

**Testimony Supporting  
H.B. 5626: An Act Concerning the Earned Income Tax Credit**

Nicholas Defiesta  
Committee on Finance, Revenue and Bonding  
March 18, 2016

Senator Fonfara, Representative Berger, and distinguished members of the Committee:

My name is Nick Defiesta and I am testifying today on behalf of Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families.

**We are here to testify in support of H.B. 5626, which proposes that the Department of Revenue Services (DRS) study potential delivery mechanisms for the Earned Income Tax Credit (EITC), the most effective anti-child poverty program in the nation.**

**We also suggest the consideration of additional policies to bolster the EITC, including:**

- 1. Examining additional delivery mechanisms, such as a “Rainy Day EITC” to help low-wage workers build emergency savings, advance EITC payments, and quarterly EITC payments;**
- 2. Expanding the EITC’s reach to childless workers; and**
- 3. Restoring the EITC to its full value to support working families.**

The EITC Helps Children, Families, and Our Economy

Study after study has demonstrated how well the EITC achieves its goals of supporting low-income families and encouraging work. Just this month, a working paper in the National Bureau of Economic Research concluded that the EITC is “quite successful” at assisting low-wage families, promoting work, and limiting administrative costs.<sup>1</sup> Nationally, research has found that the EITC has lifted millions of children and families out of poverty, which has critical benefits for healthy child development, educational outcomes, and future workforce success.<sup>2</sup>

Within Connecticut, 192,042 working families received the state EITC in 2014. On average, these households had gross incomes of \$17,732 – just below what a single parent, working full-time earning the minimum wage, would have taken home before taxes — and the average credit was \$472. These dollars help working families pay for gas or car repair, afford childcare, cover housing or utility costs, or invest in a college or job training course that improves their skills. For more information on the Connecticut EITC, I have attached a recent brief we wrote on the issue, and we encourage members of the committee to examine our interactive maps for EITC data in all 169 Connecticut towns at: <https://goo.gl/oZvvCl>.

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<sup>1</sup> Hoynes, Hilary and Jesse Rothstein. (2016). Tax Policy Toward Low-Income Families (Working Paper 22080). Retrieved from National Bureau of Economic Research website: <http://www.nber.org/papers/w22080.pdf>

<sup>2</sup> Debot, Brandon et al. “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds.” Center on Budget and Policy Priorities, October 2015.

## H.B. 5626 Proposes A DRS Study of Potential Changes to the EITC

Connecticut Voices for Children supports studying the changes proposed the bill, including a graduated payment schedule and a monthly, instead of an annual, EITC payment. We also recommend the Committee expand the bill to consider the impact of other EITC payment schedules and structures to determine what would be most effective at achieving the program's goals. These include a Rainy Day EITC, advance quarterly EITC payments, and Early Refund payments, all of which we ask the Committee to include in the DRS study.

**A Rainy Day EITC would help families save for household budget shocks with the goal of boosting financial security.** Often, low-wage workers that receive the EITC have irregular income, making it difficult to build a financial cushion to pay bills, let alone deal with financial emergencies. Without savings to cover these unexpected expenses, workers may be forced to build up debt over the course of the year, making it difficult for families to move beyond living paycheck to paycheck.

A Rainy Day EITC would help families address this challenge by allowing them to defer a portion of their EITC payment for six months, which would receive a modest savings match. A proposal from the Center for Economic Development would allow workers to defer 20 percent of their EITC amount for six months, which would be joined by a 10 percent EITC savings match by the state.<sup>3</sup>

**Advance EITC payments spread out a family's anticipated EITC payment out over four quarters.** In this proposal, families receive a fourth of their expected EITC each quarter, which reduces reliance on costly lending options and is counted as a loan against their income tax return. A pilot project in Chicago by the Center for Economic Progress that spread out EITC payments across four quarters found that the vast majority (90 percent) of families who participated in the program preferred receiving advance quarterly payments.<sup>4</sup>

**Early Refund EITC payments would help working families access part of the EITC midway through the year in case of a financial emergency.** A proposal described by the Center for American Progress would allow families to access a portion of their EITC starting on July 1, which would act as a sort of "earned insurance" against unforeseen financial challenges.<sup>5</sup> Such a policy would help to protect families against predatory lending, and offer families the choice to receive part of their EITC early.

## Expanding the EITC to Childless Workers Would Help All Low-Income Workers

Right now, the EITC amount received by childless workers is very small, and workers under 25 without children do not receive the EITC at all. This means these workers, including low-income young people who are just starting out in the labor force, receive none of the proven benefits of the EITC, such as promoting work, alleviating poverty, and supplementing low wages.

Providing a more robust EITC to low-income childless workers and lowering the eligibility age would confer these benefits on young and low-income workers in Connecticut, and would help to

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<sup>3</sup> Edin, Kathryn et al. "Rainy Day EITC: A Reform to Boost Financial Security by Helping Low-Wage Workers Build Emergency Savings" Center for Economic Development, July 2015. Accessible at: [http://cfed.org/assets/pdfs/The\\_Rainy\\_Day\\_EITC.pdf](http://cfed.org/assets/pdfs/The_Rainy_Day_EITC.pdf)

<sup>4</sup> Holt, Steve. "Periodic Payment of the Earned Income Tax Credit Revisited," Brookings Institute, December 2015. Accessible at: <http://www.brookings.edu/~media/research/files/reports/2015/12/17-holt/holtperiodicpaymenteitc121515.pdf>

<sup>5</sup> Boteach, Melissa et al. "Harnessing the EITC and Other Tax Credits to Promote Financial Stability and Economic Mobility." Center for American Progress, October 2014. Accessible at: <https://cdn.americanprogress.org/wp-content/uploads/2014/10/EITC-report10.8.pdf>

ensure that our tax code is not pushing these workers deeper into poverty. The most recent estimates suggest roughly 142,000 childless workers would benefit from such a change.<sup>6</sup>

#### Restoring the State EITC to Its Full Value

Finally, we recommend the Committee support the restoration of the EITC to its full value, 30 percent of the federal credit amount. We recognize that this is a difficult budget year, and that restoring the EITC to 30 percent would require scarce fiscal resources. However, given the deep cuts that are being enacted to balance our budget, the EITC is more important than ever: it helps our state's vulnerable families, makes our tax code fairer, and strengthens local economies. Restoring the EITC would mean a tax break for the working families who need it the most.<sup>7</sup>

Thank you for your time. I would be happy to take any questions.

#### Contact

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<sup>6</sup> "Fact Sheet: Tax Credits Promote Work and Fight Poverty — Connecticut," Center on Budget and Policy Priorities. Accessible at: <http://apps.cbpp.org/3-5-14tax/?state=CT>

<sup>7</sup> See our attached brief: Defiesta, Nicholas and Derek Thomas, "Restoring State's Earned Income Tax Credit Makes Sense," February 2016. Accessible at: <http://www.ctvoices.org/sites/default/files/bud16restoreeitc.pdf>