

FOR IMMEDIATE RELEASE
July 27, 2004

33 Whitney Avenue
New Haven, CT 06510
Voice: 203-498-4240
Fax: 203-498-4242
www.ctkidslink.org

Contacts: Ellen Scalettar, Senior Policy Fellow, 203-498-4240, or escalettar@ctkidslink.org
Douglas Hall, Policy Fellow, 203-498-4240, or doug@ctkidslink.org

Report Finds Federal Tax Credit Contributes \$217 Million in Economic Stimulus to Connecticut Towns

***Group calls for new state tax credit that could provide \$43 million more
to Connecticut's low-wage families***

The federal earned income tax credit (EITC) contributed \$217 million in 2001 to the Connecticut economy, providing an effective economic stimulus while helping thousands of low-wage families move towards economic self-sufficiency, according to a new report from Connecticut Voices for Children. Families in each and every Connecticut town benefited from the EITC. The report recommends that Connecticut build on the success of the federal tax credit by creating a state-level counterpart, which could provide an estimated \$43 million more to Connecticut's low-wage families, helping them to better meet their children's needs.

"During the 1990s, Connecticut's low-wage workers experienced the steepest drop in real income of workers in any state. In real dollars, low-wage workers earned less in 2003 than they did in 1990. We could get a double bang for our buck with a state earned income tax credit," said Douglas Hall, Policy Fellow at Connecticut Voices and a co-author of the report. "We would help working families who are struggling to recover lost economic ground and provide a boost to the Connecticut economy as a whole."

The EITC is a tax credit available to low-income working families. If a family's income tax liability is less than the amount of the credit, the difference is paid to the family (thus it is refundable). In 2001, the most recent year for which reliable data is available town-by-town, almost 142,000 Connecticut income tax filers -- 9% of all filers -- claimed the federal EITC. There are families who have benefited from the EITC in every town and every zip code in the state.

The report calls for building on the success of the federal tax credit by creating a state-level EITC set at 20% of the federal credit. Currently 18 states, including all of Connecticut's neighboring states, and the District of Columbia have state EITCs.

"The federal earned income tax credit has enjoyed broad bipartisan support for decades. Ronald Reagan was its first proponent and Presidents ever since have built on its success," said Ellen

Scalettar, Senior Policy Fellow at Connecticut Voices for Children and a co-author of the report. “Connecticut is lagging behind other states in creating its own state tax credit. Residents of every town, and thus every local economy, would benefit from this well-tested program. Nationally, the EITC lifts more children out of poverty than any other single program.”

“Connecticut understands that sometimes an extra hand up is important. For example, Connecticut provides a refundable tax credit to small businesses for qualified research and development expenses, and invests nearly \$30 million each year in this effort,” observes Shelley Geballe, Co-President of CT Voices for Children. “A refundable state earned income tax credit – in effect a ‘low-wage working families credit’ – would be a similar investment, but in Connecticut’s *human* capital. It would help low-wage families meet their children’s essential needs for food, stable and safe shelter, and healthcare in a state with a very high cost of living.”

The report finds that a state EITC would:

- **Help working families to become more self-sufficient and to recover some of the economic ground lost during the 1990s.** From the late 1980s to the late 1990s, the real income of the bottom 20% of Connecticut families fell *more than in any other state*. In contrast, in 37 states and the District of Columbia, the poorest 20% of families enjoyed real income *gains* over the 1990s. A state EITC could help to get more low-wage workers back on their feet.
- **Provide an effective economic stimulus as Connecticut struggles to recover from a recession.** By providing low-income families with additional funds for their essential needs, the EITC puts cash into the hands of people who will spend it locally, thereby helping to kick-start a state economy that has not yet fully recovered from a downturn that began almost four years ago.
- **Help to make Connecticut taxes fairer.** Connecticut’s lowest-income families pay twice the proportion of their income in state and local taxes as do the state’s wealthiest families. A state earned income tax credit would help to level a state tax playing field that is now weighted against low-wage workers.

The report also expresses concerns about the high fees charged by many electronic tax filing and preparation companies, which offer “Refund Anticipation Loans” that pay out cash to families a few days earlier than their federal refunds would arrive. This is often a predatory practice that results in low-income earners in effect paying to borrow money from themselves. In Connecticut, one third of those who claim the EITC -- almost 50,000 filers -- relied on Refund Anticipation Loans in 2001. With loan fees typically ranging from \$30 to \$90, the effective Annual Percentage Rate (APR) of RALs ranges from 60% to over 700%. In 2004, the Connecticut General Assembly passed legislation requiring disclosure of the terms and conditions of these loans. To ensure that a greater share of the federal EITC reaches low wage families, the report recommends legislation that would set a cap on allowable interest rates for such loans.

Connecticut Voices for Children is a statewide, research-based policy and advocacy organization committed to promoting leadership, policy change, and investment on behalf of all of

Connecticut's children and youth. The report, *The Earned Income Tax Credit: Still Lagging Behind in Connecticut*, is available online at www.ckidslink.org.

-END-