Center on Budget and Policy Priorities

Connecticut

Fact Sheet: Tax Credits Promote Work and Fight Poverty

The Earned Income Tax Credit (EITC) for low- and moderate-income workers encourages and rewards work, offsets federal payroll and income taxes, and raises living standards. The Child Tax Credit (CTC) also helps low-income working families by offsetting part of the cost of child-rearing. The EITC is refundable, meaning that recipients whose credit exceeds their federal income tax liability can receive the difference as a refund. Part of the CTC is refundable.

Reducing Poverty and Encouraging Work

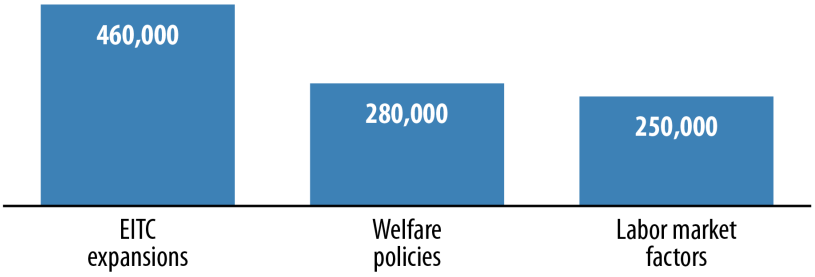
- 218,030 Connecticut households received the EITC in 2011.
- 151,670 Connecticut households received the refundable part of the CTC in 2011.
- 72,000 Connecticuters were lifted out of poverty by the EITC and CTC, including 36,000 children, each year, on average, during 2010 to 2012.
- The EITC put about $432 million into Connecticut's economy in 2011.

Extensive research concludes that the EITC encourages work, especially in a strong labor market. During the 1990s, the research indicates, EITC expansions did more to raise employment among single mothers with children than either welfare reform or the strong economy (see first chart.)

Research has found that lifting low-income families' income when a child is young not only tends to improve a child's immediate well-being, but also is associated with better health, more schooling, more hours worked, and higher earnings in adulthood (see second chart).

EITC Was the Single Biggest Factor in Boosting Employment Among Single Mothers

Increase in employment of female heads of households in 1999 due to changes since 1993



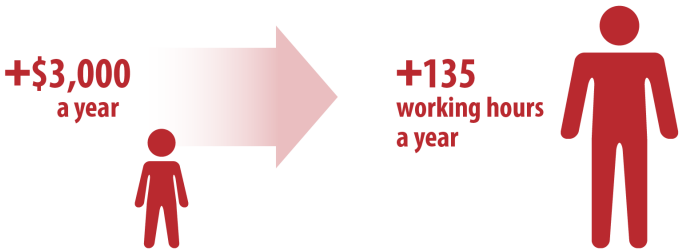
Note: Categories from the Grogger study were combined for simplicity. The categories "time limits," "other reforms," and "maximum benefits" were combined into the category "welfare policies." The categories "minimum wage" and "unemployment rate" were combined into the category "labor market factors."

Source: CBPP analysis of results from Jeffrey Grogger, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Head Families," Review of Economics and Statistics, May 2003 and data from March 1999 Current Population Survey.

Center on Budget and Policy Priorities | cbpp.org

Earned Income Tax Credit Income for Poor Children Expected to Increase Work Hours and Earnings Later in Life

The change in annual adult work hours associated with a sustained $3,000 increase in income to children in working-poor families before age 6.



For each $3,000 a year in added income that children in a working-poor family receive before age 6...

...their working hours increase by 135 hours a year between the ages of 25 and 37, and their annual earnings increase by 17%.

Source: Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, "Early-Childhood Poverty and Adult Attainment, Behavior, and Health," *Child Development*, January/February 2010, pp. 306-325

Center on Budget and Policy Priorities | cbpp.org

Helping Military Families

In 2010, 6,000 Connecticut military families received the EITC or the refundable part of the CTC.

Helping Working Mothers

About 160,000 Connecticut mothers in low- and moderate-income working families received either the EITC or the refundable part of the CTC in 2010.

States Can Supplement the Federal Credit

Connecticut is one of 25 states that offer a supplemental state credit; Connecticut's credit is refundable and is set at 28% of the federal EITC.

Congress Should Make Recent Improvements Permanent

Reforms enacted in 2009 strengthened, and subsequently extended, the CTC to reach more low-income working families and boost the credit for many families who received only a partial credit. The 2009 changes also boosted the EITC for families raising three or more children and expanded marriage penalty relief. These changes will expire in 2017.

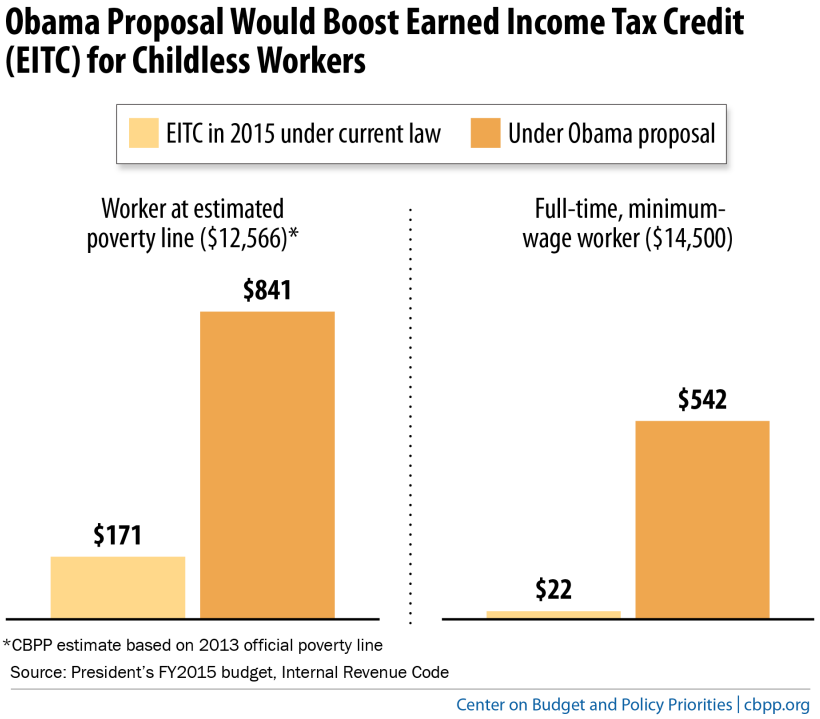
- 147,285 children in 75,033 Connecticut families benefited from the 2009 improvements in 2013.
- 149,000 Connecticuters, including 65,000 children, were lifted out of poverty or were made less poor each year, on average, during 2009 to 2012.

Congress Should Also Expand EITC for Childless Workers

Low-income workers who are *not* living with and raising minor children (whom we refer to here as "childless workers") receive little or nothing from the current EITC. As a result, childless workers are the sole group that the federal tax system taxes deeper into poverty.

The President's 2015 budget proposal and bills before Congress would make more childless workers eligible for the EITC and expand the credit for those already eligible, potentially boosting employment and reducing poverty among childless workers - and easing their tax burdens.

Under the President's 2015 budget proposal, the credit for a childless adult with wages right at the poverty line would rise from just $171 to $841 in 2015. For a childless adult working full time at the minimum wage, the credit would jump from just $22 to $542 in 2015.



142,000 childless workers in Connecticut would become eligible for an EITC or receive a larger EITC in 2015 under the President's proposal.

Figures on number of recipients and dollars per state are from IRS. Antipoverty impact of EITC/CTC is from Elizabeth Kneebone and Jane R. Williams, "An Anti-Poverty Policy that Works for Working Families" http://www.brookings.edu/blogs/the-avenue/posts/2014/02/11-anti-poverty-policy-working-families-kneebone-williams. Number benefiting from 2009 improvements is from "The Debate over Tax Cuts: It's Not Just About the Rich," http://ctj.org/pdf/refundablecredits2012.pdf. Number benefiting from President's EITC proposal from U.S. Treasury Department Office of Tax Analysis, http://www.whitehouse.gov/sites/default/files/docs/eitc_report_0.pdf. Other figures are from CBPP. Figures on the poverty reduction due to the recent EITC and CTC improvements are from CBPP analysis of the Census Bureau's March 2010-March 2013 Current Population Survey and Supplemental Poverty Measure public use files for 2009-2012.

For more information on the EITC and CTC, see:
Policy Basics on the EITC and Child Tax Credit.