

Earned income tax credit should be part of state revenue package

Luis Caban
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Gov. Dannel Malloy's call for a State Earned Income Tax Credit (EITC) for low-wage workers would help struggling families make ends meet and pump much-needed funds into Connecticut's economy.

The EITC is considered to be the most effective anti-poverty policy because it encourages people to work, puts money right back into their pockets, boosts the economy in local neighborhoods, and reduces child poverty. Twenty-three states--including all our neighbors--and the District of Columbia offer a state EITC.

In the proposed budget, Governor Malloy calls for a state EITC at 30 percent of the federal EITC. The federal tax credit, which was created under President Gerald Ford and grew under Presidents Ronald Reagan and Bill Clinton, encourages low-wage people to work by offering a credit on their federal income tax return. Families with children with an annual income below \$21,500 qualify for a maximum federal credit of about \$5,666. Those same families in Connecticut filing the proposed state EITC would benefit from the maximum 30 percent credit of about \$1,700. The credit phases out for families earning \$48,000. Individuals or married couples without children would qualify for a much smaller EITC.

A 30% EITC would put about \$108 million back into the pockets of low-wage workers, who would then pump the money back into the local economy by spending on such things as food, school and work clothing, home and car repairs, and rent. Research has shown that 85 percent of the benefits of the federal EITC goes to families living at less than twice the poverty level. Thus, the program is extremely effective in delivering benefits directly to where they are most needed.

The EITC unambiguously promotes participation in the labor market. The higher wages that result from lowering the tax rate on earnings provide an incentive for lower income workers to enter the labor market and to increase their hours of work.

In a state with ongoing concerns about job growth, a tax credit's impact on business and job creation must be considered. With a state EITC, wages rise for workers without employers having to increase their payrolls. This allows businesses to attract and retain workers.

The Governor and the Legislature have many issues to consider in constructing a tax reform package that is fair to all, while providing the right incentives for the future. For lower income families, a state EITC would boost their income, help them support their families, and give them more reason to work. Enactment of a state EITC should be part of any tax reform package adopted.

Luis Caban is president of the board of the Connecticut Association for Human Services (CAHS) and executive director of SINA, Inc. in Hartford.



A CT EARNED INCOME TAX CREDIT: A GREAT ECONOMIC STIMULUS POLICY!

A CT EITC Will Reward Hard Work, Strengthen Families, and Stimulate the Economy. Low-wage earners – many who work two and three jobs – struggle to make ends meet. The tax relief they receive from a CT EITC will be spent right back in their local community.

The Federal EITC Reduces Child Poverty by nearly 25 percent. A CT EITC will build on the benefits of the federal EITC.

The EITC Has a History of Bi-Partisan Support. Enacted in 1975 under President Ford, the EITC is supported by Republicans and Democrats. President Reagan called the EITC “**the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.**” Twenty-three states and the District of Columbia have enacted EITCs under governors from both parties.

A CT EITC Will Make Our State Tax System More Equitable. In Connecticut, workers at the bottom earning less than \$26,000 paid *more than twice the tax rate* (income, sales, excise, property) than the top 1% of workers earning more than \$1.3 million. A CT EITC will provide tax relief for the state’s lowest earners.

The EITC Stimulates the Local Economy. In tax year 2009, 203,000 Connecticut households claimed the federal EITC, returning \$396 million to low-wage earners and the local economy. A CT EITC, pegged at 30% of the federal credit, will put \$108 million back to the state’s economy.

A CT EITC Will Benefit Working Families Earning Up to \$49,000. Families could use the CT EITC to pay off debt, finance transportation to work, invest in education, buy basic necessities, pay for health care, or save to build assets. Depending upon income, working families could receive the federal maximum credit of \$5,751 and a maximum state credit of \$1,700.

Let’s Pass a CT EITC in the 2011 Session!

For information: Maggie Adair, Connecticut Association for Human Services
860-951-2212, x 239, madair@cahs.org