

Putting the Pieces Together

Policies and programs that support the economic security of low- and middle-income working families should be used as pieces in a puzzle, fitting together to make a complete financial picture. Linking the federal EITC with a Connecticut EITC would help more parents cover their family's basic needs and some even to save assets that will further insure their economic well-being.

In the 2004 tax year, the federal EITC brought \$267,981,861 into Connecticut for 164,933 households—10 percent of all tax filers, strengthening the economy of cities and towns across the state.¹

The 2006 Connecticut Legislative Program Review and Investigation Committee report, entitled *Connecticut's Welfare Reform Initiative*, stated:

- *Connecticut has a low rate of participation in the federal EITC program compared to states with similar poverty rates;*
- *Outreach efforts in Connecticut to improve the number of low-income workers filing for the EITC, while increasing, are still not adequate;*
- *States with individual EITC programs have higher participation rates in the federal EITC; and*
- *All New England states have a state EITC program except for New Hampshire and Connecticut. New Hampshire has no income tax.* (Italics in original)

Overview of the Federal EITC

The federal EITC was enacted in 1975 under President Gerald Ford to balance the effect of disproportionately higher payroll taxes on low-wage workers. Since the beginning, the EITC has been supported by both Republicans and Democrats.

Under President George H.W. Bush, the EITC was expanded specifically to reduce the effect of federal budget reductions on low-wage working families. In 1993, prior to passage of welfare reform legislation, President Clinton and Congress doubled the EITC, to ensure that minimum wage workers could support their families.

How the EITC Works

To receive the EITC, individuals must be working and must file a tax form with the Internal Revenue Service. Parents with dependent children receive more money than individuals without children. Income ceilings are set for married couples, single parents, and individuals. The amount of the EITC varies depending on the number of children in a family and annual income (*See Figure 1*). Taxpayers must be U.S. citizens or resident aliens for the full year, all family members must have valid Social Security numbers, and investment income is limited to \$2,900.

Endnotes

- 1 Center for Budget and Policy Priorities. “EIC Participation for Tax Year 2004, by State.” *Facts: About Tax Credits for Working Families—the Earned Income Credit and Child Tax Credit*. Retrieved January 9, 2007 from http://www.cbpp.org/eic2007/EIC_Participation.pdf
- 2 Roger D. Colton. *Home Energy Affordability Gap: Connecticut (2006)*. Bloomfield, CT: Operation Fuel: 5. Retrieved January 17, 2007 from http://www.operationfuel.org/pdfs/Connecticut_Home_Energy_Affordability_Gap-Sept_2006.pdf
- 3 Ibid.: 5.
- 4 Ibid.: 5.
- 5 Robert Greenstein. (2005). *The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor*. Center on Budget and Policy Priorities, Washington, D.C. Retrieved January 2, 2007 from <http://cbpp.org/7-19-05eic.htm>
- 6 Ibid.: 17.
- 7 Ibid.: 13.
- 8 Robert McIntyre, et al. (2003). *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 2nd Edition*. Washington, D.C.: Institute on Taxation and Economic Policy.
- 9 Ibid.: 13.
- 10 Jacob France Institute. (2004). *The Importance of the Earned Income Tax Credit and Its Economic Effects in Baltimore City*. Baltimore, MD: University of Baltimore.
- 11 U.S. Department of the Treasury, Internal Revenue Service. (2007). 2004 Tax Year Data. Calculations provided by Connecticut Voices for Children, January 17, 2007.
- 12 Neeraj Kaushal, Qin Gao, and Jane Waldfogel. (2006). *Welfare Reform and Family Expenditures: How Are Single Mothers Adapting to the New Welfare and Work Regime?* Cambridge, MA: National Bureau of Economic Research.



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Making Ends Meet: Low-Wage Workers and a State Earned Income Tax Credit

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Many Americans are worried about the growing gap between the very wealthy and the very poor. They see that the middle class is falling behind. While there is no silver bullet for reducing poverty and stimulating job growth in Connecticut, the Earned Income Tax Credit (EITC) has a strong track record at the federal level and in 23 states. A Connecticut EITC equal to 20 percent of the federal EITC would:

- Reward work, as the EITC is available only to those who are employed, and increase workforce participation—a boost for employers in tight labor markets;
- Reduce child poverty—the primary goal of the Child Poverty Council legislation passed in 2004;
- Pump money into the economy—EITC filers spend the credit on durable goods like appliances and furniture, child expenditures, or a down payment on a house or car;
- Help workers earning up to \$39,783 make ends meet by boosting wages by as much as \$943; and
- Create equity among taxpayers, particularly low-wage workers who pay a disproportionate amount of their earnings on combined sales, property, and income taxes.

The EITC is a tax expenditure. Therefore, it is not subject to the constitutional spending cap. It is a bold, but affordable step that lawmakers can take to spur job growth, stimulate the economy, and reduce poverty.

The Earned Income Tax Credit is the best anti-poverty, the best pro-family, the best job creation program to come out of Congress.

President Ronald Reagan

Federal EITC Benefits

Research shows that the federal EITC improves life for families and the state's economy in several ways. The federal EITC:

- Increases employment and reduces welfare;
- Creates jobs;
- Reduces poverty, especially among children;
- Helps low-wage workers make ends meet;
- Stimulates the economy; and
- Costs very little to administer.

**Federal Earned Income Tax Credit
Value for Married Filers
Tax Year 2004**

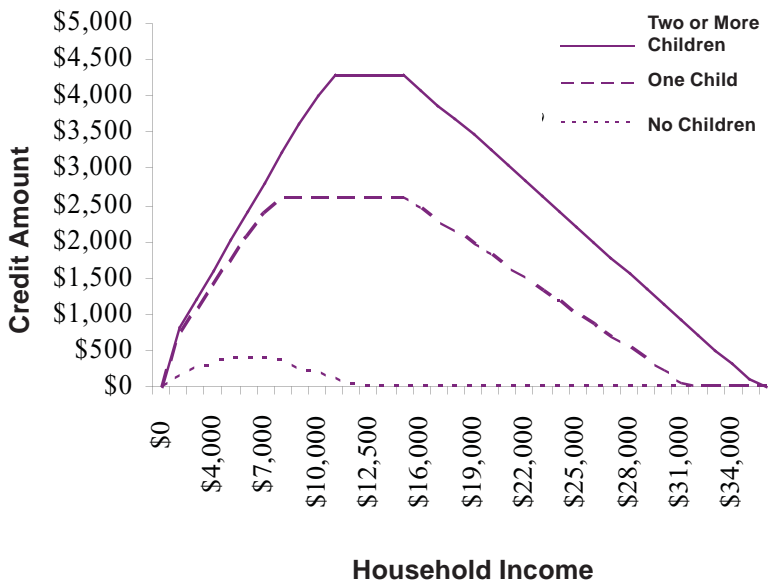


Figure 1. Internal Revenue Service. 2004 Earned Income Tax Credit Table. Retrieved January 16, 2007 from <http://www.irs.gov/pub/irs-prior/i1040--2004.pdf>. Figure developed by author.

Jennifer Clupper, Southington

In 2007, Jennifer Clupper worked as the Program Coordinator of Community Services for the Deaf and Their Families at FSW, a multi-service agency in Bridgeport. At the start of every year, FSW offers free income tax preparation to its clients. And so, Jennifer first learned about the EITC to help others. When she completed her own tax forms the first year, she was amazed that her family was eligible and even more amazed by the amount of the EITC they received.

Jennifer, her husband Kevin Bumbala, and daughters, ages 5 and 2 ½, used the EITC the first year to buy bulk food products and repair Jennifer's transmission, which broke down just before the check came in. Without the EITC, Jennifer would not have been able to get to work. Funds from the second-year EITC were used to cover the down payment and closing costs of a house in Southington. Life in an unsafe neighborhood had gotten old, and the house was a blessing.

Third-year EITC funds were put in the bank, waiting for the house repairs that were needed before the family put their "blessing" up for sale. Though life in Connecticut had been good, Jennifer and her family moved to Indiana. Jennifer and her two girls are deaf, and Indiana School for the Deaf has a progressive educational program—bilingual ASL (American Sign Language) and English. Jennifer's brother-in-law also lives in Indiana, and the housing market was much more affordable than Connecticut's. So there were three big reasons to move. Money from the fourth year (2007) helped with moving costs.

There was another good reason to move—in 2008, Jennifer's family will benefit from the federal EITC and from **Indiana's state EITC.**

A Connecticut EITC – Value Added

A Connecticut EITC would piggyback on the federal EITC and would provide low-wage working families with an additional refund, even if they don't owe state income taxes, making the tax credit "refundable." Combining the federal EITC with a state EITC equal to 20 percent of the federal credit would provide greater purchasing power to low-wage residents.

For working families with the lowest earnings, a state EITC (for a maximum amount of \$943) combined with the federal EITC (for a maximum of \$4,716) would raise their incomes over the poverty threshold. As salaries increase, the amount of the combined EITCs would decline, but with an annual income of \$30,000, married tax filers with two or more children would still net an additional \$2,472 from both sources. This amount would allow parents to pay for a semester of tuition at a community college, place a down payment on or repair a car, or pay a home heating or other utility bill.



Carrie and Tim Healy, Naugatuck

In 2007, Carrie and Tim Healy had been married for twelve years and had two boys and two girls, ages 11, 9, 6, and 4. The Healys realized early on that they could invest in themselves instead of throwing their money away in rent. So, in 1994, with the help of relatives they purchased a house in Naugatuck and have lived there ever since.

The Healys are a split-shift family. Last year, Tim worked first shift as a chef and manager at an outdoor restaurant in northwestern Connecticut. He got home just as Carrie was leaving for her job as supervisor on the second shift at UPS.

While all the Healys were covered by health insurance, monthly doctor visits for one of the children were not. That bill plus the basic weekly cost of food for six, the mortgage, utilities, and other regular family expenses like soccer registration and school photos, really stretched two paychecks.

The family had been eligible for the federal EITC several times over the previous years. The EITC allowed the Healys to pay their property taxes, fix the car, and catch up on bills. In 2007, they fixed the roof.

Carrie loves math and calculating her income taxes. She's helped several friends save money by completing their tax forms. Last year, Carrie helped out at a Volunteer Income Tax Assistance (VITA) site in Waterbury. She was glad to give back to her community. Carrie found her inspiration to give back from Viva Brockman-Harris, an octogenarian who helped people fill out applications for the Energy Assistance Program at Naugatuck Town Hall.

Providing an Incentive to Work

Research shows that the federal EITC provides significant work incentive for single parents with children. Specifically, program expansions of the 1980s resulted in increased employment among those working less than full time or earning very low incomes. The federal EITC has been found to be most effective increasing employment among women with young children and mothers with limited education. Other research shows that program changes made during the 1990s resulted in over half a million families moving from welfare to work.⁵

Research has found that the increased labor force participation caused by the federal EITC more than offsets the cost of the EITC to other taxpayers.⁶

Raising Families Out of Poverty

In combination with Connecticut's minimum wage, the federal EITC raises many parents and children out of poverty. The 2006 minimum wage in Connecticut was \$7.40 an hour, totaling \$15,392 annually. A single individual would have difficulty living on this income. For a single parent with one or more children, the prospect would be daunting. In 2006, the federal poverty rate for a family of three (a single parent with two children) was \$16,600. The federal EITC in 2006 for this family type would have been approximately \$4,417. A 20 percent Connecticut EITC would supply an additional \$883, providing the family with more dollars to pay for things such as rent, heat, health care, food, or an investment to increase assets.

According to the U.S. Census Bureau, 4 million people were raised above the federal poverty level as a result of the 2003 EITC; half of those were children. Research estimates that the child poverty rate would have been 25 percent higher *if not* for the EITC.⁷



This bill today brings both Republicans and Democrats together in a philosophical consensus to help the working poor. Passing this legislation helps people at the lower income levels in terms of keeping more of their hard-earned income. They may choose to save or spend these dollars but this puts more money into their wallets. It is well known that disposable income will find its way back into the economy, thus providing a much-needed stimulus to Michigan's economy.

Nancy Cassis (R)
Michigan State Senator

Michigan created a refundable
EITC in 2006

Making the Tax System Fairer

Because of Connecticut's high cost of living and the share of income working-class families pay in taxes of all kinds (sales, excise, payroll, and property), advocates cite a Connecticut EITC's potential to reduce inequities in the state's tax system. According the Institute on Taxation and Economic Policy, in 2002 Connecticut families paid the following percent of their incomes when all tax payments were added up and offsets were calculated:

- The top 1 percent of Connecticut families earning over \$500,000 paid approximately 4.4 percent of their incomes in taxes.
- For families in the middle or those earning between \$37,000 and \$60,000 annually, the average tax rate was 9.5 percent.
- And for those at the bottom earning less than \$21,000 annually, the tax rate was 10.3 percent of income—a percentage well over twice what the highest earners paid.⁸

The creation of a refundable Connecticut EITC (i.e., one that pays a credit to individuals and families whether or not they owe income taxes) would provide some tax relief for the state's lowest earners and some balance for this inequity. However, the National Center on Children and Poverty has found that working poor families experience no economic improvements where state-level EITCs are non-refundable (i.e., these credits are available only to individuals and families whose income is above the tax liability threshold).⁹

Boosting Connecticut's Economy

Since the 1990s, analysts have been calculating the amount of federal EITC funds going to the 50 states and how the funds have stimulated each state's economy. For every dollar spent by EITC recipients, a multiplier effect occurs pumping additional dollars into local economies. One study of EITC spending in Baltimore found that the federal EITC generated almost \$600,000 in local income and property tax revenue.¹⁰

According to figures from the Internal Revenue Service, \$267,981,861 in EITC payments came to Connecticut in 2004 to 164,933 households. If we use this amount as the baseline for calculating a 20 percent Connecticut EITC, these 164,933 households would receive an additional \$53,596,372.¹¹

Supporting Employers

Corporate Voices for Working Families, a national business organization with over 50 members, works to further several pillars of work: (1) early childhood education and after school care, (2) family economic stability, and (3) flexibility. Corporate Voices acts in the private sector to improve the situation of working families.

An Earned Income Tax Credit is an efficiently targeted way to provide an income supplement to help low-wage working families escape poverty. Our neighboring states have adopted a state EITC based on the federal credit. It is time for Connecticut to do the same.

Chris Bruhl, President and CEO,
The Business Council of Fairfield County

Many employers find it beneficial to let their employees know of the federal EITC. For example, TJX Corporation, owners of TJ Maxx and Marshall's stores, has conducted outreach to support its workers and clientele since 1997. Included in this effort is the publication of EITC literature and information about services to meet basic needs, such as Food Stamps and other public programs. TJX also posts the location of Volunteer Income Tax Assistance (VITA) sites in their stores' vicinities to help workers and clients avoid the use of high cost tax preparers.

How Families Spend Their Additional Income

A number of studies—of the federal EITC and families on Temporary Family Assistance (TFA)—illustrate how families spend their additional dollars.

- For the most part, research shows that families use the EITC for short- and medium-term needs such as bill paying, the purchase of durable goods such as appliances and furniture, or child expenditures.
- Some recipients are able to save their EITC or use it to for a down payment on a house or other large asset.
- One study of families receiving TFA showed that family spending resulting from TFA was associated with the following purchases: transportation, food away from home, and adult clothing and footwear – all costs associated with employment. The research also found increases in ownership of cars, phones, and microwave ovens.¹²

Joining the Ranks of States with EITCs

When Connecticut policymakers pass a state EITC, Connecticut will join a growing list of states that support the well-being of children and working families. *(See table at right.)*

A Shared Prosperity

Connecticut has long lamented its slow job growth and persistent poverty. Creating a state EITC is a strategy that has been proven to address both and is a first step toward the bold actions we need to strengthen Connecticut's economy so that all residents share in our prosperity.

States that have created an EITC

Delaware	Nebraska
Illinois	New Jersey
Indiana	New Mexico
Iowa	New York
Kansas	North Carolina
Louisiana	Oklahoma
Maine	Oregon
Maryland	Rhode Island
Massachusetts	Vermont
Michigan	Virginia
Minnesota	Wisconsin
District of Columbia	