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Earned Income Tax Credit



By Lile Gibbons

Legislation is being proposed again this year to allow for a Connecticut Earned Income Tax Credit for low income families. On the surface, because this program puts spendable cash into the hands of our most needy taxpayers, shouldn't we be doing this at the state level?

Let's put this very complex question in perspective.

An Earned Income Tax Credit (EITC) program was established by the federal government during the early Reagan years. Taxpayers at lower income levels receive cash checks for the amount of the credit above their taxes due. For incomes between \$1 and \$37,000, the maximum federal credit is \$4,400. This program was started to encourage employment by giving cash to families to help with rent, child care, and transportation and has worked very well at the federal level. At that time (prior to welfare reform in 1996) there were few other subsidies available for the working poor. Now there are many, especially at the state level but once an item becomes part of the federal tax credit, it becomes an entitlement that is very difficult to change.

Let's switch now to Connecticut. The proposal on the table is to give a poor working family up to 10% of the Federal credit which would be a maximum of \$440. Most people would get substantially less.

Again, let's look at what already happens to poor working families in our state vis-à-vis our neighboring states. In Connecticut, the first \$12,750 of income is not taxable for singles and the first \$24,500 is not taxable for married couples. Most families earning up to \$37,000 pay no or little income tax in Connecticut. New York and Rhode Island both begin taxing at the first dollar of income; in New Jersey only the first \$1,000 for singles and \$2,000 for married couples is not-taxable, In Vermont it's \$3,330 for singles and \$6,500 for married couples. Consequently, Connecticut already gives a tax break to low income individuals not available in other New England states and all or most of these states have higher sales taxes than Connecticut does.

Connecticut, in addition, has many programs in statute to help low income working families. We have HUSKY Insurance for all children up to 185% of poverty and their parents up to 150%; the state and the federal government offer prescription drug assistance through ConnPACE, Medicaid and SAGA (Supplemental Aid for General

Assistance); we offer rental and transportation subsidies, home fuel cost assistance; job training, education programs and child care through our TANF (Temporary Aid to Needy Families) programs in Jobs First. For those individuals on Social Security Disability (SSI), they receive state monthly checks.

Since our low income families already pay little or no income tax and we already support them with a variety of “help” programs, I am not convinced the EITC is the way to go. Estimated cost for the EITC in Connecticut is \$31 million dollars out of the General Fund and administrative and service delivery costs are on top of that.

I would rather expand any of the above programs to include more families. Furthermore, the EITC merely gives families a one-shot annual subsidy while the above programs are ongoing and can be accessed as needed throughout the year.

More importantly, I believe we should be expanding both health insurance and health access to all who can't afford it. I think this would be a better use of our tax payer dollars and would help more families and the economy as a whole than a new program of earned income tax credits.