

FOR IMMEDIATE RELEASE
March 27, 2007

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

Contacts: Douglas Hall, Associate Director of Research, (203) 498-4240

More Working Poor Families Paying State Income Tax

Group calls for increase in "tax threshold" and a new state earned income tax credit

The number of low-income Connecticut families required to pay state income taxes will continue to grow each year, unless the state increases the "tax threshold," the income level at which families begin paying taxes taking into account all universally-available exemptions and credits. Of the 42 states, including the District of Columbia, that levy a state income tax, Connecticut is one of just two states that has not adjusted its tax threshold upward since 1991, according to a new report released by the Center on Budget and Policy Priorities and Connecticut Voices for Children. As a result, more low-income families have been paying the tax, and without legislative action, Connecticut will be taxing families at the poverty level within a few years.

When Connecticut first instituted its income tax in 1991, the state was a national leader in its support of low-wage families by not requiring many to pay the tax. In 1991, the tax threshold for a family of four was 73% above the federal poverty level. However, today, the threshold is just 17% over the poverty line, an overall drop of 56 percentage points and the largest decline in the nation. A family of four earning just \$24,100 owed the state income tax in 2006 (if ineligible for the property tax credit against the income tax because they owned neither a car nor home). If the tax threshold had remained at the same level above the federal poverty line, today it would be \$35,664.

Connecticut's trend is the opposite of most states. On average, states have *increased* their tax thresholds by 25% relative to the poverty level. Only Connecticut and Alabama have not adjusted their thresholds upward, and Alabama has passed legislation that will begin to raise *its* threshold in 2007.

This trend exacerbates the problem of Connecticut's regressive state and local tax system, in which our wealthiest residents pay a far smaller share of their income in state and local taxes (4.4%) than do lower-income residents (10%) and middle-income residents (9.5%).

To correct these problems, Connecticut Voices for Children recommends:

- Increasing the tax threshold each year by indexing our income tax exemptions to increases in inflation;

- Creating a state earned income tax credit (EITC), and
- Increasing the overall progressivity of the income tax so that taxes are distributed more fairly.

The EITC is a tax credit targeted to low-income working families. Currently 21 states, including all of Connecticut's neighboring states and the District of Columbia, have state EITCs, but Connecticut has not adopted one.

Inflationary erosion of Connecticut's tax threshold as compared to other states grows more pronounced each year. In 1997, only two states had a higher threshold. However, by 2006, 16 states and the District of Columbia had a higher threshold for tax liability. Connecticut's high cost of living and stagnant tax threshold are creating a financial crunch for low-income families, according to Connecticut Voices for Children.

"The erosion of Connecticut's tax threshold by inflation makes Connecticut a harder place for working parents to make ends meet and raise their children," said Doug Hall, Policy Fellow at Connecticut Voices for Children. "Many other states have moved ahead of us in helping working families provide for their children."

"The federal earned income tax credit has enjoyed broad bipartisan support for decades," said Shelley Geballe, President of Connecticut Voices. "Connecticut should join its neighboring states and build on the success of the federal model with a state earned income tax credit that rewards work and helps to alleviate the unfairness of Connecticut's tax code."

Connecticut Voices for Children is a statewide, research-based policy and advocacy organization for children and families (www.ctkidslink.org). The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. The report, "The Impact of State Income Taxes on Low-Income Families in 2006," is available at on the Center's Web site at www.cbpp.org.

-END-