



Protect working families: Protect the Connecticut EITC

Testimony for the Connecticut General Assembly's
Joint Committee on Finance, Revenue & Bonding regarding SB843

By Sean Noble, Director of Policy & Research, The National Community Tax Coalition

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The National Community Tax Coalition appreciates the opportunity to emphasize the importance of safeguarding the well-being of low- to middle-income, working families by – in turn – shielding the state's Earned Income Tax Credit from proposed cuts, however temporary those cuts might be intended. Struggling families cannot shrink their bills and other day-to-day obligations temporarily; neither should their EITC help be reduced as SB843 proposes.

NCTC's nonpartisan, nonprofit network of more than 2,400 members is dedicated to the financial security of America's working families, primarily through Volunteer Income Tax Assistance. Our community-based VITA programs provide low- to moderate-income households with tax-preparation help, as well as asset-building and financial-education services – all with the help of well-trained and certified volunteers. During the 2012 filing season, Community VITA programs helped taxpayers file 1.6 million federal tax returns across the nation (more than 28,000 of them in Connecticut).

As we work with families, we see the vital, day-to-day impact of the EITC as it helps taxpayers who work hard and play by the rules, but whose low pay leaves them little to show for their efforts. The EITC helps them handle life's basics – putting groceries on the table and clothes on their kids' backs, keeping a roof over their heads and covering heating and other utility bills. Nowhere are these positive effects more visible than in the two-dozen states that have added their own, critical level of EITC help to that of the underlying, federal credit – states such as Connecticut, where Gov. Malloy and legislators wisely approved a state EITC not long ago.

The EITC helps families take a critical step forward, toward greater financial security. Thus, Connecticut shouldn't leap backward by curtailing its own tax credit, even temporarily. It's far too crucial to the well-being of more than 180,000 Connecticut families – especially those with children, and who are teetering on the edge of poverty.

Underscoring these important points, we list here some of the chief ways that the federal EITC helps low-income, working families. These benefits are admirably amplified for families by the presence of a state EITC, and represent strong arguments for preserving Connecticut's own tax credit from any weakening. **Across the nation, the EITC:**

1. **Reflects hard work.** The credit is available only to taxpayers who work and have earned income.

2. **Helps families to cover their basics.** Groceries, rent, and utility bills are common uses for families' EITC dollars. Another frequently-cited expense: car repairs, to help family breadwinners with the transportation necessary to get to and maintain their jobs.
3. **Is particularly important to households with children.** The amount of the credit is greater for families who incur the added expenses of raising kids. And this federal EITC assistance was responsible for keeping an average of 3.1 million children out of poverty annually from 2009-2011.¹ (Working together, the federal and state EITCs protected more than 35,000 Connecticut children from poverty.²)
4. **Is typically needed for only temporary stretches of time.** Families only use the credit until they can get back on their feet. Indeed, among federal EITC filers studied between 1989 and 2006: 42 percent claimed the credit for only one year at a time, 19 percent retained it for two straight years, and only about one in five kept the credit for five or more consecutive years.³
5. **Helps struggling families who already pay a significant amount in federal taxes.** In fact, the poorest one-fifth of Americans paid 8.3 percent of their incomes in payroll taxes in 2009, compared with the wealthiest 1 percent of households, who paid only 2.5 percent of their incomes in payroll taxes.⁴ And among those Americans who owed no federal income taxes in 2011, about 93 percent were either workers who still owed federal payroll taxes, elderly, not working due to illness or disability, or students.⁵
6. **Helps struggling families who also pay a significant amount in state and local taxes.** In 2011, the poorest one-fifth of Americans paid 12.3 percent of their incomes in state and local taxes, while the wealthiest 1 percent of households paid only 7.9 percent of their incomes in state and local taxes.⁶ (In Connecticut that year, the poorest one-fifth of taxpayers paid 11 percent of their earnings in state and local taxes, compared with the wealthiest 1 percent paying 5.5 percent – a disparity that was improved somewhat from 2007, thanks in part to the introduction of Connecticut's state EITC.⁷)
7. **Lifts more families out of poverty than any other federal policy.** The federal EITC kept an average of 6.1 million people out of poverty annually from 2009-2011, and reduced the effects of poverty for another 21.2 million people. (In Connecticut alone, the federal EITC kept an average of nearly 40,500 people out of poverty each year during that period, and reduced poverty's effects on nearly 176,000 more of the state's residents; the state EITC improved further on and added to those figures.)⁸
8. **Strengthens families' health outcomes.** The EITC is associated with decreases in maternal smoking and increases in infants' birthweights, according to research.⁹
9. **Bolsters students' education outcomes.** The EITC is associated with increases in kids' math and reading test scores, studies show.¹⁰

- 10. Boosts the economic strength of local communities.** As families spend the money they save through the EITC, small businesses benefit. In fact, studies have shown that one EITC dollar – spent at the local level – generates as much as \$1.50 to \$2 in economic activity for the area.¹¹ (By that yardstick, Connecticut’s state EITC alone is responsible for putting up to \$218 million back into the state’s economy – help that would be weakened by EITC cuts.¹²)
- 11. Is important to rural Americans as well as those living in other areas of the country.** In fact, a higher percentage of rural tax-filers claimed the federal EITC in 2007 than did urban filers.¹³
- 12. Helps families to begin or improve upon savings.** Many families strive to set-aside some of their EITC to work toward long-term goals or to brace for emergencies. One survey found that about 39 percent of households receiving the credit devoted about 15 percent of their EITC refund dollars to savings.¹⁴
- 13. Has historically enjoyed bipartisan support.** The federal EITC was designed during the Nixon administration, established during the Ford presidency, and improved by bipartisan majorities of Congress working with Presidents Reagan, Clinton, George W. Bush, and Obama.

¹ *Brookings Institution analysis of U.S. Census Bureau Supplemental Poverty Measure Public Use Research Files data. December 2012.*

² *Gibson, Wade and Santacroce, Matthew; Connecticut Voices for Children. “Stay Firm on EITC to Protect Lowest-Income Workers.” New Haven Register. Feb. 14, 2013.*

³ *Dowd, Tim and Horowitz, John B. “Income Mobility and the Earned Income Tax Credit: Short-Term Safety Net or Long-Term Income Support.” Public Finance Review. Sept. 28, 2011.*

⁴ *Congressional Budget Office. “The Distribution of Household Income and Federal Taxes, 2008 and 2009.” July 2012.*

⁵ *Center on Budget & Policy Priorities. Analysis of Current Population Survey and Tax Policy Center data, cited in Off the Charts blog post, Oct. 18, 2012.*

⁶ *Citizens for Tax Justice. “Who Pays Taxes in America?” April 4, 2012.*

⁷ *Davis, Carl et al. “Who Pays? A Distributional Analysis of the Tax System in All 50 States.” Institute on Taxation & Economic Policy. January 2013.*

⁸ *Brookings Institution analysis of U.S. Census Bureau Supplemental Poverty Measure Public Use Research Files data. December 2012.*

⁹ *Strull, Kate; Rekopf, David; and Xuan, Ziming. “Effects of Prenatal Poverty on Infant Health: State Earned Income Tax Credits and Birth Weight.” American Sociological Review. August, 2010.*

¹⁰ *Dahl, Gordon, and Lochner, Lance. “The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit.” University of California, San Diego; University of Western Ontario; and NBER. June 15, 2011.*

¹¹ *Author. “Dollarwise Best Practices: Earned Income Tax Credit, 2nd Edition.” U.S. Conference of Mayors. 2008.*

¹² *National Community Tax Coalition calculation, using \$1.50-\$2 estimate from U.S. Conference of Mayors report.*

¹³ *O’Hare, William, and Kneebone, Elizabeth. “EITC is Important for Working-Poor Families in Rural America.” For the Carsey Institute. Fall, 2007.*

¹⁴ *Mendenhall, Ruby, University of Illinois, et al. “The Role of Earned Income Tax Credit in the Budgets of Low-Income Families.” National Poverty Center. June, 2010.*