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**Testimony Before the Finance, Revenue & Bonding Committee
S.B. 1007, An Act Concerning the Governor's Revenue Plan
Submitted by Jim Horan, Executive Director
Connecticut Association for Human Services
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Good afternoon Senator Daily, Representative Widlitz, and members of the Finance, Revenue and Bonding Committee. I am Jim Horan, Executive Director of the Connecticut for Human Services (CAHS). CAHS is a 100-year-old statewide nonprofit organization that works to end poverty and engage, empower, and equip all families in Connecticut to achieve financial security.

CAHS is testifying today on **S.B. 1007 – An Act Concerning the Governor's Revenue Plan**. Given the magnitude of the \$3.5 billion budget deficit, CAHS acknowledges the huge challenge that the Governor faces as he tries to close the gap with a combination of cuts and revenue increases. CAHS is a founding member of Better Choices for Connecticut, a broad-based coalition of nonprofit providers, faith leaders, advocates, and public service workers advocating for Connecticut to improve the state's imbalanced revenue system so that it better:

- advances opportunity for shared prosperity for all Connecticut residents
- preserves services for children, families, and the elderly
- creates and sustains good jobs
- reinvests in the middle class and our communities.

We urge policy leaders to examine the ratio of the cuts and revenue increases, and support a budget that does not disproportionately adversely impact the middle class and the poor. Governor Malloy's revenue proposals are a very good start, but could be strengthened by focusing income tax increases on wealthy households that are most able to pay, and reforming corporate taxes to eliminate loopholes and subsidies that don't produce good jobs.

In today's testimony, I want to **specifically testify in support** of the Governor's call for creating a **state Earned Income Tax Credit (EITC)**, set at 30 percent of the federal EITC. This would provide significant tax relief for low-income working families, and an economic stimulus for Connecticut. We applaud Governor Malloy for his bold vision and commitment.

For many years, CAHS and a broad-based coalition have pushed for passage of a state EITC. Each year, we built stronger support among legislators, gathered hundreds of signatures that were delivered to the former Governor, and voiced our message at hearings, press conferences, and public forums. We now have more support than ever with our Governor standing behind a state EITC and Connecticut's working poor. It is time Connecticut passed a state EITC.

A state EITC would provide tax relief to hard-working, low-income families, helping them close the gap between what they earn and what it takes to make ends meet. It would also put about \$108 million into the state's economy, with the greatest impact in low-income neighborhoods that really need an economic stimulus. Studies from Michigan, California, Colorado, and elsewhere have documented how the EITC creates jobs and stimulates spending for durable goods.

Filers would receive a state credit equal to 30 percent of their federal credit under the Governor's proposal. It would put as much as \$1,700 back into the pockets of our poorest workers—families with children earning between \$11,750 and \$16,000. In tax year 2009, 203,000 Connecticut households claimed the federal EITC, returning \$396 million to low-wage earners and the local economy. The average federal EITC is about \$1,950, so the average Connecticut EITC would be about \$600. Working families with three children and annual incomes up to almost \$49,000 qualify for the federal EITC, which would be the same threshold for a Connecticut EITC.

I have attached a breakdown of the federal EITC by state House and Senate districts, and how much a 30 percent state EITC would provide to households in those districts. In every Connecticut city and town, workers and communities would benefit from a state EITC.

Twenty-three states and the District of Columbia have enacted state EITCs, including almost all of Connecticut's neighbors in the Northeast. It's time for our state to follow their lead. Here's why:

- **A state EITC can make a significant difference for hard-working families.** The National Center for Children in Poverty found that the federal EITC reduces poverty for young children by nearly 25% - more than any government program. If we're serious about achieving the 2004 statutory goal of child poverty reduction, we must do this.
- **A state EITC builds on the benefits of the federal EITC.** It alleviates the regressive nature of sales and property taxes, and makes the state tax system more equitable. According to the Institute on Taxation and Economic Policy, in 2007, workers at the bottom earning less than \$26,000 annually paid *more than double the tax rate* (income, sales, excise, property) than the top 1% of workers earning more than \$1.3 million annually. A state EITC would provide tax relief for the state's lowest earners and some balance for this inequity.
- **The EITC has a history of bipartisan support.** The federal EITC was enacted in 1975 under President Ford, and expanded under the first President Bush and President Clinton. President Reagan called the EITC "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." State EITCs have been enacted under 11 Republican governors, 11 Democrats, and 1 independent.

- **The EITC rewards work.** For many Connecticut families, employment is not enough to provide financial stability due to low wages offered in the market economy. The EITC is an effective measure to reward work and to help those families make ends meet. It benefits employers of low-wage workers but does not burden them directly.
- **A state EITC would stimulate Connecticut's economy and provide a vehicle to build assets.** Working families use the EITC to pay off debt, buy basic necessities, finance a car to get to work, and invest in education. Spending on such necessities typically is local, stimulating the economies of neighborhoods with the greatest poverty. Many economists argue that the EITC is an efficient economic stimulus. To be *efficient*, an economic stimulus must be well-targeted, extracting the most “bang-for-the-buck” per dollar spent. The EITC is administratively efficient and it is also effective in targeting benefits to the *families and the communities* that need it most and where it will be spent the fastest.
- **The EITC transforms a family's economic condition.** CAHS coordinates 37 Volunteer Income Tax Assistance (VITA) sites in Bridgeport, Waterbury, and Lower Fairfield County. VITA sites provide free tax preparation and ensure that low-wage workers claim the federal EITC. Stories we've heard from federal EITC filers in CT are inspiring. Gladys Nunez, a VITA coordinator in Bridgeport, has submitted written testimony to this committee, and describes how she has seen first-hand how a tax filer cried tears of joy when she received the federal EITC, and used the funds to fix her car so she could get to a new job. The EITC can transform the economic circumstances of a family.

A 30 percent state EITC would cost about \$108 million annually, minus sales taxes it would generate. An EITC would be a tax expenditure, so it would fall outside the state spending cap.

Some may say \$108 million is a significant investment, given the daunting state budget deficit. But the EITC at the federal level and in other states has a proven record in encouraging people to work, stimulating the economy, and lifting families out of poverty. Several states have increased the percentage of their state EITCs in recent years, including New York (to 30%) and Vermont (to 32%), because they recognize their value. Connecticut policy leaders should invest in the EITC to make Connecticut a better place to live and work for low-income families. You have the ability to make this happen.

Thank you for holding this hearing, and for the opportunity to testify.

To maintain vital services and avoid damage to Connecticut families and the economy, we need a balanced approach to closing the budget deficit that pays as much attention to revenue reforms as to spending smarter. Governor Malloy's revenue proposals are a good start in this direction, but they could be strengthened by focusing income tax increases on wealthy households that are most able to pay, closing corporate tax loopholes through combined reporting reform, eliminating more sales tax exemptions that don't have strong benefits for the economy or tax fairness, reversing reductions in the estate tax rates, and reviewing the hundreds of millions of dollars in corporate tax subsidies and eliminating those that aren't producing good jobs.

May want to play down size of this EITC, compared to prior years—invites paring down.