

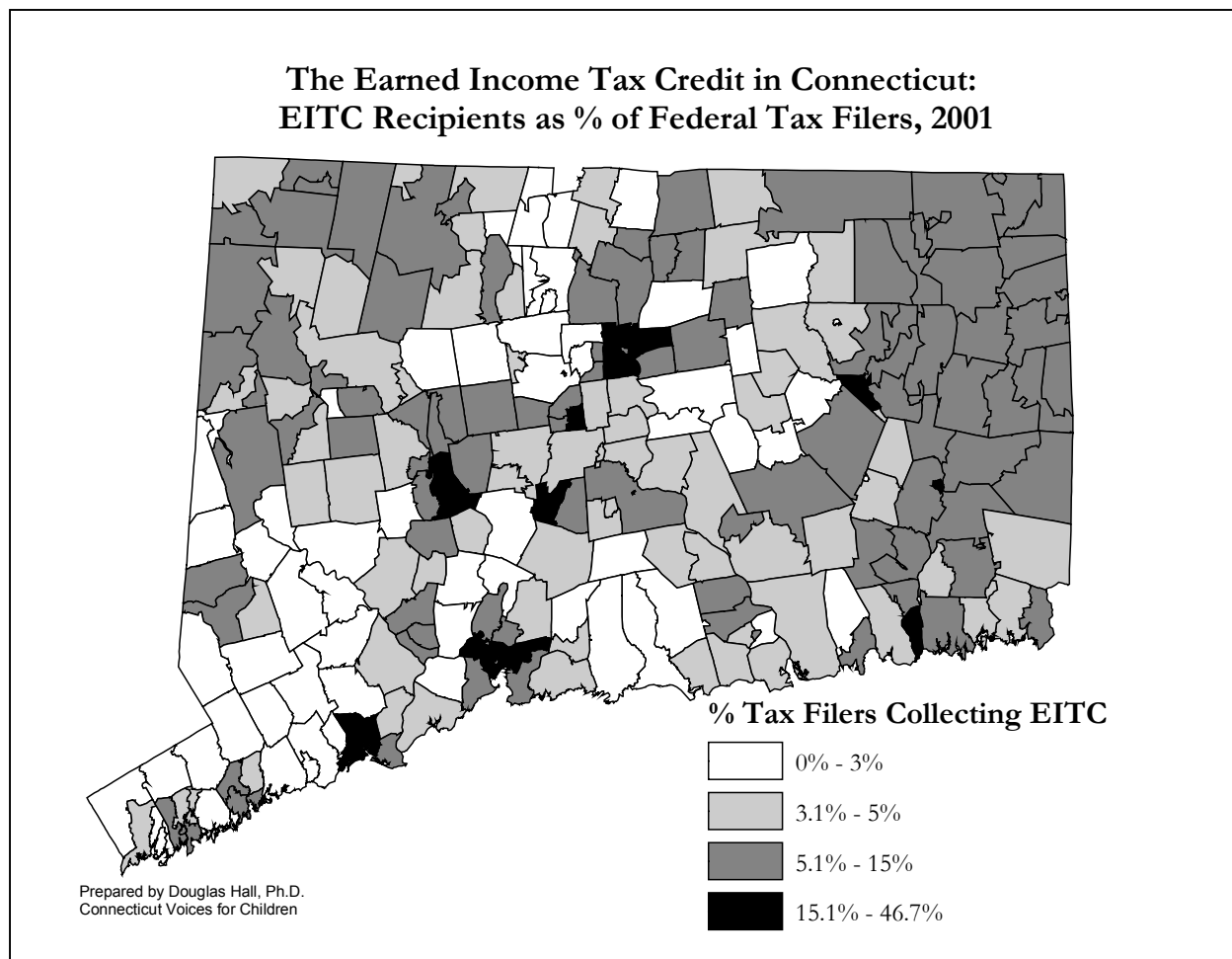
## The Earned Income Tax Credit – What It Does For CT, And How It Could Do Much More

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The federal Earned Income Tax Credit (EITC) is a tax credit available to low-income working families. If their income tax liability is less than the amount of the credit, the difference is paid to the family (thus it is *refundable*). The EITC reduces taxes and supplements wages for low-income working families.

The federal EITC benefits millions of working families nationwide. Roughly one in seven families in the United States files a tax return that claims the federal EITC. In 2001, the credit helped lift 4.8 million people out of poverty, including 2.6 million children.

The federal EITC benefits thousands of families in CT. In 2001, 142,000 families in CT claimed the federal EITC, bringing over \$217 million into the pockets of Connecticut’s lower wage working families. As seen in the map above, the proportion of CT families claiming the federal



EITC can be as high as 47% in some areas. Statewide, about 9% of CT tax filers collected the EITC in 2001.

**The federal EITC could do much more.** Almost \$2 billion is lost each year from EITC claims because low-wage taxpayers eligible for the EITC pay commercial tax preparation firms significant filing fees and/or succumb to the ‘instant gratification’ offered by Refund Anticipation Loans (RALs), which “charge taxpayers sky-high fees to provide cash only a few days before refunds would have arrived.”<sup>1</sup> The Hartford Courant recently described these loans as “paying to borrow money from yourself.”<sup>2</sup> In Connecticut, fully *one third of EITC claimants relied on RALs* in 2001 – a total of almost 50,000 filers. Legislation to require disclosure of the terms and conditions of these loans and/or set a cap on allowable interest rates would assure that a greater share of the federal EITC reaches low wage families.

**Each of Connecticut’s neighboring states has a state EITC.** Currently, 17 states and two local governments have an EITC. These supplemental EITCs lift even more families out of poverty, while providing additional economic stimulus for state economies.

**A CT EITC would support the transition of CT families from welfare to work and help low-income families achieve economic self-sufficiency.** *The EITC rewards work and targets the benefit cliffs* and other points where full time work cannot achieve income adequacy. OPM’s *Self-Sufficiency Report* (1999) quantifies the real costs faced by CT parents raising children and shows that economic self-sufficiency requires a much higher annual income than the federal poverty level. Yet CT’s state income tax makes no allowance for the costs of child rearing (such as by providing a deduction for dependents). A CT EITC would help address this inequity and help families make ends meet.

**A CT EITC would address the alarming decline in “real” income among low-income earners.** From the late 1980s to the late 1990s, the inflation-adjusted (“real”) income of the bottom 20% of Connecticut families *fell* by \$4,672 (about a fifth), by far the most significant decline of any state. In the majority of states (35), the poorest 20% of families enjoyed real income *gains* during this period.

**A CT EITC would make our tax system fairer.** CT’s poorest families pay more than twice the proportion of their income in state and local tax as do the state’s most affluent families. While most of the CT families who are eligible for the federal EITC have no current state income tax liability, all pay sales and property taxes (either directly if they own a home or car, or indirectly through rent). CT is one of only two states (the other being Alabama) that over the 1990s failed to increase the threshold at which low-income families begin paying state income tax.

**A CT EITC would help stimulate what has proven to be a rather tepid economic recovery.** A state EITC would be both an effective and efficient way to boost consumer spending, the key element in Connecticut’s economic recovery. Studies show that when families receive their federal EITC checks, funds are quickly re-invested in the economy.

**The EITC has enjoyed broad bipartisan support since its inception.** Enacted in 1975 under President Ford, the federal EITC has been expanded under several administrations. Ronald Reagan referred to the federal EITC as “the greatest anti-poverty measure.”

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<sup>1</sup> *Earn it. Keep it. Save it.* (The Annie E. Casey Foundation, 2003).

<sup>2</sup> Carolyn Bigda, “Paying to Borrow From Yourself”, *Hartford Courant*, Sunday, February 29, 2004.