

THE EARNED INCOME TAX CREDIT: A PRIMER



EITC FACTS

- In 2009, the EITC lifted an estimated 6.6 million people out of poverty nationally, including 3.3 million children.
- The poverty rate among children would have been nearly one-third higher without the tax credit.
- For every EITC dollar received, \$1.50 is generated locally

The federal Earned Income Tax Credit (EITC) is a policy that is critically important for both low-income working families and for the economy of Connecticut, particularly cities and towns which continue to suffer from declining revenues and adverse budget constraints. In 2009, the EITC lifted an estimated 6.6 million people out of poverty nationally, including 3.3 million children. The poverty rate among children would have been nearly one-third higher without the tax credit.

In Connecticut, for tax year 2007, \$326,263,625 in federal EITC dollars went to 184,087 tax filers, accounting for 10.1 percent of all tax filers. This is a substantial dollar increase from tax year 2005, when \$286,109,000 went to 172,838 tax filers, or 10.3 percent of all tax filers.

Analysts have calculated the amount of federal EITC funds going to the 50 states and how the tax credit has stimulated each state's economy. The dollars spent by EITC recipients result in a multiplier effect on the local economy—for every EITC dollar received, \$1.50 is generated locally. Using the 2007 figures noted above, \$489 million was circulated throughout the state in 2008, an important antidote during the economic downturn.

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. It was praised by President Ronald Reagan as being “the best anti-poverty, the best pro-family, the best job creation program to come out of Congress.”

HOW THE EITC WORKS

To receive the EITC, individuals must work and must file a tax return with the federal 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. 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 \$3,100.

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

The federal EITC:

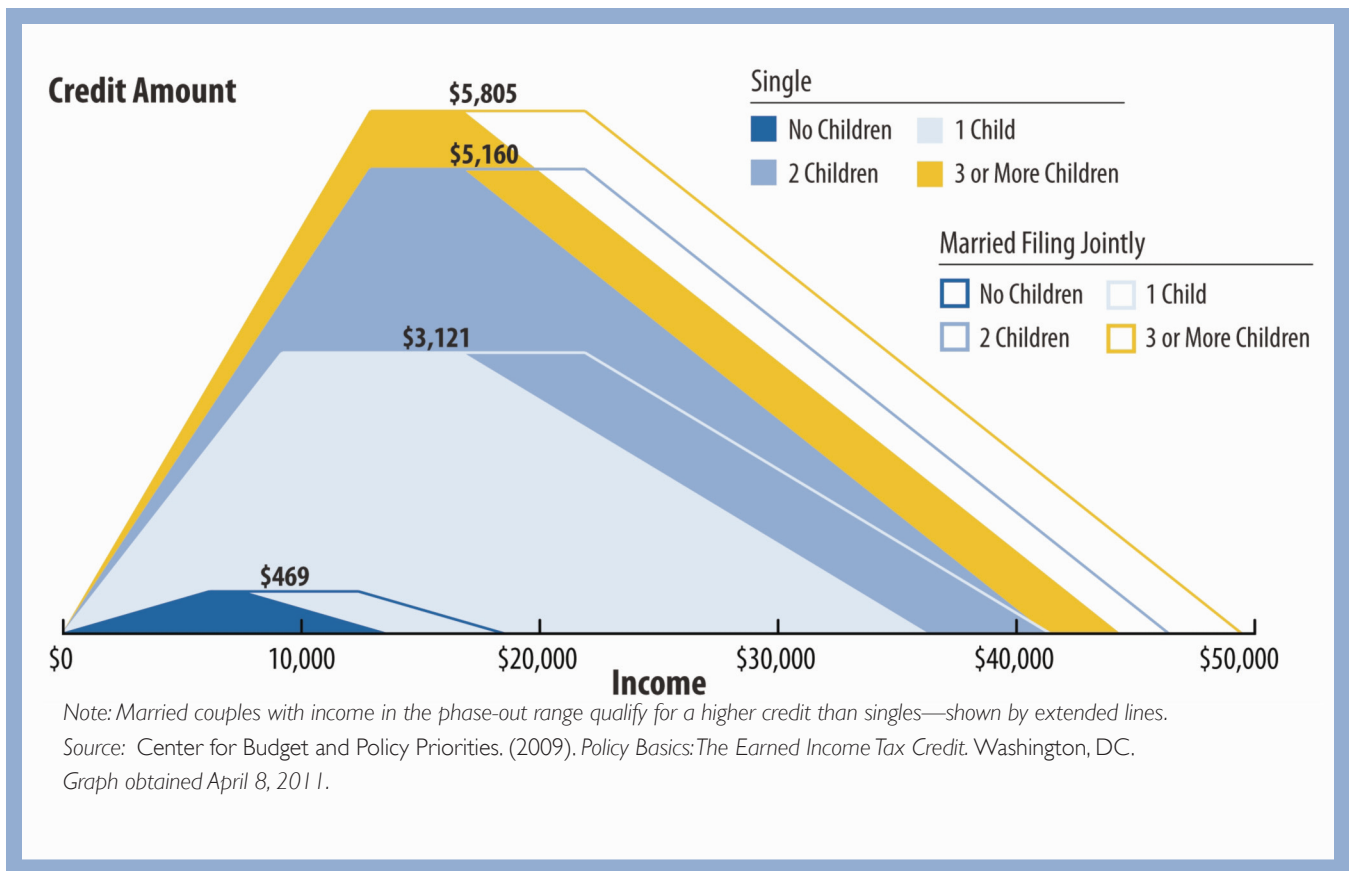
- Provides a significant work incentive for single parents with children;
- Creates jobs;
- Reduces poverty, especially among children; and
- Costs very little to administer.



Connecticut Association for Human Services

110 Bartholomew Avenue, Suite 4030 • Hartford, CT 06106-2201

Phone: (860) 951-2212 • Fax: (860) 951-6511 • www.cahs.org



CREATING A CONNECTICUT EITC

Creating a state EITC is a strategy that has proven to address persistent poverty and stimulate the economy. EITC funds are spent quickly in local communities by families paying for their basic needs, purchasing durable goods, or repairing the car that takes a parent to work. Governor Malloy has proposed the creation of a 30 percent state EITC that would piggyback on the federal credit. As the Governor said in his budget address before the Connecticut General Assembly:

This [EITC] is money for food, for medicine, for oil to heat people's homes. It's money for the basics too many of us take for granted. It's fair, it's decent, it's good public policy, and it's the right thing to do. Its time has come.

While the Great Recession has been officially over for some time and state employers are beginning to add jobs to the economy once again, many Connecticut families continue to feel the effects of unemployment and foreclosure. Connecticut's safety net programs have been straining to function because of budget reductions for several years, even before increases in demand due to the recession. Creation of a Connecticut Earned Income Tax Credit will help low-income families recover from tough times and will help the state's economy get back on its feet.

FOR MORE INFORMATION ABOUT THE EITC,
CONTACT THE CT ASSOCIATION FOR HUMAN SERVICES:

Maggie Adair: madair@cahs.org , (860) 951-2212, ext. 239
or Jim Horan: jhoran@cahs.org, (860) 951-2212, ext. 235

