

## **A Connecticut Child Tax Credit (CT CTC) in Making Our Tax System Fairer and Stimulating Economic Growth**

*Establishing a permanent CT CTC will reduce inequities in the state's tax system, offer substantial support to low- and middle-income families, and foster economic growth.*

### **Addressing Connecticut's Unfair Tax System with a CT Child Tax Credit**

**Vertical Inequity:** Currently, our tax system disproportionately burdens low- and middle-income families compared to high-income and wealthy families in Connecticut. Connecticut's top 1% of tax filers make an average of \$3.4 million annually, which is over 180 times the income of households in the bottom 10% of the income distribution before accounting for state and local taxes. Additionally, according to the CT Department of Revenue Services, the lowest income tax filers have an effective state and local tax rate of 39.9% compared to 7.3 percent for the highest income tax filers, and even when the 2023 tax reforms are applied, the tax system unfairly burdens low- and middle-income tax filers, which exacerbates the high level of income inequality.

**Horizontal Inequity:** Unlike other high-cost-of-living states with broad-based personal income taxes, Connecticut is the only state that does not adjust for the number of children or child care expenses, which especially disadvantages low- and middle-income families with children.

*The creation of a CT CTC would provide both vertical and horizontal equity to our tax system, thereby advancing tax fairness for our state's low- and middle-income families.*

### **Enhancing Fiscal Supports and Building on What Works with a CT Child Tax Credit**

**Affordability for Families:** In the Northeast, it costs an average of nearly \$18,400 a year for a married, middle-income family to raise a child, and the cost is even higher for families that require full-time child care, as that alone costs between about \$12,600 and \$19,200 a year depending on the age of the child and the type of provider. As a result, Connecticut's low- and middle-income families with children are struggling with everyday expenses like shelter, food and utilities.

**Complementing the CT Earned Income Tax Credit (CT EITC):** While the CT EITC assists 29.4% of our children in the state on average each year, a well-designed CT CTC could potentially benefit a remarkable 82.8% (nearly 613,000 children). This comprehensive coverage demonstrates the potential of a CT CTC to offer greater support, especially to very low-income families as well as higher low-income families and middle-income families.

*By providing flexible financial support per child, the creation of a CT CTC would help Connecticut's low- and middle-income families meet basic needs and make life a little easier.*

### **Economic Growth and Recovery with a CT Child Tax Credit**

**Stimulating State Economy:** Connecticut's real economic growth totaled 1.3% from 2019 through 2022, trailing behind the U.S. average of 5%. Considering the direct cost of creating a CT CTC is important but so is the potential cost of not creating a CT CTC, which can contribute to slower economic growth by not making Connecticut a more affordable state for raising children and growing the tax base.

**Pandemic Recovery:** When compared to other states in recovering from the pandemic-induced recession, Connecticut ranks 40th out of 50, with real GDP growth of 1.3 percent. If Connecticut's economic growth had matched the U.S. growth rate from 2019 through 2022, it could have generated an additional \$1.2 billion in tax revenue in FY 2022, highlighting the potential of the CT CTC as an economic stimulus tool.

*Creating a CT CTC could boost consumer spending and, in turn, stimulate our state's economic growth.*