- Internal Revenue Service, 2007 Earned Income Credit Table
- Connecticut Department of Labor, statistics on average earnings and hours worked by residents receiving Temporary Family Assistance

Available data is not specific enough to allow us to provide a definitive count of how many families have incomes that would rise above federal poverty levels because of a state EITC. Instead, we estimated the base income and federal credit that families of varying sizes would need for a 10% or 20% state EITC to push them over the FPL. We also looked specifically at the effect of a state EITC on gaps between income and the FPL for families (1) receiving Temporary Family Assistance (TFA) under the Jobs First program and (2) working for the state minimum wage. Families in these groups commonly have low wages and are likely to be eligible for both a federal EITC and a state EITC if one were enacted.

FEDERAL POVERTY LEVELS

Federal poverty levels are established annually by the U.S. Department of Health and Human Services. The FPL was originally based on the annual cost of food for a family of a certain size. It is adjusted every year for inflation according to the change in the Consumer Price Index. FPLs vary according to family size. (Alaska and Hawaii have higher FPLs.) The FPLs for Connecticut for 2007 are shown in Table II-1.

TABLE II-1: 2007 FEDERAL POVERTY LEVELS FOR CONNECTICUT

Family Size	Annual Income
1	$10,210
2	13,690
3	17,170
4	20,650
5	24,139

FAMILIES WITH INCOMES BELOW THE POVERTY LINE

In order for a state EITC set at a percentage of the federal EITC to lift a family's income above the poverty level, the family's income without the credit must already be relatively close to the FPL. The assumed state credits in this report are 10% and 20% of the federal credit. This means that the maximum state credit any family could receive is $472 (10%) or $944 (20%). These maximums are based on the maximum federal credit for 2007 of $4,716 for a family with two or more children. For such a state credit to raise the family's total income above the FPL, its wages plus its federal EITC and any other benefits it receives must total an amount that is at most $472 or $944 less than the FPL for its family size.

As discussed in Chapter IV, the creation of a state EITC could induce some individuals who are currently unemployed to take jobs. The combined income from such jobs and the federal and state EITCs could raise some families above the poverty level. However, available data allows us to make only a very general estimate of the number of such families.

Methodology

To determine whether a state credit would make the difference that would allow income to meet or exceed the poverty level for a family of a certain size, we subtracted the appropriate federal EITC for a particular family size from the FPL for that family size to obtain the maximum base income for which a state EITC would be the difference. (At higher incomes, either the federal EITC or the wages themselves would push the family income above the poverty level.) We then subtracted 10% or 20% of the federal EITC from the result to gauge the minimum base income needed for the state EITC to be the deciding factor in reaching FPL. (Table II-2 below shows the results of these calculations.)

Available Income Data

The U.S. Census Bureau's Current Population Survey (CPS) provides data for 2006 on incomes for Connecticut families by family size. The CPS is based on a survey of 78,000 families nationwide and has large margins of error for individual state data. The smallest income increments for which the CPS reports data are $2,500. These CPS income increments are not small enough to allow us to pinpoint an exact number of families for whom a state EITC would be the difference between a below- or above-poverty-level income. In addition, because the number of families in each increment is small, the CPS reports data only for some family size categories. Thus, we can only report the numbers of families that fall within a $2,500 range around the smaller income ranges for which a state EITC makes the difference.

Universe of Families Raised Above FPL by a State Credit

Based on imperfect matches between our estimated base income ranges and the CPS income data and excluding families for which the CPS reports no data, we estimate that, of the 52,378 Connecticut families of all sizes whose incomes were below poverty in 2006, there may be 17,000 that could be lifted over the federal poverty level by a state EITC. The actual number of such families is likely to be lower because CPS income reporting increments are too broad to make a more precise estimate. The estimate of 17,000 also depends on the state EITC amount and each family's characteristics (see Table II-2).

TABLE II-2: FAMILY INCOMES RAISED ABOVE POVERTY BY STATE EITC
(NA= Data Not Available)

Family Size	FPL	Family Type/ Number of Children	Federal Credit	State Credit 10% (20%)	Base Income (Before Credits)	CPS Data	
						Income Range	# CT Families
1	$10,210	Single	$200	$20 (40)	$9,970-9,990	NA	NA
2	13,690	Single + 1	2,853	285 (571)	10,200-10,800	$10,000-12,499	5,000
		Married	66-74	7 (14)	13,600-13,700	12,500-14,999	8,000
3	17,170	Single + 2	4,650-4716	465-472 (939-943)	11,600-12,450	NA	NA
		Married + 1	2,853	285 (571)	13,700-14,317	12,500-14,999	NA
4	20,650	Single + 3 or Married + 2	4,603-4,716	460-472 (921-943)	14,990-15,934	15,000-17,499	2,000
5	24,139	Single + 4	3,635-3,845	364-385 (727-769)	19,500-20,500	20,000-22,499	1,000
		Married + 3	3,750-3,982	375-398 (750-796)	18,850-19,967	17,500-19,999	1,000
						Total	**17,000**

JOBS FIRST PARTICIPANTS

Jobs First families are families who are receiving cash assistance from the Temporary Family Assistance (TFA) program and are subject to that program's benefit time limit (21 months of assistance, with extensions, up to a maximum of five years).

The Jobs First program consists of two main parts: TFA and Jobs First Employment Services. The Department of Social Services (DSS) provides cash assistance through TFA (funded with federal Temporary Assistance for Needy Families block grant) and the Labor Department (DOL) helps these families find work. While the goal is full-time employment, many Jobs First participants are engaged in activities that prepare them for work, either in lieu of or in addition to, working.

Jobs First families who are working almost always qualify for the federal EITC and would therefore qualify for a state EITC if it was offered. These families represent a subset of the total number of low-income families described in the previous section whose incomes could rise above 100% of the FPL with a state EITC.

A TFA recipient can earn wages equal to the FPL for his or her family size without reducing his or her TFA benefit. In addition, the federal EITC does not count when determining income eligibility for TFA or HUSKY, but does count as an asset for Food Stamp eligibility purposes.

Methodology

To determine the weekly work hours for a TFA family for whom a state EITC would make the difference between an above- or below-poverty income, we subtracted the 10% or 20% state EITC, the federal EITC, and the family's annual TFA benefit from the federal FPL for a family of three. Using an average wage of $8.94 per hour, which is the average earned by Jobs First participants in 2007, we then calculated how many hours per week a person would work to earn wages equal to that result.

Effect of the EITC on Jobs First Families

The average TFA family in Connecticut has 2.5 members, so we based our calculations on a three-member family. Such a TFA family could have a total 2007 income of $23,788 without any EITC. This income consists of (1) wages equal to $17,169 (just under the FPL for a family of three) and (2) TFA benefits of $6,618 ($543 or $560 per month in most parts of the state). This potential total income of $23,788 is more than $6,000 above the FPL. In addition, this family would also qualify for a $4,351 federal EITC in 2007. Since a head of household earning $17,169 in wages would have no federal or state tax liability, she would be able to add the entire EITC to her annual income. Thus, the recipient's wages, TFA benefit, and federal EITC would equal $28,139, which is already above the FPL in the absence of a state EITC.

But, according to Jobs First Employment Services data for 2007 furnished by the Connecticut Labor Department, most TFA families do not earn the maximum allowable wages. On average in 2007, 7,252 active time-limited clients were enrolled in the program and, hence, subject to work requirements. Of these, only 2,760, or 38.3%, were employed at some time during the year. These workers earned average wages of $8.94 per hour and worked about 28 hours per week.

DOL data show that the "average" Jobs First family earned $12,144, which is almost 30% less than the maximum allowable earnings for a family of three ($17,170). Even so, this "average" income is still enough to raise the family just above the FPL when their $6,618 TFA benefit is added. Their total income of $18,762 is $1,592 higher than the FPL for a family of three even without the federal EITC.

Adding the federal credit raises the family's income to $23,478 or about 137% of the FPL. A 10% state EITC would boost it to $23,950 or 140% of the FPL. Since the "average" TFA family is already above the FPL without a state EITC, we conclude such a credit would make the difference between total income and the FPL only for families who earned less than the 2007 average for all TFA families ($12,144).

Using the 2007 federal EITC table, we calculated how many hours a Jobs First family would have to work to see its income rise above the FPL with the addition of a state credit. We determined that the dividing line falls between 17 and 18 hours per week. According to DOL data, about 943 (13%) of the working Jobs First participants worked between 10 and 19.99 hours per week in 2007. Another 247 (3.4%) worked less than 10 hours per week.

Families who worked 17 hours per week and claimed the federal EITC would have incomes just under the FPL with a 10% state credit; they would be pushed over FPL with a 20% credit. A family working 17.5 hours per week would have a total income $10 below the FPL with only the federal EITC. A state credit of 10% would push that family over the FPL.

Table II-3 illustrates these scenarios.

TABLE II-3: HOURS OF WORK REQUIRED FOR STATE CREDIT TO MOVE JOBS FIRST FAMILIES ABOVE FPL

Weekly Hours Worked	Annual TFA benefit [1,2]	Annual Wages (@$8.94 per hour)	Total Income (% FPL)	2007 Federal EITC	Income with Federal Credit (% FPL)	Income With 10% State Credit (% of FPL)	Income With 20% State Credit (% of FPL)
28.3 (Average)	$6,618	$12,144	$18,762 (109%)	$4,716	$23,478 (137%)	$23,950 (140%)	$24,892 (145%)
17	6,618	7,295	13,913 (81%)	2,910	16,823 (98%)	17,124 (99.9%)	17,415 (101%)
17.5	6,618	7,510	14,128 (82%)	3,010	17,138 (99.9%)	17,439 (102%)	17,740 (103%)

Source: OLR analysis using Labor Department data for 2007.

[1] The legislature raised TFA benefits by 3.2% in July 07 so this amount reflects six months of the old benefit ($543 per month) and six months of the current benefit ($560 per month).

[2] The current average family size for non-exempt families (i.e., those subject to time limits and work participation requirements) in the TFA program is 2.5, or one adult and 1.5 children. We round this to three. Families with more children do not receive any additional tax credit, which widens the gap between their income and the FPL.

Lack of Data on TFA Recipients Claiming Federal EITC

While the above data suggests that some Jobs First families would see their incomes rise over the FPL with a state EITC, they would qualify only if they claimed the federal credit. We asked DSS management information systems staff for the number of TFA recipients claiming the federal credit in any particular year. They told us that only one household had claimed the credit, but acknowledged that the number must be substantially higher. We learned that the TFA application does not specifically ask whether the applicant has received the federal credit and staff apparently do not routinely ask families during their annual benefit re-determination for this information.

State law requires both DSS and DOL to provide information and assistance in obtaining the federal credit for every applicant and recipient of "department" assistance, although the law provides that it must be done within available appropriations.

MINIMUM WAGE FAMILIES

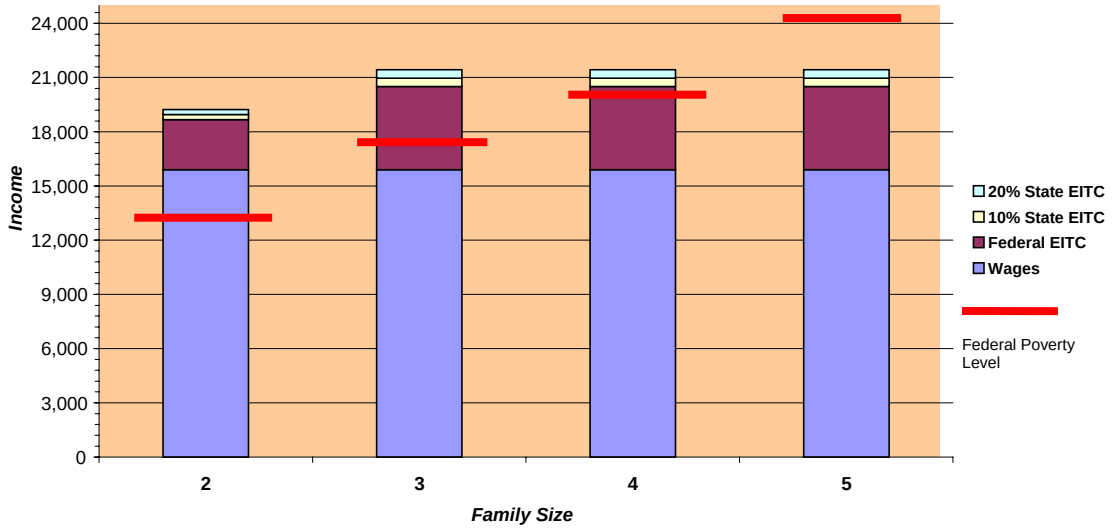
We also looked at whether a state EITC would lift a family with a breadwinner working for the minimum wage above the poverty level. Connecticut's minimum wage is $7.65 per hour. Thus, a full-time minimum wage worker (40 hours per week, 52 weeks per year) earns a gross income of $15,912.

In 2007, a single person with this income is not eligible for a federal EITC and would thus not be eligible for a state EITC. For families of two, three, or four, either the minimum wage itself or the added federal credit lifts them above poverty levels. Finally, a minimum wage income for a family of five or more would not be enough to reach the FPL even when both the federal and a state credit are added.

As we found with Jobs First families, a person working for the Connecticut minimum wage whose income is boosted over the FPL by a state EITC must be someone who both (1) is the family's sole breadwinner and (2) works less than full time. Fewer weekly hours reduces the base income enough to allow the federal and state EITC to provide the difference between wages and the FPL. The only situation where this does not apply is a full-time minimum wage worker with a family of five or more.

Chart II-1 illustrates the impact of the state minimum wage, the federal EITC, and a 10% or 20% state EITC in raising incomes above the federal poverty level. The red lines represent the federal poverty level for each family size.

CHART II-1: FULL-TIME MINIMUM WAGE WORKER
Income Compared To Federal Poverty Level



CONCLUSIONS

- Currently available income data is insufficiently detailed to allow an exact estimate of the number of families whose incomes would be raised above the FPL by a state EITC.

- Hourly wage levels and number of hours worked are the biggest factors in whether a family's income exceeds federal poverty levels.

- Compared to other income support low-wage workers may receive, such as TFA benefits and the federal EITC, a 10% or 20% state EITC would, by itself, raise incomes above the FPL only for a small segment of low-income families.

- The federal EITC and a 10% or 20% state EITC will have relatively less impact on the difference between FPL and family income for larger families (families with five or more members).

- Because the federal credit is the same for a family with two children and one with four, earned income tax credits do not bridge the gap to FPL for larger families even when they work more hours and earn more income from work.

CHAPTER III: ECONOMIC EFFECTS OF A STATE EARNED INCOME TAX CREDIT

This section addresses the question of how a proposed state EITC could affect local economies and "economically distressed neighborhoods." (The act does not define these terms.)

DATA SOURCES

Analyzing this question requires data on:

- The number of people who could claim the state credits and the credits' dollar value
- How and when these people might use the money the credits generate
- Where credit recipients would most likely invest or spend that money
- The location of retail and other types of business establishments within a specified radius of the EITC claimants' residences

The departments of Labor and Revenue Services have data on the number of people who could benefit from a state EITC. The Labor Department tracks the number of people who are out of the labor force and not looking for work. The IRS tracks the number of people who currently claim the federal EITC.

Researchers in other states have used different econometric models to determine how and when people would spend the dollars generated by the federal and state credits. Those same models estimated how those decisions affected the local economy.

ASSUMPTIONS

In analyzing the economic effects of a state EITC, we assume that it would be refundable and modeled after the federal EITC. We also assume that:

- The taxpayers who claim the state EITC would largely be the same taxpayers who currently claim the federal EITC
- People claiming the state EITC would use the income it generates in largely the same way they use their federal EITC income
- The state EITC would not be subject to the state income tax or would not have substantial state income tax implications if it were taxable

- The state EITC would not have substantial federal income tax implications for taxpayers who claim it

FACTORS INFLUENCING AN EITC'S ECONOMIC EFFECTS

An EITC's economic impact depends on the decisions an eligible taxpayer makes about whether to claim the credit and how to use the income it generates. These decisions could serve as a method for determining that impact. As Table III-1 shows, they include whether to claim the credit and when and where to spend the money it generates.

TABLE III-1: FACTORS DETERMINING AN EITC'S ECONOMIC EFFECTS

Do I claim the credit?	*How should I claim the credit?*	*When and how do I use the credit?*	*How do my decisions affect the local economy?*
Information: • Do I know about the credit? • Do I understand the requirements for claiming the credit? Feasibility: Should I claim the credit, given my: • Family Size • Household Status How does taking the credit affect my eligibility for other benefits and the amount of benefits I receive?	• Do I use a tax preparation service? • Do I apply for a Refund Anticipation Loan (RAL) • Do I spread out the credit payments or take a lump sum payment (some studies found that employers encourage workers to select lump sum payments)	If I accept lump sum payments, do I: • Save it? • Pay down debt? • Upgrade my housing? • Fix or purchase a car? • Go to school? • Contribute money to relatives? • Purchase durable goods? • Purchase nondurable goods or services? If I spread the payment out, do I treat the additional funds as income or as an asset?	• Direct (e.g., fix car) • Indirect (e.g., mechanic purchases more parts) • Induced (e.g., mechanic uses extra income to buy new TV)

Claiming the EITC

Research from other states identifies several factors that influence whether an eligible taxpayer actually claims a credit. These include the degree to which states and municipalities publicize the credit and whether the taxpayer knows how to claim it on his or her federal and state income tax returns. Other factors, such as family size and filing status, could affect the size of the federal credit the taxpayer currently receives and his or her eligibility for other benefits.

A taxpayer who claims the credit must decide how to claim it. For example, he or she must decide whether to prepare the tax return personally or hire someone to do so. He or she may also decide to borrow money against the credit amount. A taxpayer who chooses to use a tax preparer or borrow against the credit injects fewer dollars into the economy. The taxpayer must also decide whether to receive the credit payment in a lump sum or spread out over the year. Research shows that the former generates greater economic impacts.

Using the EITC

Taxpayers who receive lump sum payments must decide how to use it, and these decisions affect the magnitude of the credit's economic impact. Research suggests that many taxpayers use lump sum payments to purchase furniture, appliances, and other durable goods while some use them to repair cars or relocate to larger apartments. It appears that few taxpayers save the payments or use them to pay off debt. These choices also affect the economy, but in subtler, less direct ways.

Federal and state policies to encourage families, in particular low-income families who claim the earned income tax credit, to build assets for future needs could also influence how taxpayers use the EITC.

For example, the IRS plans to launch a new option for 2007 called the "split refund." This will enable filers receiving a tax refund through direct deposit to arrange for part of it to go directly into a savings account. The IRS suggests that many workers claiming the credit do not have access to regular payroll deductions for retirement or other long-term needs (e.g., 401K) and this new system will enable automatic savings. The split refund will make it easier for individuals to participate in local asset building programs such as Individual Development Accounts (IDA).

A Saver's Tax Credit, which rewards workers who make contributions to retirement plans or IRAs, also promotes asset building. The credit is not refundable but can reduce tax burden by up to 50% of the allowed contribution ($2,000).

On the state level, the legislature created the Connecticut IDA initiative in 2000 as a way to encourage low- and moderate-income residents (80% of area median income) to build assets. The IDAs, which are matched by corporate contributions, could be used for future expenses, such as education and job training or purchasing a motor vehicle needed to get to work.

The Labor Department oversees the IDA and three other asset building programs. As of June 30, 2007, 241 residents were participating in these programs, with the majority (161) participating in the IDA initiative. The larger cities had the most participants.

IMPACT ON LOCAL ECONOMIES

Research on the federal EITC suggests that it tends to have a greater and more immediate impact on local economies when claimants choose lump sum payments and spend the money. But two geographical factors must be considered when determining that impact: where the claimants reside when receiving the credit and where they could spend it. We have information on where people claiming the federal EITC live and how much they receive, but not on where they spend it.

Where the Credit is Received

The sole source of data on the amount of the federal credit received and the number of EITC claimants is the IRS. It reports the number of claimants and the aggregate amount of credit received by zip code. The latest available report shows data for federal tax returns filed between January 1, 2006 and December 31, 2006. Generally, these are returns for the 2005 tax year. Data from zip code areas in which fewer than 10 returns were filed were suppressed.

Map III-1 displays some of this data by showing the number of federal EITC claimants in each zip code. Zip code boundaries generally, but not always, follow town boundaries. Zip code areas with a greater number of recipients are displayed in deeper colors. Claimants tend to live in the state's larger cities (Bridgeport, Hartford, New Haven, and Waterbury) and in their inner-ring suburbs. Relatively high numbers of claimants also live in New London, Norwich, Torrington, and sections of Danbury, Stamford, and Windham. No information is displayed in areas where the IRS suppressed data.

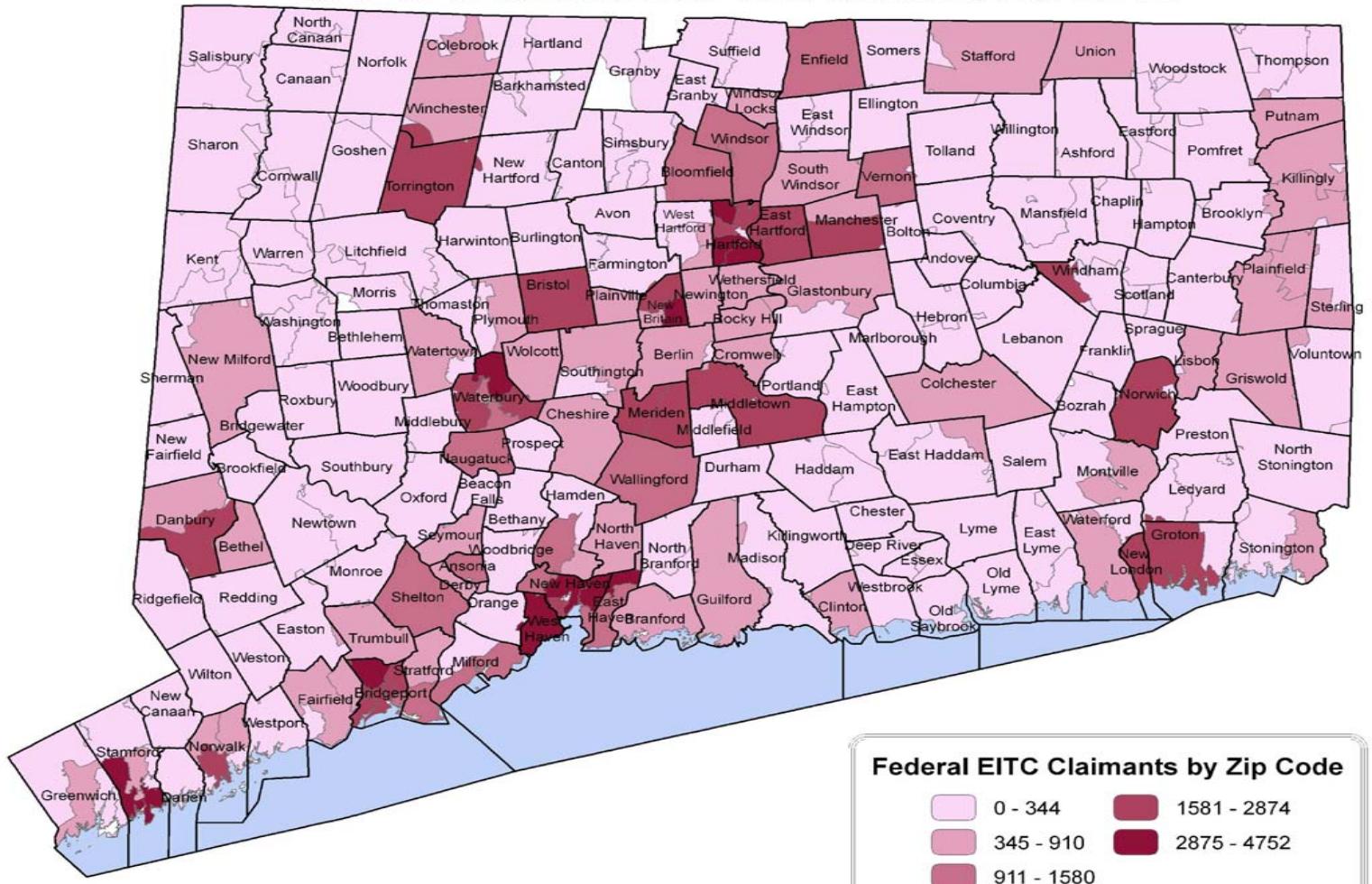
Map III-2 also displays data on the number of claimants, but this time shown as a percentage of all income taxpayers. In general, high percentages of EITC claimants live where there are relatively high numbers of EITC claimants. But there are differences within the larger cities and certain towns. For example, there is relatively high number of claimants living in Norwich, but they do not comprise a relatively high percentage of all taxpayers.

Map III-3 displays the amount of 2005 federal EITC credit by zip code area. The money distribution generally follows that of the number of claimants, but there are some differences. For example, Bristol, Meriden, Manchester, and Middletown all receive relatively higher amounts of credit than the number of EITC claimants would indicate. This reflects the fact that the average credit is relatively higher in those communities.

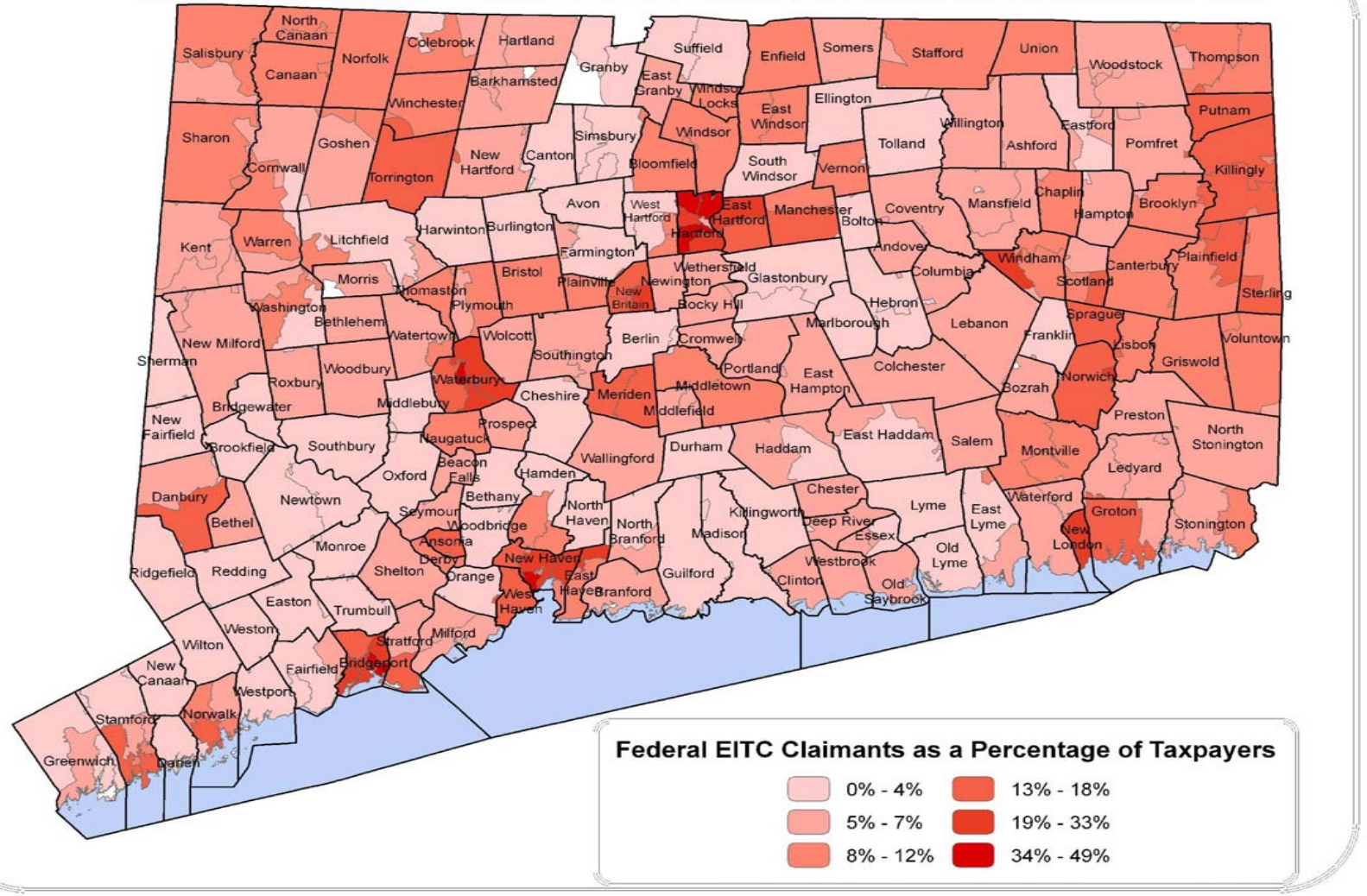
Where the Credits May be Spent

We did not find data that indicates where the credits are spent. The Department of Revenue Services is developing a system to report sales tax revenue by town. When available, the data it generates could be used as a proxy if one assumes that a claimant's spending pattern mirrors those of the general population.

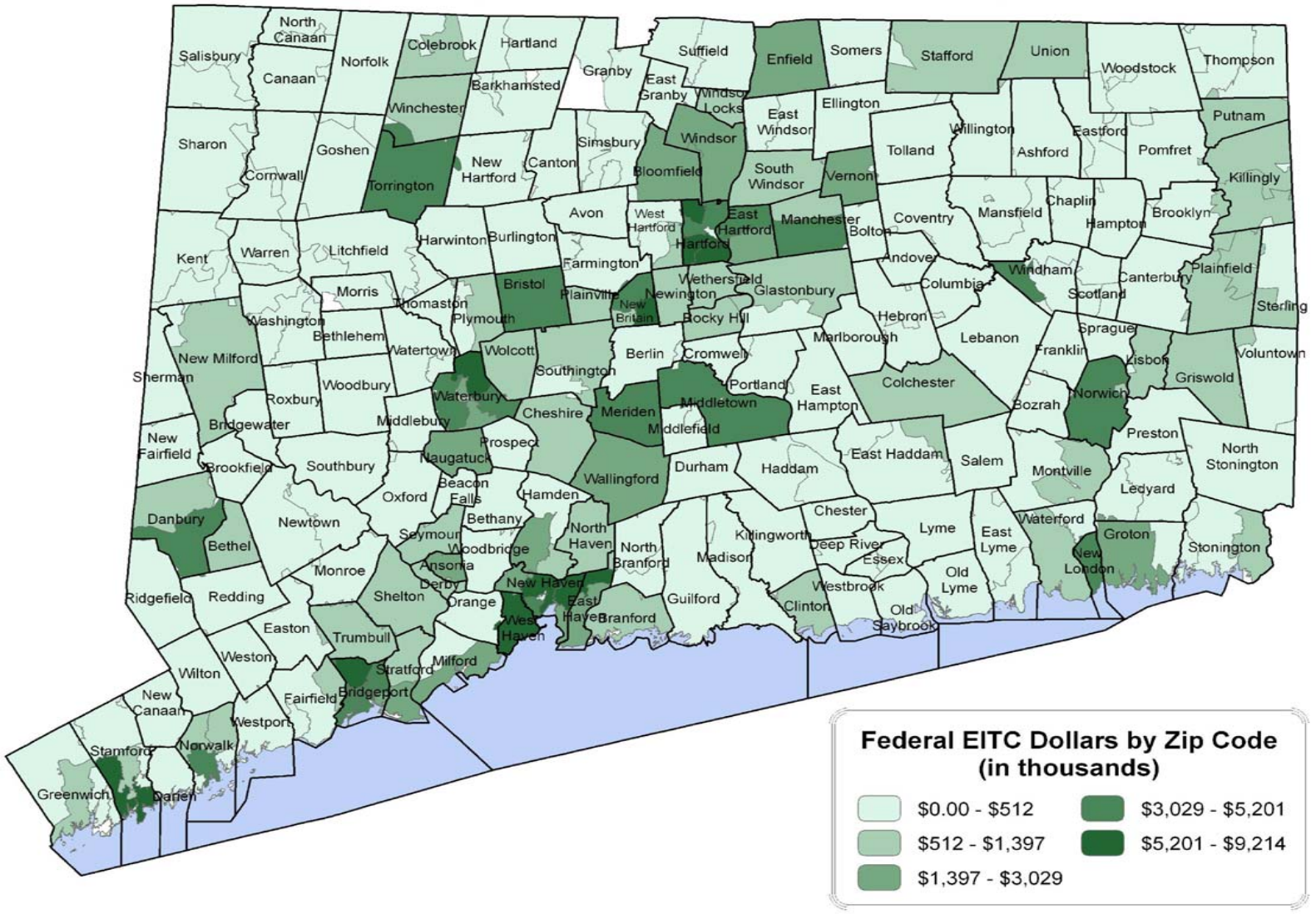
MAP III-1: WHERE DO THE CLAIMANTS LIVE?



MAP III-2: WHAT PORTION OF TAXPAYERS ARE CLAIMANTS?



MAP III-3: WHERE DO THE DOLLARS GO?



RIPPLE EFFECTS ON REGIONAL AND STATE ECONOMY

Although we do not have the data needed to estimate how a state EITC could affect Connecticut's local and regional economies, research from other states suggests the variables that determine the degree to which federal and state EITCs affect these economies. Some choices people make about how to spend a federal or state EITC affect the local economy more than the regional or state economy. Ultimately, the magnitude of any effect depends on the number of times the money circulates in an economy (i.e., multiplier effect). For example, money used to repair a broken car is more likely to circulate in the local economy while money used to purchase a new car is more likely to circulate in the regional or state economy.

We based the first conclusion on the assumption that most people hire local mechanics to repair their cars. The money used for this purpose represents a primary, direct effect on the local economy. We also assume that most mechanics purchase parts from local auto parts stores. These transactions represent secondary, indirect effects on the local economy.

These secondary effects are magnified in areas where many EITC claimants reside. Arguably, the increased spending could cause businesses like the repair shop and auto parts store to hire more people. If some of these jobs go to people who were previously outside the labor force, then the labor force participation rate and retail sales in these areas will increase. But whether the local economy actually benefits from a concentration of federal and state EITC claimants depends on whether it has repair shops, auto parts stores, furniture stores, and other retail establishments where the claimants are likely to spend their dollars.

EITCs also have tertiary, induced effects if the mechanics and the suppliers use the money earned from repairing cars and selling parts, respectively, to buy new cars. Unlike mechanics and auto parts suppliers, new car dealers draw customers from the larger regional economy and use some of the earnings to purchase supplies directly from their respective car manufacturers. Consequently, this money circulates in the larger economy, and the money's direct, indirect, and induced effects occur there.

But a state EITC's nature could offset its positive secondary and tertiary effects. The credits' total value represents revenue the state could have collected but did not. Consequently, the state must make up that forgone revenue through the taxes collected from other taxpayers or by cutting spending for different programs. If the state does the former, then the additional taxes paid by those taxpayers indirectly fund the EITC program. The additional taxes may also cause these taxpayers to cut spending or save less money, especially if their incomes are flat. The economic effects of these actions could be the opposite of the EITC's, that is, reduced sales and possible job cuts, neutralizing the EITC's impact.

AVAILABLE RESEARCH

We based many of our assumptions about a state EITC's economic effects on research conducted on the credits' economic effects in other states. We examined two groups of studies of the economic effects of federal or state EITCs. The first group looks at how and

when EITC recipients might use their credit checks. The second examines the economic outputs (i.e., spending and job creation) attributable to the EITC. As previously discussed, an EITC's economic impact depends on the decisions EITC recipients make about when and where to use the credit.

Spending and Consumption Studies

Relatively few studies have looked at how EITC recipients spend their EITC checks. Some researchers have gone further to examine whether recipients treat the EITC payments as income or assets. In other words, they examined whether families spent their EITC payments on current consumption needs or saved them to meet future needs (i.e., asset building).

Edwards (2004) examined the consumption effects of the federal EITC and found that, on average, EITC recipients spent 70% of their refund checks. His findings further suggest that the EITC stimulates spending on durable (e.g., furniture or appliances) and non-durable (e.g., food or clothing) goods almost equally, with little to no effect on spending for services.

Barrow and McGranahan (2000) looked at whether the lump-sum nature of EITC payments induces changes in normal spending patterns among recipients, particularly whether people buy more durable goods in the month they receive their credits. The authors hypothesized that EITC recipients use their refund to purchase big-ticket items, given that low-income individuals have limited access to credit. They estimated that from 1982 through 1996, EITC households spent 3% more during February, the most frequent month of EITC refunds, and 9% more on durable goods. Their findings indicate that recipients spend 20% of their tax credit in the month they receive it.

Romich and Weisner (2000) used qualitative data to examine how low-income families allocate their refund checks. (For purposes of their analysis, the authors lumped income tax refunds together with the EITC.) They interviewed a sample of urban low-income families in Wisconsin, which offers a state EITC. They found that people were more likely to use the refund check on durable goods and to make big-ticket purchases. Furniture was the most commonly cited purchase, followed by cars and housing. Two-thirds of the parents in the study cited spending on children as a priority use of their check. Most notably, 68% of survey respondents did not have cash savings left after two months; the other 32% were split between saving for a down payment on a house and keeping the money for emergencies.

A survey of Chicago area taxpayers looked at whether federal EITC recipients use their refund to "make ends meet" or improve their "social mobility" (Smeeding et al., 2000). The researchers were interested in whether recipients used the payments to meet current consumption needs or build their assets (i.e., move to a safer neighborhood, buy or repair a car, or invest in their own or their children's education). Their results suggest that almost all of the recipients they interviewed used the EITC to make ends meet, and more than one-half had at least one mobility-related use for the EITC. Single parents were twice as likely as married parents to use some of their refund for improving their social mobility. Households with two or more children were 1.5 times more likely to use the EITC to make ends meet than those with only one child.

Economic Impact Studies

Several studies have estimated the economic impact of the federal and state EITCs on local economies. Specifically, they estimate the EITC's multiplier effect in a community, or the amount of economic activity generated for every EITC dollar introduced in the local economy. The studies found that EITCs benefit local economies, but differed with respect to the magnitude of the benefit. We found no study showing negative effects.

A study of the Nashville metropolitan economy estimated that, from 1988 to 2005, for every federal EITC dollar paid to Davidson County/Nashville residents, they spent 88 cents locally, which stimulated $1.07 in economic activity in the county. In the 2004 tax year, $91.8 million in federal EITC dollars flowed into the county. Moreover, the study estimates that, based on 2005 EITC payments, it takes $106,000 local EITC dollars (or an average of 73 taxpayers) to produce one additional local job. It found that EITC dollars and related economic stimuli sustained 708 jobs in the county in 2005 (Haskell, 2006).

A similar study for the city of San Antonio estimated that, given the approximately $245 million in federal EITC payments to San Antonio residents in the 2001 tax year, city residents would have received an additional $55.6 million if all eligible taxpayers took the credit (Texas Perspectives, 2004). Of the $55.6 million, they estimated $37.3 million would be spent locally, generating an additional $58.8 million in economic output. That equates to $1.58 in local economic activity for each additional EITC dollar. A 2004 update to this study estimated the economic impact of actual EITC participants. They estimate that, in the 2002 tax year, almost $284 million in federal EITC dollars were paid to San Antonio residents. This injected $190 million in direct spending and subsequently created $299.8 million in total economic activity.

The Jacob France Institute at the University of Baltimore analyzed the impact of federal and state EITC payments on Baltimore's economy (2004). It estimated that the federal and state EITCs, which totaled approximately $155 million in payments to city residents in the 2002 tax year, created over $102 million in economic output, over 1,000 jobs, and over $30 million in wages in Baltimore City. The institute also estimated that if full EITC program participation occurred, the additional federal and state EITCs would have created an estimated additional $19 million in economic output, 200 jobs, and almost $6 million more in wages.

Spencer (2007) studied whether EITCs stimulated business and created new jobs in poor Los Angeles County neighborhoods in 1997 and 1998. He did so because earlier studies showed that EITC recipients tended to spend most of the income they derive from the credits. These findings lead Spencer to theorize that this new purchasing power could directly benefit local businesses, but the extent to which it would do so depended on the extent to which the EITC recipients were concentrated in an area.

The study's findings suggested that stores and other retail businesses were more likely to add jobs than manufacturing and service businesses, but the extent to which they did so depended on the number of EITC recipients in the neighborhood. Retail businesses added

seven to nine jobs for every additional 1,000 EITC recipients per square mile. But these numbers fell when Spencer measured the impact based on the EITC's dollar value. Retail businesses were likely to add three jobs for every $1,000 increase in EITC dollars claimed per square mile.

FINDINGS AND CONCLUSIONS

Among the studies we reviewed, the Los Angeles study was the most relevant to the question of the EITC's effects on local economies because it shows how EITCs can affect an area's economy. But the following factors prevent us from replicating it in Connecticut:

- The Los Angeles study suggests that the more EITC claimants who reside in a neighborhood, the greater the impact on the local economy. We can identify zip code areas with concentrations of EITC claimants and the amount of federal EITC claimed in each zip code area. But, we cannot identify the geographic location of stores and other businesses in these areas that could benefit from EITC spending.

- PA 07-1, June Special Session provides no criteria for determining what is a local economy or economically distressed neighborhood. Consequently, knowing the locations of different types of businesses in the zip code areas alone would not allow us to gauge the EITC's impact on local economies or economically distressed neighborhoods.

- We are not certain we could identify EITC claimants and businesses located in areas larger or smaller than zip code areas. For example, we could study the EITC's impact on already designated distressed areas, such as the 25 state-designated distressed municipalities or the census tracts meeting the statutory criteria for enterprise zone designation. But the zip code data cannot be broken down and reassembled to determine the economic impact by town, neighborhood, or census tract.

CHAPTER IV: EARNED INCOME TAX CREDITS AND LABOR FORCE PARTICIPATION RATES

This section analyzes the effect of a state EITC on the state's labor force participation rate (LFPR).

DATA SOURCES

The primary data source for information on LFPR is the U.S. Department of Labor's Bureau of Labor Statistics.

LABOR FORCE PARTICIPATION RATE BACKGROUND

The Bureau of Labor Statistics defines the labor force as people who are age 16 or older and not institutionalized or in military service. The LFPR is the percentage of such people who are either working or looking for work. Thus, if there are 1,000 non-institutionalized adults in an area of whom 500 are working and 100 are unemployed but looking for work, the area's LFPR is 60% (500+100/1,000). The LFPR is not directly affected when a person who is looking for work finds a job or a person who is currently working part-time increases his or her hours. However, these changes can increase the amount of money available in the local economy, which can indirectly affect employment and the LFPR.

METHODOLOGY

To determine the impact of a state EITC on labor force participation rates, we would need the following resources:

- Estimates of the number of people who would qualify for the EITC and who are neither working nor looking for work
- Information on how the EITC would be funded (e.g., new taxes or cuts in existing programs) and where (geographically) this funding would come from
- Information on the state's efforts to publicize the program
- An econometric model for individual regions in the state, preferably labor market areas, to estimate the secondary effects of the EITC (described below) and technical assistance in using the model

Given these resources, we would seek to estimate the number of households that would be eligible for, and take advantage of, the EITC. The primary effect of the credit on the LFPR would be the number of people who take advantage of the credit as a result of (1) entering the labor force or (2) remaining employed when they would otherwise have left the labor force. The secondary effect would be the growth in labor force participation due to

the credits' macroeconomic effects. The macroeconomic effects (some of which are discussed in Chapter III) would reflect the additional money flowing into the economy as a result of (1) people gaining or retaining jobs as a result of the EITC and (2) people who are already employed working longer hours as a result of the EITC, minus the macroeconomic effects attributable to the cost of funding the program. The change in the LFPR would be the sum of the primary and secondary effects divided by the state's non-institutionalized population age 16 and older.

In the absence of these resources, we have made assumptions and drawn conclusions based on them and available research on the topic.

ASSUMPTIONS

The question posed by PA 07-1, June Special Session assumes that (1) a state EITC will affect the state's LFPR and (2) it is possible to isolate the impact of such a credit on the LFPR.

The potential impact of a state EITC on the LFPR would be the result of individual decisions regarding labor force participation and the broader macroeconomic effects of these decisions. We assume that the state LFPR is primarily driven by macroeconomic factors. These include changes in the overall economic activity level in the state, the mix of employers in the state and the skills and experience they seek in employees, and the unemployment rate. The LFPR is also likely to be affected by social trends, such as the age structure of the working population. Finally, the LFPR may be affected by changes in federal law and policy, such as tax law and immigration policy. In the near term, we assume that the total number of people in the statewide labor force will remain constant.

We assume that (1) the impact of a state EITC would increase with the size of the credit (although the relationship would not necessarily be linear) and (2) a refundable credit would have a larger impact than a non-refundable credit.

VARIABLES DETERMINING THE EITC'S ACTUAL IMPACT ON LFPR

Whether a state EITC actually increases the LFPR depends on two different sets of variables. One set consists of demographic and economic conditions and trends that directly affect the state LFPR but are themselves unaffected by whether the state offers an EITC. These "exogenous" variables include the state's demographics; general economic trends; and how well the education, training, and experience of residents match the needs of employers in the relevant labor market area.

Whether taxpayers will enter the labor force and subsequently claim the credit depends on the interplay of these variables. For example, it is likely that the LFPR will decline as the population ages, other factors being equal. On the other hand, education and training programs that make residents more employable may increase labor force participation rates.

Unlike the exogenous variables, other variables may be influenced by the EITC. One of these variables is the "reservation wage" or the amount of money a person needs before he

or she will accept a specific job. The existence of a state benefit may decrease a person's reservation wage. This may lead to more individuals being employed, so long as the credit more than compensates for this reduction, thereby increasing the LFPR. For example, if a person is unable or unwilling to accept a job that pays less than $10,000 per year, he or she may be willing to accept one paying only $9,500 per year if it makes him or her eligible for an EITC benefit worth $1,000, thereby increasing his or her disposable income.

The benefit may also increase a person's mobility, thereby expanding his or her employment prospects. For example, the literature on the federal EITC indicates that recipients often use the benefit to repair their vehicles. This could make it easier for EITC recipients to get and keep jobs, thereby increasing LFPR.

On the other hand, if receiving a state EITC benefit reduces or eliminates a person's eligibility for other benefits such as food stamps (e.g., EITC refunds are counted as income in determining Food Stamp eligibility), this could reduce the employment effect of the EITC benefits. In addition, EITC benefits may increase or decrease the number of hours a recipient works, depending on how this affects his or her total income.

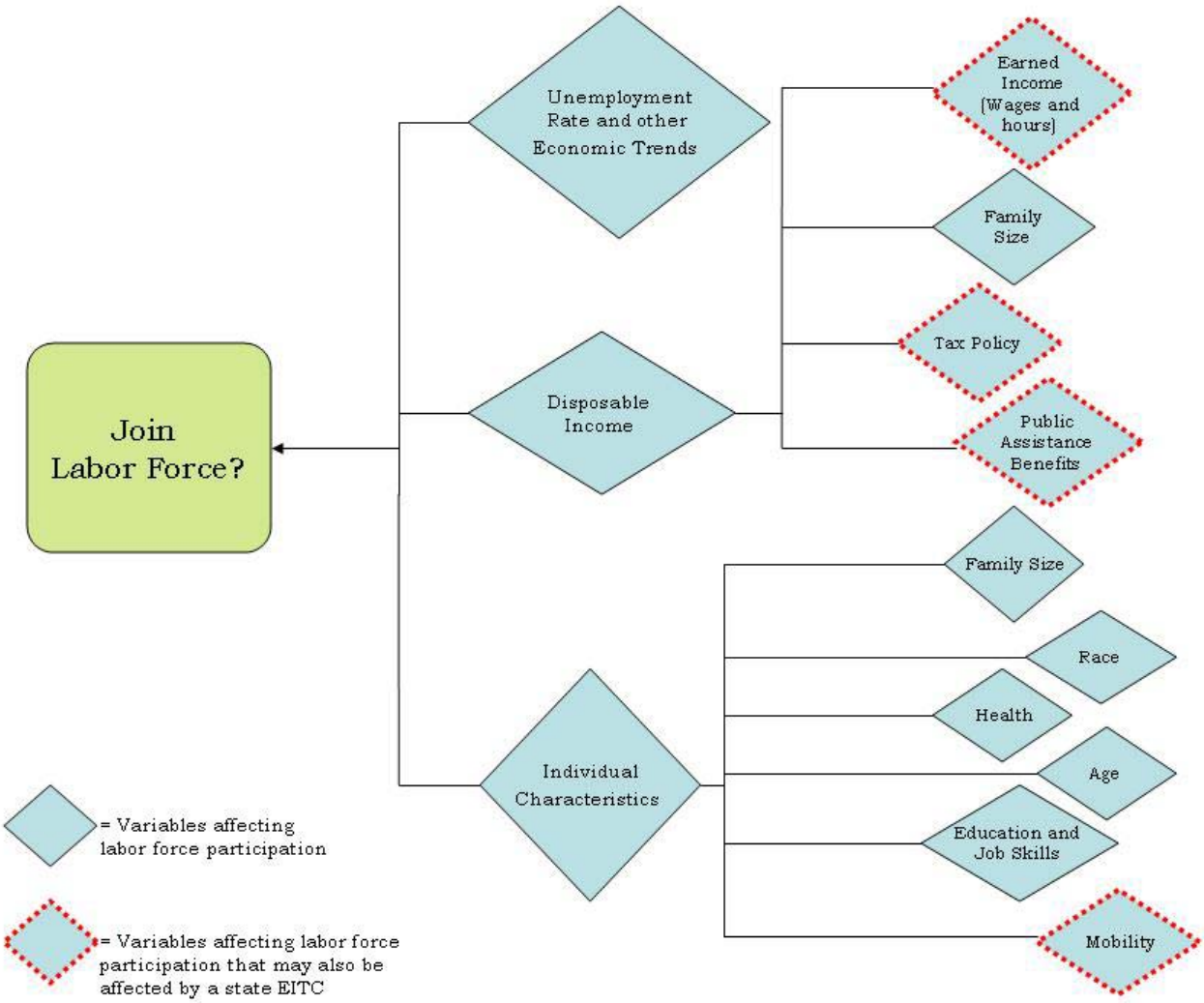
LABOR FORCE PARTICIPATION STATUS

The EITC's effects will vary depending on whether a person is currently in the labor force. For people who are not in the labor force, it appears that the primary way that a state EITC benefit would directly affect labor force participation rates is by simultaneously decreasing their reservation wage and increasing their disposable income, thereby encouraging them to enter the workforce. Among the factors that likely affect disposable income are the costs of employment (e.g., transportation, child care, and the possible diminution or loss of other benefits).

For people who are already in the labor force, the relationship between a state EITC benefit and their staying in the labor force may be somewhat more complicated. For example, a recipient who is already earning enough to meet his or her basic needs may take the benefit in a lump sum and use it to repair a vehicle, pay for health care, or acquire additional training. These choices may affect the likelihood that the recipient will stay in the labor force, although the extent of the impact cannot be estimated. Low-income workers are more likely than middle-or upper-income workers to be "weakly attached" to the labor force. For a variety of reasons, low-income individuals are more likely than the non-poor to cycle through periods of employment, unemployment, and being out of the labor force.

Chart IV-1 below shows the relationship between the variables that affect labor force participation rates. Variables outlined in red are those that may be affected by the creation of a state EITC.

Chart IV-1: Factors Affecting Labor Force Participation Rates



EITC'S POTENTIAL IMPACT ON LFPR

As discussed above, having a state EITC may affect an individual's decision to enter the work force or to remain in it. In addition, as discussed in Chapter III, the EITC could have a secondary effect on the LFPR. If the EITC increases the demand for goods and services in areas with substantial numbers of EITC claimants, the businesses in those areas might respond by adding jobs. If some of these new jobs go to people who were previously outside the labor force, then the LFPR in these areas will increase.

On the other hand, the EITC could have a countervailing effect in other areas of the state. This results from the nature of the EITC. The total value of the EITC that taxpayers claim represents revenue the state could have collected but did not. Consequently, the state

must make up that forgone revenue through the taxes it collects from other taxpayers or reductions in expenditures. Among the factors that could impact these macroeconomic effects is the propensity of EITC recipients to spend rather than save the credit. The tax rates of beneficiaries versus other taxpayers also may play a role in determining the ultimate impact of the benefit on labor force participation.

AVAILABLE RESEARCH

Relatively few empirical studies of the impact of federal or state EITCs on labor force participation, measured at either the state or local level, have been conducted. Rather, researchers have looked at whether the EITC affects the labor supply, including employment rates and the number of hours people work. In general, their studies suggest that the federal EITC has had mixed labor supply effects. Specifically, research suggests that the federal EITC has increased labor force participation among single mothers but discouraged work by married women.

Studies of State EITCs

A few studies have looked specifically at the labor supply effects of state EITCs, but their findings are inconclusive. Meyer and Rosenbaum (2000) examined the change in employment among single mothers in states that had an EITC by 1996 compared to non-EITC states. They found weak evidence of a small effect of the state EITCs on the employment of single mothers. Their findings suggest a 2.6 percentage point increase in the employment of single mothers in EITC states after 1993. They also compared the employment rates of single mothers to single childless women in EITC states relative to non-EITC states. Their estimates suggest a one- to two-percentage-point increase in single mothers' employment in EITC states.

Cancian and Levinson (2006) used 1990 and 2000 census data to examine the labor supply effects of Wisconsin's EITC on a large sample of single mothers with a high school education or less. They compared the Wisconsin families to the labor market behavior of similar parents in states without an EITC. They found no evidence of increased labor force participation or hours worked in Wisconsin due to the addition of the state EITC.

Studies of the Federal EITC

Using statistical data from the Current Population Survey, Meyer (2002) considered whether expansions in the federal EITC and welfare reforms affected the employment rates of single mothers. Meyer found significant increases in the employment rates of single mothers between 1986 and 2000, while the employment rates for childless single women declined. As a corollary, Meyer found very little change in the number of weeks worked or the number of hours worked per week for single mothers and single childless women over the 1986-2000 period.

Meyer and Rosenbaum (1999) show that annual employment rates for single mothers increased from 74% in 1992 to 82% in 1996, while the rate for childless single women remained at 93%. The most important policy change during this period, they argue, was in

the federal EITC, which increased take-home pay by more than $1,000 for a single mother earning $10,000. Their structural models suggest that about one-third of the relative growth in labor force participation can be traced to the EITC, while somewhat smaller portions are due to expansion of the Medicaid program and to welfare reforms associated with waivers. Although we know of no attempt to directly estimate the impact of changes in the EITC on welfare declines, these results suggest a substantial effect.

A subsequent study by Meyer and Rosenbaum (2001) found that a substantial share of the work increases by single mothers can be attributed to the federal EITC. They found that between 1984 and 1996, the EITC and other tax changes accounted for over 60% of the increase in weekly and annual employment of single mothers relative to single women without children. Their study suggests that changes to welfare programs were less important but still played a role in the employment increases during this period.

Eissa and Hoynes (2004) used regression analysis to examine the labor force participation response of married couples to the federal EITC. Their findings indicate that expansions in the EITC between 1984 and 1996 increased the LFPR of married men by 0.2 percentage points but decreased that of married women by over one percentage point, resulting in a net reduction in total family labor supply.

CONCLUSIONS

- We do not have the data and other resources needed to determine what effect a state EITC would have on the state's LFPR. There have been relatively few studies from other states that have addressed the impact of the federal or state EITCs on labor force participation rates and related variables such as employment. These studies indicate that the federal EITC has a modest effect on labor force participation, particularly by single mothers, but show little to no evidence that state EITCs affect the labor force.

- These findings are consistent with historical data showing that the LFPR is relatively stable over time. Nationally, the LFPR was 66% in December 2007. The labor force participation rate varies geographically (both within and between states) and over time. Over the past 10 years, the national rate has declined slightly (less than 1%). Connecticut's statewide rate has also been similarly stable through periods of economic growth and recession. Between 1996 and 2006, the annual rate in Connecticut ranged from 66.3% to 68.8%. It was 69.2 % as of November 2007.

- Based on the studies in other states, the assumed size of a Connecticut EITC, and the historic stability of Connecticut's LFPR, we believe that a state credit would have only a marginal impact on the state's LFPR.

CHAPTER V: EFFECT OF STATE EARNED INCOME TAX CREDIT ON ARMED FORCES MEMBERS

This section discusses the potential impact of a state earned income tax credit on members of the armed forces. The analysis applies to active duty personnel in the Army, Navy, Air Force, Marines, and the active duty Coast Guard.

DATA SOURCES

Our analysis is based on the Defense Department's (DoD) most recent basic military compensation schedules effective April 1, 2007 and its most recently published demographic and statistical data on active duty military personnel and their families. The latest demographic report was published in 2006 and represents information about the U.S. armed services in 2005.

Federal earned income tax credit amounts come from the IRS EITC tax table for the 2007 tax year. Other information about state and federal taxation of military income is based on IRS and DRS tax publications for armed forces personnel.

ASSUMPTIONS

According to the 2005 Demographic Report, 7,005 active duty military personnel in all services are stationed in Connecticut. Of this number, 6,906 are stationed at the New London Naval Submarine Base in New London and 99 are stationed at other locations in Connecticut.

The key assumption underlying our estimate of the number of military families in Connecticut who could be eligible for a state EITC is that the demographic profile and distribution for rank, pay grade, and family characteristics of the 7,005 active duty personnel stationed in Connecticut matches that of active duty personnel in the military as a whole.

MILITARY COMPENSATION

Active duty military personnel receive most of their compensation through basic military pay. Military pay schedules are the same for all the armed services and depend on rank and years of service (see Appendix B). Basic military pay is subject to state and federal income tax.

In addition to basic pay, active duty personnel receive allowances for living expenses, such as housing and subsistence, which are not taxable. They also may receive special pay for various types of duty, such as service in a combat zone, and incentive payments, such as reenlistment bonuses or flight or submarine pay. Allowances and combat pay are not included in income subject to federal or Connecticut state income taxes, while other special pay and incentives are.

MILITARY PERSONNEL AND THE FEDERAL EITC

Military personnel are subject to the same rules as all other taxpayers who qualify for the federal EITC with respect to qualifying children and earned income limits. But special rules regarding types of qualifying earned income apply to military personnel.

Under federal law, certain military pay is not taxable. These include combat zone and qualified hazardous duty area (QHDA) pay. Because only taxable earned income qualifies a person for the federal EITC, if military personnel were unable to count combat and QHDA pay for the credit, those who earned all their income in a particular year by serving in a combat zone or hazardous duty area and who would otherwise have qualified for the federal credit would not be eligible. So, under federal law, military families can choose whether to include or exclude such pay in their earned income for purposes of the federal credit. This not only allows military personnel to include combat pay to qualify for the credit, it also allows higher-paid troops to disregard combat pay that pushes their total income above qualifying levels.

Since the decision to include or exclude combat pay is made by each individual military member, we have not taken it into account in our estimates below.

MILITARY MEMBERS AND STATE INCOME TAXES

Past proposals for a Connecticut EITC have required those claiming a state credit to file a Connecticut income tax return. But military pay is treated differently than other types of income with regard to state income tax liability.

Under the federal Servicemembers Civil Relief Act, a military member's military income is not subject to state taxation if the service member is not a state resident and is present in the state solely because of military orders. The Connecticut Department of Revenue Services (DRS) explains how the state income tax applies to service members who are not Connecticut residents:

> If your permanent legal residence (domicile) was outside Connecticut when you entered the armed forces, you do not become a Connecticut resident because you are stationed and live in Connecticut.
>
> If you or, if married, you and your spouse, have no income other than your armed forces pay, you and, if applicable, your spouse, are not subject to Connecticut income tax and are not required to file a Connecticut income tax return because you have no Connecticut-sourced income. (*Connecticut Income Tax Information for Armed Forces Personnel and Veterans,* IP 2007 (22)).

An armed forces member who is a Connecticut resident is subject to state income tax on taxable military pay in the same way as other residents. But a person who was a Connecticut resident when he or she joined the military is treated as a nonresident if the person and his or her dependents live out-of-state and return to Connecticut only for brief visits during the year.

ESTIMATED NUMBER OF CONNECTICUT ACTIVE DUTY PERSONNEL ELIGIBLE FOR THE FEDERAL EITC

To estimate how many active duty armed forces members in Connecticut would be eligible for a state EITC, we must first estimate how many could be eligible for the federal EITC. In making this estimate, the following facts are relevant:

- Military pay is too high to make military members (single or married) eligible if they have no children.

- Annual pay scales for all but the newest and lowest ranking commissioned officers are too high to allow them to qualify for the federal EITC, even if they have children.

- No military member with a spouse who is also in the military or who is working at a civilian job will be eligible unless the spouse's annual salary is very low.

- Pay scales for lower ranks (warrant officers and enlisted personnel) make such personnel eligible for a credit only if they have at least one qualifying child and a nonworking spouse.

Given these factors, we first estimated how many Connecticut active duty military personnel hold ranks whose basic pay meets federal EITC criteria; second, how many of those troops have children; and third, how many of the troops with children rely on military pay as their sole income, either because they are single parents or have nonworking spouses.

EITC-Eligible Pay Grades

Because only certain ranks and grades have basic pay that makes them eligible for a federal EITC (see Appendix B, Tables B-2 and B-3), we must calculate how many of the 7,005 active duty personnel stationed in Connecticut hold these income-eligible ranks. We applied percentage data derived from the 2005 Demographic Report to determine how many of Connecticut's active duty military fall into these eligible ranks.

Using this method, we estimate that, of the 7,005 troops stationed in Connecticut, 6,003 or 85% are in ranks whose basic annual military pay falls below federal EITC income limits for families with children.

The results are shown in Table V-1.

TABLE V-1: NUMBER OF CONNECTICUT MILITARY MEMBERS IN PAY GRADES (RANKS) WITH EITC-ELIGIBLE BASIC PAY

Category	Pay Grade	Total Military	CT Active Duty
Enlisted	E-1	4.3%	301
	E-2	5.2%	364
	E-3	14.7%	1,030
	E-4	19.0%	1,331
	E-5	18.1%	1,268
	E-6	12.5%	876
	E-7	7.1%	497
Warrant Officer	W-1	0.2%	14
	W-2	0.4%	28
	W-3	0.3%	21
Officer	O-1	1.9%	133
	O-2	2.0%	140
TOTAL – ALL RANKS			**6,003**

Families with Children

As previously mentioned, without at least one child, military basic pay is too high to qualify for a federal EITC. Based on the Demographic Report, Table V-2 estimates the number of Connecticut active duty military members in the EITC-eligible ranks who have children, along with the subset of those who are single parents.

TABLE V-2: EITC PAY GRADES AND RANKS WITH CHILDREN

Category	Pay Grade	With Children		Single Parents	
		Total Military	Total CT	Total Military	Total CT
Enlisted	E1-4	19.9%	542	3.5%	19
	E5-6	60.3%	1,293	7.6%	106
	E-7	82.4%	410	7.8%	33
Warrant Officer	W1-3	77.1%	49	7.1%	3
Officer	O1-3	37.0%	101	3.0%	3
TOTAL			**2,395**		**164**

Single-Income Families

To estimate the number of Connecticut active duty military families who rely on a single military income, we applied the Demographic Report's figures for the overall military to our Connecticut estimates of troops with children.

First, we assumed that all the single parents rely on a single military income and thus that all 164 of such troops in our estimate above would be eligible for a federal EITC. Second, since two spouses serving in the military would earn too much to qualify for the federal EITC, we excluded all families with children where both parents serve in the military. Finally, because we have no information about income earned by spouses in military families who work in civilian jobs, we excluded all families with a working spouse.

According to the Demographic Report, the percentage of nonworking spouses is 40% for enlisted ranks and 50% for officers. After first subtracting the single parents in each rank from the total, we applied these percentages to the number of married Connecticut troops with children in each rank to arrive at the final estimate of active duty troops stationed in Connecticut who would be eligible for a federal EITC in 2007 (See Table V-3). For purposes of this estimate, we considered warrant officers as part of the enlisted ranks and applied the 40% factor to them.

TABLE V-3: ESTIMATED NUMBER OF CONNECTICUT ACTIVE DUTY MILITARY ELIGIBLE FOR 2007 FEDERAL EITC

Category	Pay Grade(s)	Single Parents	Others With Children & One Income	Total
Enlisted	E 1-4	19	209	228
	E 5-6	106	475	581
	E 7	33	151	184
Warrant Officer	W 1-3	3	18	21
Officer	O 1-3	3	49	52
Total		**164**	**902**	**1,066**

Active Duty Military Eligible for Federal EITC

Using the assumptions and the methodology described, we estimate that 1,066 active duty military families stationed in Connecticut are eligible for the federal EITC. This estimate includes:

- 164 military members in all income-eligible ranks who are single parents
- 902 lower-ranking officers, enlisted members, and warrant officers who are married with children and whose spouses are not employed or also serving in the military

These families are concentrated in the New London-Groton area, since over 98% of the active duty military personnel in Connecticut are stationed at the New London submarine base.

Several caveats apply to this estimate because the following important information is unknown:

- Whether nonworking spouses are heavily concentrated in higher-paid enlisted and officer ranks. If so, it would reduce the number eligible for a federal EITC since military incomes in higher ranks are generally not eligible and a working spouse's income would likely push even lower-paid ranks above the eligibility limits.
- Whether families with children are more commonly found in higher-paid ranks. This would also tend to reduce the overall number of eligible troops.

- Whether nonworking spouses are more commonly found among troops with children, thus increasing federal EITC eligibility numbers.

MILITARY FAMILIES ELIGIBLE FOR A CONNECTICUT EITC

Previous state EITC proposals have tied a state credit to the federal credit and made eligibility for the federal EITC a prerequisite for receiving a state EITC. Given this, we estimate that, at most, 1,066 active duty military families stationed in Connecticut would be eligible for a state EITC. However, because some of these families are probably residents of other states, the number that could be eligible for a Connecticut EITC is likely to be smaller.

Unfortunately, we have no data on the number of Connecticut residents who are serving on active duty either in Connecticut or elsewhere. As described above, receiving military pay for being on active duty in the state does not, by itself, confer residency status. And Connecticut residents serving outside the state or in foreign countries might not have to file Connecticut tax returns if they have limited or no connection to the state during the tax year.

EITC CREDIT AMOUNTS AND EFFECTS ON MILITARY FAMILIES

Using the Basic Military Pay schedule and the federal EITC table for 2007, we can determine the federal and assumed state credit amounts for troops holding EITC-eligible ranks (see Appendix B, Tables B-4 through B-7).

Families with One Child

For single parents with one child, 2007 federal credits range from $186 to $2,815. Thus, a corresponding state credit of 10% of the federal credit would produce additional credits ranging from $19 to $282 while a 20% state credit would add from $37 to $563.

For married couples with one child, 2007 federal credits range from $90 to $2,853. A 10% state credit would add from $9 to $285 and a 20% credit from $18 to $571.

Families with Two or More Children

Single parents with two or more children would see 2007 federal EITCs ranging from $12 to $4,716. A 10% state credit would add from $2 to $472, while a 20% credit would add $4 to $944.

Married couples with two or more children would be entitled to a federal credit of from $54 to $4,716. A 10% Connecticut credit would add from $5 to $472, while a 20% credit adds from $10 to $944.

Examples of State EITC Impact on Military Families

The following tables show how a state refundable EITC of 10% or 20% of the federal EITC would affect the total gross income of hypothetical Connecticut active duty military families.

O-1 (Second Lieutenant/Ensign)
2007 Basic Pay - $29,632

Filing Status	Number of Children	2007 Federal EITC	State EITC		Total Gross Income w/ Credits	
			10%	20%	10% State EITC	20% State EITC
Single/Head of Household	1	$578	$58	$116	$30,268	$30,326
	2+	1,718	172	344	31,522	31,694
Married Filing Jointly	1	897	90	179	30,619	30,708
	2+	2,139	214	428	31,985	32,199

E-5 (Sergeant/Petty Officer Second Class)
2007 Basic Pay - $22,248

Filing Status	Number of Children	2007 Federal EITC	State EITC		Total Gross Income w/ Credits	
			10%	20%	10% State EITC	20% State EITC
Single/Head of Household	1	$1,760	$176	$352	$24,184	$24,360
	2+	2,277	228	455	24,753	24,980
Married Filing Jointly	1	2,080	208	416	24,536	24,328
	2+	3,698	370	740	26,316	26,686

E-3 (Private First Class/Seaman)
Basic Pay - $18,410

Filing Status	Number of Children	2007 Federal EITC	State EITC		Total Gross Income w/ Credits	
			10%	20%	10% State EITC	20% State EITC
Single/Head of Household	1	$2,368	$237	$474	$21,015	$21,252
	2+	4,077	408	815	22,895	23,302
Married Filing Jointly	1	2,687	269	537	21,366	21,634
	2+	4,519	452	904	23,381	23,833

CONCLUSIONS

- An estimated 1,066 active duty military families stationed in Connecticut would be eligible for the federal EITC in 2007. Over 98% of the active duty military personnel in Connecticut are stationed at the New London submarine base.

- It is highly likely that fewer than 1,066 active duty military families stationed in Connecticut would receive a state EITC because it is likely that some are not Connecticut residents and would not file a Connecticut income tax return.

- Under 2007 military pay scales, the pay for most enlisted ranks is below federal EITC limits. A state EITC, like the federal EITC, would provide the greatest benefit to enlisted ranks (E-1 to E-7) and to lower-ranking warrant and commissioned officers with less than two years of service in those ranks.

- The highest state EITC a military family could have received for 2007 would be $944, if the credit were 20% of the federal credit, and $472, if the state credit were set at 10%.

- If all 1,066 active duty military families stationed in Connecticut received the maximum 20% state credit for 2007, the total value of all state credits for military families would be just over $1 million ($1,005,238). For a 10% credit, the total would be one-half this amount.

CHAPTER VI: EFFECT OF A STATE EARNED INCOME TAX CREDIT ON CHILDREN IN LOW-INCOME FAMILIES

This chapter addresses the effect a state earned income tax credit would have on children in low-income families.

DATA SOURCES

Available data sources are:

- U.S. Census Bureau, 2006 American Community Survey
- Internal Revenue Service, 2007 Earned Income Credit Table
- Internal Revenue Service, Connecticut Income Tax Data for 2005

To fully analyze this question, we would need to know:

- The number of federal EITC claimants in Connecticut who meet the definition of low-income
- Whether these families receive any other state assistance
- How these families spend their credit and how these particular expenditures affect the children living in these families

ASSUMPTIONS

Our analysis is based on:

- A state EITC that is linked to the federal credit and that is refundable
- Defining a "child" as a person under age 18 who is the dependent of a relative caretaker
- Using the U.S. Census Bureau's definition of "low income," which is 200% of the FPL, or $34,340 annually for a family of three in 2007
- Census data on the number of families meeting this definition

ESTIMATING THE NUMBER OF LOW-INCOME RECIPIENTS WITH CHILDREN

Approximately 191,000 Connecticut children live in low-income families. Of these, 81,263 live in poverty and 109,512 live in families with incomes between 100% and 200% of the FPL.

We cannot match these children with the 2005 federal EITC claims data for Connecticut because the IRS data does not identify the number of filers with dependent children. Furthermore, the IRS data does not allow us to determine poverty status, which depends on income and family size. However, if we assume Connecticut mirrors national data showing that 2% of the total federal EITC credits are given to childless adults, we can conclude that most of the 134,248 federal EITC claimants in Connecticut with incomes between $1 and $25,000 were supporting children and would qualify for a state credit. An additional, but unidentifiable, number of claimants with incomes between $25,000 and 200% of the FPL were also supporting children and would qualify for a state credit.

The FPL varies by family size. For example, a single person with annual income of up to $10,210 in 2007 is living in poverty, but so is a five-person family with income of up to $24,139. This five-person household is "low-income" under our definition if its annual income is $48,278 or less. We have no data indicating how children are distributed among the households that claimed the federal credit in 2005.

ESTIMATING THE AMOUNT OF THE CREDIT

Available data does not allow us to determine the EITC that low-income families would receive. Because the credit increases incrementally at very low income levels and decreases incrementally as income rises above $15,350 (or $17,400 for joint filers), we know that families at the low and high ends of the EITC income range receive proportionally smaller credits than those in the middle. Using a three-person, low-income household as an example, the largest credit goes to families with incomes between $11,750 and $15,350 (single filers) or $11,750 and $17,400 (joint filers)

Table VI-1 shows the federal and hypothetical 10% or 20% state credits for a three-person, low-income family in 2007. We show credit amounts for both a single head of household with two children and a married couple with one child.

TABLE VI-1: FEDERAL AND HYPOTHETICAL STATE EITC (2007)
FOR THREE-PERSON LOW-INCOME FAMILIES
(Rounded To Nearest $)

Income as % FPL	Single /Head of Household 2 Children			Married Filing Jointly 1 Child		
	Federal	State 10%	State 20%	Federal	State 10%	State 20%
25% ($4,292)	$1,710	$170	$340	$1,454	$145	$290
50% ($8,585)	3,410	341	682	2,853	286	572
75% ($12,877)	4,716	472	944	2,853	286	572
100% ($17,170)	4,340	434	868	2,853	286	572
125% ($21,462)	3,434	343	686	2,200	220	440
150% ($25,755)	2,529	253	506	1,513	151	302
175% ($30,047)	1634	163	362	834	83	166
200% ($34,340)	728	73	146	146	15	30

AVAILABLE RESEARCH

Because of incomplete data, we cannot give an empirical answer to the question of how a state EITC would affect children in low-income families. In addition, we found no studies that examined the causal relationship between receipt of an EITC (state or federal) and child well-being. Moreover, conclusions drawn from nonexperimental studies involving income support programs, such as the federal EITC and other welfare reform programs, that provided families with a substantially larger financial benefit than the state EITC would not necessarily apply. Finally, it appears unlikely that any model could be developed that could allow statistically significant conclusions to be drawn from the small income changes attributable to a state EITC set at 10% or 20% of the federal credit.

We summarize below the literature concerning poverty's general effects on children, particularly with respect to their intellectual, behavioral, and physical development. We also summarize findings on the effect that increasing the number of hours a parent works may have on child development and studies that examine expenditure patterns in low-income families.

Poverty's Effects on Children

Although low socio-economic status has consistently negative associations with children's intellectual, emotional, and physical development, there is considerable disagreement about both the magnitude of the associations and the causal role of income in and of itself. Few studies have attempted to isolate the effect that household income has on child development from effects caused by other family conditions that might be related to growing up in a low-income household.

The authors of one review of longitudinal studies undertaken in the 1980s and 1990s point out that relative lack of income influences children's day-do-day lives because it is associated with (1) inadequate nutrition, (2) fewer learning experiences, (3) housing instability, (4) lower quality education, (5) exposure to environmental toxins, and (6) family violence (Brook-Gunn and Duncan, 1997).

Others have noted that approximately half of the poor families in the United States live in neighborhoods with high concentrations of poverty, environments in which children are particularly vulnerable to negative developmental outcomes. Often, these communities heighten the disadvantages of poverty because their lack of public resources, economic investment, and political power isolates their residents from mainstream society (Wood, 2003).

Studies of inner-city neighborhoods demonstrate that economic, social, health, and other factors can converge to produce more severe, persistent poverty and deprivation than would otherwise occur. Such neighborhoods are more likely to lack opportunities for parents to build social networks, leading to increased stress and child abuse. (Some have challenged the latter conclusion, arguing that the higher child abuse rate is at least partially explained by the heightened level of surveillance to which inner-city families are subject.) They can be further isolated by their comparatively higher rates of violence and crime and their lack of safe places for children to gather and play (Wood, 2003).

Intellectual, Social, and Physical Effects. Several studies suggest that income is more consistently related to cognitive performance (i.e., standardized test scores) than to behavior or health outcomes. Movements into and out of poverty appear to be more important than changes across higher levels of income, and chronic poverty appears to be associated with greater harm than transitory poverty.

A 2005 study by Dahl and Lochner tracked a group of more than 6,000 children to estimate the impact that increases in the federal EITC in the 1980s and 1990s had on children's scholastic achievement. They hypothesized that a $1,000 increase in family income would raise math and reading scores by 2.1% and 3.6%, respectively. The effects were even stronger for black and Hispanic children.

The magnitude of the effects of income on child development may also vary based on the child's age at the time he or she experienced poverty. One longitudinal study demonstrated that early childhood poverty (i.e., when the child was younger than six years old) was more strongly associated with dropping out of school than it was when the poor children were between ages six and 15 (Phipps and Lethbridge, 2006). This is consistent with other researchers who concluded that income appears to affect children in a non-linear fashion, being particularly important during the early years.

The authors of most studies caution that the magnitude of the effects may also be mediated by other factors, such as a child's individual characteristics, parental coping skills, and other positive (or negative) aspects of a child's environment. The author of a study that examined the higher rates of hospital admissions, disability days, and death rates among low-

income children concluded that these statistics were related to inadequate access to preventive, curative, and emergency room care and are more closely related to poor nutrition, living in single-parent or dysfunctional families, and poor housing conditions than to income (Wood, 2003).

The Effect of Parental Work Hours on Child Development. Another focus of study has been the effect that increasing the number of hours that parents work has on child outcomes. While most of the earlier studies focused on single mothers leaving welfare to work, researchers have begun to expand their analysis to include low-income, two-parent households.

A study using data from the National Survey of America's Families examined the relationship between parental work and positive child outcomes among low-income families (Phillips, 2002). Phillips found that most low-income children have at least one parent who works full-time. Generally, the author concluded that the number of hours parents work is not associated with positive child outcomes, even when family income is considered. They are generally not associated with negative outcomes either, although high levels of parental work were negatively associated with indicators of parental involvement among low-income preschoolers in single-parent households.

Phillips hypothesizes that parent and job characteristics, rather than the number of hours worked, may have the greatest effect on child outcomes.

Expenditure Patterns and Their Effect on Low-Income Children

Researchers surveyed how a sample of urban, low-income families in Wisconsin spent their state EITC refunds. The authors found that two-thirds of the parents indicated that spending on their children, particularly clothing purchases, was a priority. The most frequently reported purchase, however, was furniture, followed by transportation and housing (all of which were also likely to have benefited their children) (Romich and Weisner, 2000).

A more recent study examined expenditure patterns of families headed by low-educated, single mothers before and after welfare reform. Its authors found a significant increase in work-related expenditures in the post-reform period. There was no statistically significant increase in spending on children's clothing or footwear, learning enrichment, or child care (Kaushal, et al. 2007).

CONCLUSIONS

- Receipt of a state earned income tax credit has the obvious effect of increasing the disposable income of the recipient's household. This can, but does not always, benefit the children living there. For example, children directly benefit when the recipient uses the credit to buy them clothes or enroll them in a learning enrichment program.

- Children may also be indirectly affected, both economically and in non-material ways, when the family receives a tax credit. For example, expenditures on items that make a parent more employable, such as transportation or vocational training, may increase household income in the long run. It has also been suggested that increasing income and workplace participation can raise parental self-esteem, which in turn can have a positive impact on children.

- On the other hand, increased workplace participation may result in less parental supervision and increased hours in poor quality childcare, which can negatively affect children. And to the extent that receipt of the credit induces parents to work more hours, it may affect the family's eligibility for state or federal worker assistance programs, such as Food Stamps and childcare or housing subsidies.

APPENDICES

Appendix A

SECTION 133 OF PUBLIC ACT 07-1, JUNE SPECIAL SESSION

Sec. 133. (*Effective July 1, 2007*) The Office of Legislative Research shall conduct a study concerning a state earned income tax credit. The study shall, include, but need not be limited to (1) the number of residents whose income, as a result of a state earned income tax credit, would rise above the federal poverty level, (2) the impact of such credit on local economies, including the amount of money received from such credit that is spent in economically distressed neighborhoods, (3) the effect of such credit on the state's labor force participation, (4) the effect of such credit on members of the armed forces of the United States, and (5) the effect of such credit on children in low-income families. Not later than February 1, 2008, the Office of Legislative Research shall submit the study developed pursuant to this section to the Governor, and, in accordance with the provisions of section 11-4a of the general statutes, to the joint standing committees of the General Assembly having cognizance of matters relating to finance, revenue and bonding, appropriations and human services.

Appendix B

TABLE B-1: ARMED FORCES COMPARATIVE PAY GRADES AND RANKS

While pay grades are administrative classifications used primarily to standardize compensation across the military services, ranks indicate a level of responsibility (for personnel, equipment, and mission), which grows with each increase in rank.

	Pay Grades	RANKS BY BRANCH OF SERVICE				
		Army	Navy*	Marine Corps	Air Force**	Coast Guard*
Commissioned Officers	O-10	General	Admiral	General	General	Admiral
	O-9	Lieutenant General	Vice Admiral	Lieutenant General	Lieutenant General	Vice Admiral
	O-8	Major General	Rear Admiral (Upper)	Major General	Major General	Rear Admiral (Upper)
	O-7	Brigadier General	Rear Admiral (Lower)	Brigadier General	Brigadier General	Rear Admiral (Lower)
	O-6	Colonel	Captain	Colonel	Colonel	Captain
	O-5	Lieutenant Colonel	Commander	Lieutenant Colonel	Lieutenant Colonel	Commander
	O-4	Major	Lieutenant Commander	Major	Major	Lieutenant Commander
	O-3	Captain	Lieutenant	Captain	Captain	Lieutenant
	O-2	1st Lieutenant	Lieutenant Jr. Grade	1st Lieutenant	1st Lieutenant	Lieutenant Jr. Grade
	O-1	2nd Lieutenant	Ensign	2nd Lieutenant	2nd Lieutenant	Ensign
Warrant Officers	W-5	Chief Warrant Officer	--	Chief Warrant Officer	--	--
	W-4	Chief Warrant Officer	Chief Warrant Officer	Chief Warrant Officer	--	Chief Warrant Officer
	W-3	Chief Warrant Officer	Chief Warrant Officer	Chief Warrant Officer	--	Chief Warrant Officer
	W-2	Chief Warrant Officer	Chief Warrant Officer	Chief Warrant Officer	--	Chief Warrant Officer
	W-1	Warrant Officer	--	Warrant Officer	--	--
Enlisted Members	E-9	Sgt. Major or Command Sgt. Major	Master Chief Petty Officer or Fleet/Command Master Chief Petty Officer	Sgt. Major or Master Gunnery Sgt.	Chief Master Sgt or First Sgt	Master Chief Petty Officer or Fleet/Command Master Chief Petty Officer
	E-8	1st Sgt. or Master Sgt.	Senior Chief Petty Officer	1st Sgt. or Master Sgt.	Senior Master Sgt or First Sgt	Senior Chief Petty Officer
	E-7	Sgt. 1st Class	Chief Petty Officer	Gunnery Sgt.	Master Sgt or First Sgt	Chief Petty Officer
	E-6	Staff Sgt.	Petty Officer 1st Class	Staff Sgt.	Technical Sgt.	Petty Officer 1st Class
	E-5	Sergeant	Petty Officer 2nd Class	Sergeant	Staff Sgt.	Petty Officer 2nd Class
	E-4	Corporal or Specialist	Petty Officer 3rd Class	Corporal	Sergeant	Petty Officer 3rd Class
	E-3	Private 1st Class	Seaman	Lance Corporal	Airman 1st Class	Seaman
	E-2	Private E-2	Seaman Apprentice	Private 1st Class	Airman	Seaman Apprentice
	E-1	Private	Seaman Recruit	Private	Airman Basic	Seaman Recruit

Table B-2: 2007 Military Basic Pay – Shaded Areas are EITC Eligible for Single/Head of Household

PAY GRADE		2 or less	> 2	> 3	> 4	> 6	> 8	> 10	> 12	> 14	> 16	> 18
Commissioned Officers	O-3	39,506	44,788	48,341	52,704	55,224	57,996	59,792	62,741	64,271	64,271	64,271
	O-2	34,132	38,876	44,777	46,289	47,239	47,239	47,239	47,239	47,239	47,239	47,239
	O-1	29,632	30,838	37,278	37,278	37,278	37,278	37,278	37,278	37,278	37,278	37,278
Warrant Officers												
	W-3	37,282	38,837	40,428	40,954	42,624	45,911	49,331	50,884	52,805	54,724	58,172
	W-2	32,990	36,112	37,073	37,735	39,874	43,200	44,845	46,469	48,4525	50,000	51,408
	W-1	28,958	32,069	32,915	34,686	36,781	39,866	41,306	43,322	45,306	46,861	50,454
Enlisted												
	E-7	28,069	30,636	31,810	33,368	34,578	36,662	37,823	39,920	41,652	42,836	44,093
	E-6	24,278	26,712	27,893	29,038	30,233	32,929	33,977	36,000	36,623	37,076	37,602
	E-5	22,248	23,735	24,880	26,057	27,886	29,804	31,367	31,561	31,561	31,561	31,561
	E-4	20,394	21,438	22,597	23,742	24,754	24,754	24,754	24,754	24,754	24,754	24,754
	E-3	18,410	19,570	20,750	20,750	20,750	20,750	20,750	20,750	20,750	20,750	20,750
	E-2	17,507	17,507	17,507	17,507	17,507	17,507	17,507	17,507	17,507	17,507	17,507
	E-1 >4 mos.	15,617	15,617	15,617	15,617	15,617	15,617	15,617	15,617	15,617	15,617	15,617
	E-1 <4 mos.	14,447	0	0	0	0	0	0	0	0	0	0

- **Yellow shading** = eligible with 1 or more children
- **Pink shading** = eligible with 2 or more children

Table B-3: 2007 Military Basic Pay – Shaded Areas are EITC Eligible for Married Filing Jointly

PAY GRADE		2 or less	> 2	> 3	> 4	> 6	> 8	> 10	> 12	> 14	> 16	> 18
Commissioned Officers	O-3	39,506	44,788	48,341	52,704	55,224	57,996	59,792	62,741	64,271	64,271	64,271
	O-2	34,132	38,876	44,777	46,289	47,239	47,239	47,239	47,239	47,239	47,239	47,239
	O-1	29,632	30,838	37,278	37,278	37,278	37,278	37,278	37,278	37,278	37,278	37,278
Warrant Officers	W-3	37,282	38,837	40,428	40,954	42,624	45,911	49,331	50,884	52,805	54,724	58,172
	W-2	32,990	36,112	37,073	37,735	39,874	43,200	44,845	46,469	48,4525	50,000	51,408
	W-1	28,958	32,069	32,915	34,686	36,781	39,866	41,306	43,322	45,306	46,861	50,454
Enlisted	E-7	28,069	30,636	31,810	33,368	34,578	36,662	37,823	39,920	41,652	42,836	44,093
	E-6	24,278	26,712	27,893	29,038	30,233	32,929	33,977	36,000	36,623	37,076	37,602
	E-5	22,248	23,735	24,880	26,057	27,886	29,804	31,367	31,561	31,561	31,561	31,561
	E-4	20,394	21,438	22,597	23,742	24,754	24,754	24,754	24,754	24,754	24,754	24,754
	E-3	18,410	19,570	20,750	20,750	20,750	20,750	20,750	20,750	20,750	20,750	20,750
	E-2	17,507	17,507	17,507	17,507	17,507	17,507	17,507	17,507	17,507	17,507	17,507
	E-1 >4 mos.	15,617	15,617	15,617	15,617	15,617	15,617	15,617	15,617	15,617	15,617	15,617
	E-1 <4 mos.	14,447	0	0	0	0	0	0	0	0	0	0

- **Yellow shading** = eligible with 1 or more children
- **Pink shading** = eligible with 2 or more children

Table B-4: 2007 Federal EITC Amounts for Eligible Military Families –Single/Head of Household – 1 Child

PAY GRADE		2 or less	> 2	> 3	> 4	> 6	> 8	> 10	> 12	> 14	> 16	> 18
Commissioned Officers												
	O-1	578	386	0	0	0	0	0	0	0	0	0
Warrant Officers												
	W-1	682	186	0	0	0	0	0	0	0	0	0
Enlisted												
	E-7	826	418	226	0	0	0	0	0	0	0	0
	E-6	1,433	1,041	857	674	482	51	0	0	0	0	0
	E-5	1,760	1,521	1,337	1,145	857	546	298	266	266	266	266
	E-4	2,056	1,888	1,704	1,521	1,353	1,353	1,353	1,353	1,353	1,353	1,353
	E-3	2,368	2,184	1,992	1,992	1,992	1,992	1,992	1,992	1,992	1,992	1,992
	E-2	2,511	2,511	2,511	2,511	2,511	2,511	2,511	2,511	2,511	2,511	2,511
	E-1 >4 mos.	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815
	E-1 <4 mos.	2,853	0	0	0	0	0	0	0	0	0	0

Table B-5: 2007 Federal EITC Amounts for Eligible Military Families –Single/Head of Household – 2+ Children

PAY GRADE		2 or less	> 2	> 3	> 4	> 6	> 8	> 10	> 12	> 14	> 16	> 18
Commissioned Officers												
	O-2	791	0	0	0	0	0	0	0	0	0	0
	O-1	1,718	1,465	107	107	107	107	107	107	107	107	107
Warrant Officers												
	W-3	107	0	0	0	0	0	0	0	0	0	0
	W-2	1,013	349	149	12	0	0	0	0	0	0	0
	W-1	1,855	1,202	1,023	655	212	0	0	0	0	0	0
Enlisted												
	E-7	2,045	1,508	1,465	928	676	233	0	0	0	0	0
	E-6	2,845	2,539	2,087	1,844	1,592	1,023	802	370	244	149	33
	E-5	3,277	2,961	2,718	2,466	2,087	1,676	1,350	1,307	1,307	1,307	1,307
	E-4	3,666	3,445	3,203	2,961	2,740	2,740	2,740	2,740	2,740	2,740	2,740
	E-3	4,077	3,835	3,582	3,582	3,582	3,582	3,582	3,582	3,582	3,582	3,582
	E-2	4,266	4,266	4,266	4,266	4,266	4,266	4,266	4,266	4,266	4,266	4,266
	E-1 >4 mos.	4,667	4,667	4,667	4,667	4,667	4,667	4,667	4,667	4,667	4,667	4,667
	E-1 <4 mos.	4,716	0	0	0	0	0	0	0	0	0	0

Table B-6: 2007 Federal EITC Amounts for Eligible Military Families –Married Filing Jointly – 1 Child

PAY GRADE		2 or less	> 2	> 3	> 4	> 6	> 8	> 10	> 12	> 14	> 16	> 18
Commissioned Officers												
	O-2	178	0	0	0	0	0	0	0	0	0	0
	O-1	897	546	0	0	0	0	0	0	0	0	0
Warrant Officers												
	W-2	362	0	0	0	0	0	0	0	0	0	0
	W-1	1,001	506	370	90	0	0	0	0	0	0	0
Enlisted												
	E-7	1,145	738	546	298	106	0	0	0	0	0	0
	E-6	1,752	1,361	1,161	993	802	370	202				
	E-5	2,080	1,840	1,656	1,465	1,177	865	618	618	618	618	618
	E-4	2,376	2,208	2,024	1,840	1,672	1,672	1,672	1,672	1,672	1,672	1,672
	E-3	2,687	2,503	2,312	2,312	2,312	2,312	2,312	2,312	2,312	2,312	2,312
	E-2	2,831	2,831	2,831	2,831	2,831	2,831	2,831	2,831	2,831	2,831	2,831
	E-1 >4 mos.	2,853	2,853	2,853	2,853	2,853	2,853	2,853	2,853	2,853	2,853	2,853
	E-1 <4 mos.	2,853	0	0	0	0	0	0	0	0	0	0

Table B-7: 2007 Federal EITC Amounts for Eligible Military Families–Married Filing Jointly – 2+ Children

PAY GRADE		2 or less	> 2	> 3	> 4	> 6	> 8	> 10	> 12	> 14	> 16	> 18
Commissioned Officers												
	O-3	54	0	0	0	0	0	0	0	0	0	0
	O-2	1,192	191	0	0	0	0	0	0	0	0	0
	O-1	2,139	1,887	528	528	528	528	528	528	528	528	528
Warrant Officers												
	W-3	528	202	0	0	0	0	0	0	0	0	0
	W-2	1,434	770	570	423	0	0	0	0	0	0	0
	W-1	2,276	1,623	1,444	1,076	634	0	0	0	0	0	0
Enlisted												
	E-7	2,466	1,929	1,676	1,350	1,097	655	412	0	0	0	0
	E-6	3,266	2,750	2,508	2,266	2,013	1,444	1,223	791	665	570	455
	E-5	3,698	3,382	3,140	2,887	2,508	2,097	1,771	1,771	1,771	1,771	1,771
	E-4	4,087	3,866	3,624	3,382	3,161	3,161	3,161	3,161	3,161	3,161	3,161
	E-3	4,519	4,256	4,003	4,003	4,003	4,003	4,003	4,003	4,003	4,003	4,003
	E-2	4,688	4,688	4,688	4,688	4,688	4,688	4,688	4,688	4,688	4,688	4,688
	E-1 >4 mos.	4,716	4,716	4,716	4,716	4,716	4,716	4,716	4,716	4,716	4,716	4,716
	E-1 <4 mos.	4,716	0	0	0	0	0	0	0	0	0	0

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