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Earned income tax credit should be part of state revenue package

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Gov. Dannel Malloy's call for a State Earned Income Tax Credit (EITC) for low-wage workers would help struggling families make ends meet and pump much-needed funds into Connecticut's economy.

The EITC is considered to be the most effective anti-poverty policy because it encourages people to work, puts money right back into their pockets, boosts the economy in local neighborhoods, and reduces child poverty. Twenty-three states--including all our neighbors--and the District of Columbia offer a state EITC.

In the proposed budget, Governor Malloy calls for a state EITC at 30 percent of the federal EITC. The federal tax credit, which was created under President Gerald Ford and grew under Presidents Ronald Reagan and Bill Clinton, encourages low-wage people to work by offering a credit on their federal income tax return. Families with children with an annual income below $21,500 qualify for a maximum federal credit of about $5,666. Those same families in Connecticut filing the proposed state EITC would benefit from the maximum 30 percent credit of about $1,700. The credit phases out for families earning $48,000. Individuals or married couples without children would qualify for a much smaller EITC.

A 30% EITC would put about $108 million back into the pockets of low-wage workers, who would then pump the money back into the local economy by spending on such things as food, school and work clothing, home and car repairs, and rent. Research has shown that 85 percent of the benefits of the federal EITC goes to families living at less than twice the poverty level. Thus, the program is extremely effective in delivering benefits directly to where they are most needed.

The EITC unambiguously promotes participation in the labor market. The higher wages that result from lowering the tax rate on earnings provide an incentive for lower income workers to enter the labor market and to increase their hours of work.

In a state with ongoing concerns about job growth, a tax credit's impact on business and job creation must be considered. With a state EITC, wages rise for workers without employers having to increase their payrolls. This allows businesses to attract and retain workers.

The Governor and the Legislature have many issues to consider in constructing a tax reform package that is fair to all, while providing the right incentives for the future. For lower income families, a state EITC would boost their income, help them support their families, and give them more reason to work. Enactment of a state EITC should be part of any tax reform package adopted.

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