CONNECTICUT VOICES FOR CHILDREN

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SUPPORTING THE ECONOMIC WELL-BEING OF CONNECTICUT'S FAMILIES AND CHILDREN:

AN OVERVIEW OF THE CT CHILD TAX CREDIT

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Introduction

Many of Connecticut's families, especially those with children, are struggling to make ends meet. Some new statistics highlight the scale and urgency of the problem. From 2021 to 2022, child poverty in Connecticut—using the Supplemental Poverty Measure—jumped from 3.8 percent, or about 27,000 children, to 11.1 percent, or about 82,000 children, meaning child poverty in the state more than doubled in a year. Additionally, in 2023, while 17.7 percent of all households in Connecticut reported that it was "very difficult" to pay their usual expenses, an already troublingly high statistic, the rate increases to 27.6 percent for low- and middle-income households with children, 38.9 percent for Black households with children, and 32.2 percent for Hispanic households with children. The higher rate of struggle for the latter households is due largely to the high cost of raising children. 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.

Rather than support families with children, Connecticut's tax system contributes to the problem in two ways. The more well-known issue is that the tax system unfairly burdens low- and middle-income families compared to high-income and wealthy families, which harms the economic well-being of low- and middle-income families. The less well-known but no less important issue is that Connecticut is the only high-cost-of-living state in the U.S. with a broad-based personal income tax that does not adjust for the number of children or child care expenses, which makes the tax system especially harm the economic well-being of many low- and middle-income families with children.

Other issues harming the economic well-being of Connecticut's families and children include the distribution of income and wealth. Using new data on wealth—the less studied of the two issues—a distributional analysis shows a very high level of wealth inequality, substantial racial and ethnic wealth gaps, and substantial wealth poverty. On average from 2017 to 2021, the top 1 percent of families in Connecticut had an estimated average wealth, or net worth, of $48.3 million, while households at the 10th percentile had an average wealth of -$1,800, meaning their liabilities exceeded their assets. The result is that many families lack sufficient financial resources to maintain an adequate standard of living, especially during periods of unemployment or when experiencing other economic hardships.

To address these problems, Connecticut Voices for Children (CT Voices) is publishing two reports on supporting the economic well-being of Connecticut's families and children. The focus of this report is the proposed CT Child Tax Credit (CT CTC), and the focus of the other report is the CT Baby Bonds program.

In focusing on the CT CTC, this report has two primary, related objectives. The first primary objective is to provide an overview of economic well-being to make clear both the level of support that Connecticut's families and children require and the urgency of providing that support. The second

primary objective is to provide an overview of a CT CTC, including the case for establishing the tax credit and a range of policy options. To that end, the report proceeds in two sections.

The first section of the report provides an overview of economic well-being, and it proceeds in three parts. The first part provides an overview of the growth and distribution of income. *Income* is the flow of money that a household or family receives over a given period, and it is essential to economic well-being because households and families use their income to pay for basic needs, pursue opportunities, and build a secure future while contributing to overall economic growth. The key findings include:

- Since the pandemic-induced recession, income growth has failed to keep up with rising costs, reducing the standard of living for low- and middle-income households in Connecticut.

- Connecticut has a very high level of income inequality, with the top 1 percent of tax filers making $3.4 million a year, equal to 181.7 times the income of $18,800 for households at the 10th percentile.

- Connecticut has substantial racial and ethnic income gaps, with the median Black and median Hispanic households earning $0.63 and $0.61, respectively, for each dollar the median white household earns.

- Inadequate income growth, a high level of income inequality, and substantial racial and ethnic income gaps contribute to an overall child poverty rate of 11.1 percent in Connecticut and an even higher rate for Black and Hispanic children. This is a major problem because poverty harms children "in virtually every dimension" of life, "from physical and mental health, to educational attainment and labor market success."

The second part of the first section provides an overview of the distribution of wealth. *Wealth*, or net worth, is the total value of assets after subtracting liabilities, and it is essential to economic well-being because it provides a financial resource for unexpected expenses and allows households and families to maintain an adequate standard of living during periods of unemployment or other economic hardships. The key findings include:

- Connecticut has an even higher level of wealth inequality than income inequality, with an average estimated wealth of $48.3 million for the top 1 percent of families compared to -$1,800 for households at the 10th percentile.

- The Northeast, which includes Connecticut, has substantial racial and ethnic wealth gaps, with the median Black and median Hispanic households both averaging $0.05 for each dollar in wealth for the median white household.

- An exceptionally high level of wealth inequality and substantial racial and ethnic wealth gaps contribute to an overall wealth poverty rate of 13.7 percent in Connecticut and an even higher rate for Black and Hispanic households.

The third part of the first section provides an overview of the ability of households to pay usual expenses, especially households with children. Compared to the analyses of income and wealth, this provides a timelier and more direct overview of economic well-being. The key findings include:

- Raising a child is very expensive, costing an average of $18,390 a year for a married, middle-income family in the Northeast, and it is even more expensive for families that require full-time child care, as that alone costs between $12,630 and $19,180 a year in Connecticut.

- Nearly 18 percent of households in Connecticut report that it is "very difficult" to pay usual expenses, and the rate increases significantly for low- and middle-income households with children (27.6 percent) and Black and Hispanic households with children (38.9 percent and 32.2 percent).

- More than 11 percent of households in Connecticut report that they "sometimes" or "often" do not have enough to eat, and the rate increases significantly for low- and middle-income households with children (15.2 percent) and Black and Hispanic households with children (25.2 percent and 21.6 percent).

- More than 15 percent of renter households in Connecticut report that they are not caught up on their housing payment, and the rate increases significantly for low- and middle-income renter households with children (22.6 percent) and Black and Hispanic renter households with children (33.5 percent and 20.7 percent).

The second section of the report provides an overview of the CT CTC, and it proceeds in two parts. The first part provides an overview of the case for establishing the CT CTC. The key findings include:

- Establishing a permanent, well-designed CT CTC will support the economic well-being of Connecticut's low- and middle-income families with children. This includes helping to reduce income inequality, racial and ethnic income gaps, income poverty, wealth inequality, racial and ethnic wealth gaps, and wealth poverty, all of which will increase the ability of low- and middle-income families with children to make ends meet.

- Establishing a permanent, well-designed CT CTC will help to offset the reduction in federal support that contributed to a historic increase in child poverty. From 2021 to 2022, child poverty in Connecticut jumped sharply from 3.8 percent (about 27,000 children) to 11.1 percent (about 82,000 children).

- Establishing a permanent, well-designed CT CTC will make Connecticut's tax system fairer. As currently designed, Connecticut's tax system unfairly burdens low- and middle-income families compared to high-income and wealthy families, which harms the economic well-being of low- and middle-income families. The tax system also unfairly burdens many families with children compared to families without children because Connecticut is the only high-cost-of-living state with a broad-based personal income tax that does not adjust for the

number of children or child care expenses, which especially harms the economic well-being of many low- and middle-income families with children.

- Establishing a permanent, well-designed CT CTC will help grow Connecticut's economy, which has grown substantially slower than both the U.S. economy and New England's economy. It will also help to generate a positive feedback loop, as a faster-growing economy will increase the state's budget capacity—both increased spending cap capacity and increased tax revenue—and that will make it possible to provide even more support for Connecticut's families and children while also managing the state's substantial debt.

The second part of the second section provides an overview of policy options for establishing the CT CTC. This part first includes a general overview of key design and eligibility features:

- To best support the economic well-being of Connecticut's families with children, especially the lowest-income families, a well-designed CT CTC would include some or all the following key design and eligibility features: full refundability, no income floor, no income-based phase-in, and no cap on the number of children.

This part then includes an overview of three policy options:

- Option 1. A maximum $600 CT CTC that is 80 percent refundable, has an income floor of $1, has an income-based phase-in at a rate of 4.5 percent, and is capped at three children per tax filer. This option would cost $298.5 million a year and support up to 550,000 children, or 74.4 percent of all children in the state.

- Option 2. A maximum $600 CT CTC that is 100 percent refundable, has an income floor of $1, has an income-based phase-in at a rate of 4.5 percent, and is capped at three children per tax filer. This option would cost $307.6 million a year and support up to 550,000 children, or 74.4 percent of all children in the state.

- Option 3. A maximum $500 CT CTC that is 100 percent refundable, has no income floor, has no income-based phase-in, and has no cap on the number of children. This option would cost $303.7 million a year and support up to 612,700 children, or 82.8 percent of all children in the state.

This part lastly includes an overview of three additional important issues related to the policy options:

- Inflation indexing is essential to maintain the support of a permanent, well-designed CT CTC.

- The CT CTC can be phased in over multiple years if necessary.

- Multiple funding options are available for the CT CTC.

Overview of Economic Well-Being

This first section provides an overview of economic well-being and proceeds in three parts. The first part provides an overview of the growth and distribution of income. The second part provides an overview of the distribution of wealth. The third part provides an overview of the ability of households to pay usual expenses, especially households with children. [NOTE: If you are reading this report or our companion report on CT Baby Bonds, the "Overview of Economic Well-Being" section (pages 7 through 25) is identical in the two reports.]

The Growth and Distribution of Income

Income is the flow of money that a household or family receives over a given period, and it is essential to economic well-being because households and families use their income to pay for basic needs, pursue opportunities, and build a secure future while contributing to overall economic growth. Several key findings on the growth and distribution of income are reviewed below.

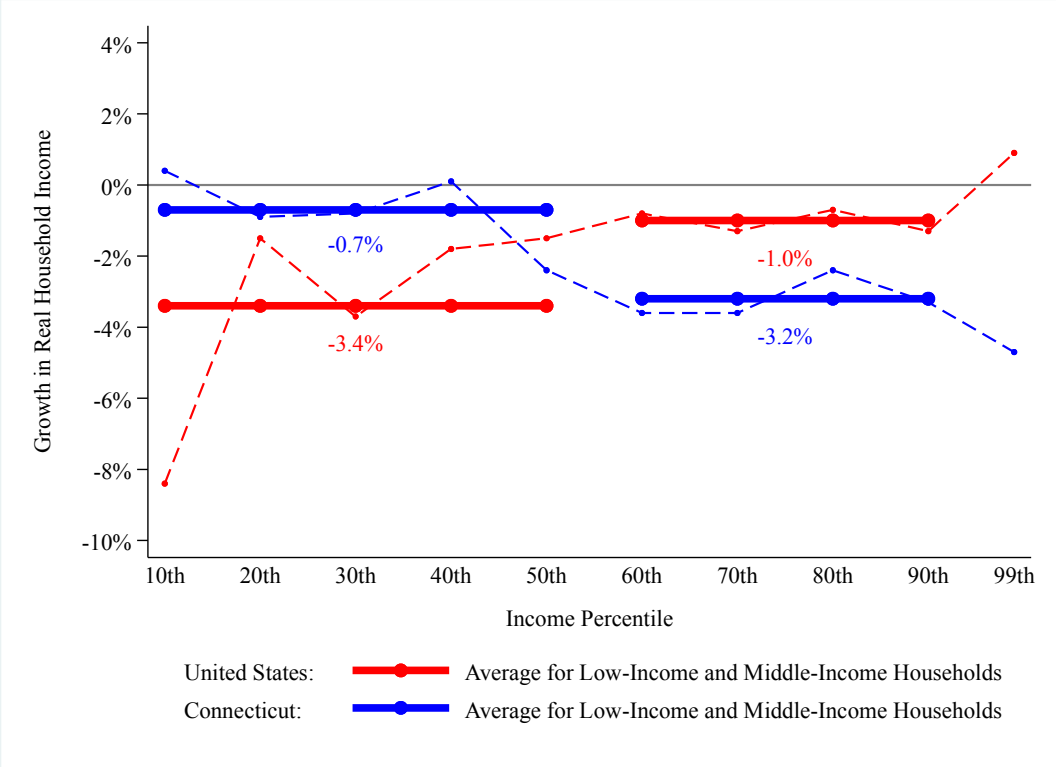
Since the pandemic-induced recession, income growth has failed to keep up with rising costs, reducing the standard of living for low- and middle-income households in Connecticut.

Using the most recent public use microdata sample from the U.S. Census Bureau's American Community Survey (ACS), **Figure 1** shows the growth in real, or inflation-adjusted, household income from 2019 through 2022 in the U.S. and Connecticut.[1] The ACS' measure of income includes the following: wages, salaries, commissions, bonuses, and tips from jobs; self-employment income; interest, dividends, net rental income, royalty income, and income from estates and trusts; Social Security; Supplemental Security Income; public assistance and welfare payments; retirement income, pensions, and survivor and disability income; and other sources of income received regularly, such as unemployment compensation, child support, and alimony.[2]

The income growth analysis here primarily focuses on two groups: the average growth for households at the 10th, 20th, 30th, 40th, and 50th percentiles, described as low-income households; and the average growth for households at 60th, 70th, 80th, and 90th percentiles, described as middle-income households. For reference, a household at the 10th percentile has an income that is higher than 10 percent of households and lower than 90 percent of households.

From 2019 through 2022, real household income in the U.S. decreased on average by 3.4 percent for low-income households and by 1 percent for middle-income households; and in Connecticut, it decreased on average by 0.7 percent for low-income households and by 3.2 percent for middle-income households. This has reduced the standard of living for low- and middle-income households in the U.S. and Connecticut and is due primarily to the historic rise in the cost of living. Measured using the consumer price index, the cost of living increased by 15.6 percent from December 2019 to December 2022, the largest three-year increase since the 1980s.[3]

Figure 1. Growth in Real Household Income, 2019–2022



Source: American Community Survey and author's calculations.

Connecticut has a very high level of income inequality, with the top 1 percent of tax filers making $3.4 million a year, equal to 181.7 times the income of $18,800 for households at the 10th percentile.

Continuing to use the most recent ACS data, **Figure 2** shows the distribution of household income in 2022 in the U.S. and Connecticut.[4] As noted, the ACS' measure includes most sources of income received regularly. For analyzing low-income households, the ACS' measure is more useful than adjusted gross income (AGI) data from the Internal Revenue Service (IRS) because AGI only includes taxable income, meaning it excludes important sources of income for some tax filers, such as income from Social Security.[5] However, the ACS' measure excludes income received irregularly, such as from capital gains, and the measure is also top coded to protect privacy, both of which limit the accuracy of the data for analyzing the highest income households. To address that major limitation, **Table 1** provides an overview of income inequality that incorporates the most recent income data from the IRS for the highest income tax filers.[6] Although the units of analysis differ for the two datasets (households versus tax filers), the closeness of the income levels for both units at the 99th percentile indicates that relying on IRS data above that threshold in place of ACS data is a reasonable approach for showing the full extent of income inequality.

The income inequality analysis here primarily focuses on the following points in the income distribution: the 10th percentile, 50th percentile (median), 90th percentile, 99th percentile (threshold for the top 1 percent), and average for the top 1 percent.

In the U.S. in 2022, using ACS data, households had an income of $16,100 at the 10th percentile, $74,800 at the 50th percentile, $213,700 at the 90th percentile, and $621,200 at the 99th percentile. Using IRS data for the U.S. in tax year 2020, the latest year available, the top 1 percent of tax filers had an average income of $2,067,200 in 2022 dollars. Incorporating both data sources, the average income for the top 1 percent of tax filers was $1.85 million, or 9.7 times, greater than the income for a household at the 90th percentile, $1.99 million, or 27.6 times, greater than the income for a household at the 50th percentile, and $2.05 million, or 128.4 times, greater than the income for a household at the 10th percentile.

In Connecticut in 2022, using ACS data, households had an income of $18,800 at the 10th percentile, $88,900 at the 50th percentile, $257,500 at the 90th percentile, and $842,200 at the 99th percentile. Using IRS data for Connecticut in tax year 2020, the latest year available, the top 1 percent of tax filers had an average income of $3,416,500 in 2022 dollars. Incorporating both data sources, the average income for the top 1 percent of tax filers in Connecticut was $3.16 million, or 13.3 times, greater than the income for a household at the 90th percentile, $3.33 million, or 38.4 times, greater than the income for a household at the 50th percentile, and $3.40 million, or 181.7 times, greater than the income for a household at the 10th percentile.

Overall, income inequality is greater in Connecticut than the in U.S. as a whole when measured using either the difference in dollars or inequality ratios. Additionally, for a single summary measure of income inequality based on the ACS data, the U.S. Census Bureau uses the Gini index, which "ranges from 0, indicating perfect equality (where everyone receives an equal share), to 1, perfect inequality (where only one recipient or group of recipients receives all the income)."[7] The Gini coefficient for Connecticut is 0.5008 in 2022, the second highest of all 50 states, up from 0.4985 in 2021, the third highest level that year.[8]

Researchers have extensively studied the causes of the high level of income inequality in the U.S., and some of the most prominent explanations are summarized below.[9]

Austerity Macroeconomics. The Federal Reserve System (Fed) has a dual mandate to promote maximum employment while maintaining price stability, or low inflation, through the adjustment of interest rates and the money supply. Research shows that from the late 1970s through at least the start of the pandemic-induced recession, the Fed has generally prioritized controlling inflation and allowed or caused excessive unemployment, which has primarily harmed low- and middle-wage workers.

Decline of Wage Setting Institutions for Low- and Middle-Wage Workers. Research shows that the decline in the real, or inflation-adjusted, federal minimum wage over decades has weakened wage gains, especially for low-wage workers. At the same time, the decline in union membership over decades has weakened the ability of low- and middle-wage workers to negotiate for higher wages.

Skill-Based Technological Change. Innovations in personal computers and information technology have increased the automation of many workplace tasks, and research shows that this development

results in higher wages and increased demand for workers with advanced skills while reducing job opportunities for workers performing routine tasks.

Increased Globalization. Research shows that while countries benefit overall from increased global trade, the gains are not distributed equally within a nation. Workers most affected are generally in industries directly competing with imports, particularly due to increased competition from countries like China, resulting in job displacement, especially among low- and middle-wage workers.

Changes in Household Structure. Research shows that the rise in dual-income households, along with the rise in assortative matching—where spouses increasingly marry individuals with similar income levels or educational attainment—has increased income inequality. At the same time, the rise in single-parent households has exacerbated income inequality because those households tend to have significantly lower incomes compared to two-parent households.

Connecticut has substantial racial and ethnic income gaps, with the median Black and median Hispanic households earning $0.63 and $0.61, respectively, for each dollar the median white household earns.

Further using the most recent data from the ACS, **Figure 3** shows racial and ethnic income gaps in 2022 in the U.S. and Connecticut.[10] The *racial income gap* is the difference in income levels across racial groups. The *ethnic income gap* is the difference in income levels across ethnic groups. The racial and ethnic income gap analysis here focuses on the difference in income for the median household for each demographic group. The racial income gap analysis compares white alone, non-Hispanic households to Black alone, non-Hispanic households. The ethnic income gap analysis compares white alone, non-Hispanic households to Hispanic households of any race.

In the U.S. in 2022, the median white, non-Hispanic household had an income of $80,300 compared to $51,600 for the median Black, non-Hispanic household, meaning the median Black household earned $0.64 for each dollar in income for the median white household. The median Hispanic household had an income of $65,900, equivalent to $0.82 for each dollar in income for the median white, non-Hispanic household.

In Connecticut in 2022, the median white, non-Hispanic household had an income of $99,000 compared to $62,500 for the median Black, non-Hispanic household, meaning the median Black household earned $0.63 for each dollar in income for the median white household. The median Hispanic household had an income of $60,500, equivalent to $0.61 for each dollar in income for the median white, non-Hispanic household.

Overall, the racial income gap in Connecticut is substantial in absolute terms and slightly larger relative to the racial income gap in the U.S., and the ethnic income gap in Connecticut is substantial in absolute terms and also substantially larger relative to the ethnic income gap in the U.S.

Like income inequality in general, researchers have studied the causes of racial and ethnic income gaps. Some of the most prominent causes include *historical discrimination, including segregation*, *unequal access to high-quality education*, and *discrimination in the labor market*.[11] These factors and others place a disproportionate percentage of Black and Hispanic families in the lower half of the income distribution, which then makes the very high level of income inequality especially harmful to those families.

Inadequate income growth, a high level of income inequality, and substantial racial and ethnic income gaps contribute to an overall child poverty rate of 11.1 percent in Connecticut and an even higher rate for Black and Hispanic children. This is a major problem because poverty harms children "in virtually every dimension" of life, "from physical and mental health, to educational attainment and labor market success."

Using the most recent public use microdata sample from the U.S. Census Bureau's Current Population Survey Annual Social and Economic Supplement (CPS ASEC) along with the most recent data from the ACS, **Table 2** provides an overview of income poverty in the U.S. and Connecticut.[12] *Income poverty* is when a household lacks the necessary income to sustain an adequate standard of living. Income inequality and income poverty are closely related because a high concentration of income at the top can lead to lower incomes for the rest of the population, ultimately increasing the level of income poverty. It is essential to note, however, that these two concepts differ in scope. An analysis of income inequality covers the entire income distribution, or at least multiple portions of it, whereas an analysis of income poverty concentrates solely on the bottom of the income distribution.

The U.S. Census Bureau provides three different measures of income poverty that are regularly referenced. The CPS ASEC's *official poverty measure* (OPM) considers only pre-tax money income and uses a national threshold that was initially based on three times the cost of a minimum food diet in the 1960s, adjusted for inflation and family composition. To address major shortcomings with the OPM, the CPS ASEC's *supplemental poverty measure* (SPM)—which was established in the 2000s—considers pre-tax money income as well as tax credits and non-cash benefits and uses geographically adjusted poverty thresholds that are regularly updated based on data for the cost of food, clothing, shelter, and utilities. Lastly, and like the OPM, the ACS' *poverty status measure* (PSM) only considers pre-tax money income and uses a national threshold that is adjusted for inflation and family composition. One major advantage of the PSM compared to the OPM is that it allows for more reliable state-level estimates, including when disaggregated by race and ethnicity, due to the much larger sample size of the ACS compared to the CPS ASEC.

The income poverty analysis here focuses on two of the three poverty measures: the SPM, which is the best overall measure of income poverty but does not allow for a reliable annual state-level analysis by demographic group due to the small sample size; and the PSM, which is inferior to the SPM but allows for a reliable annual state-level analysis by demographic group.

In the U.S. in 2022, using the SPM, 12.4 percent of the total population lived in poverty, and 12.4 percent of children lived in poverty, up from 5.2 percent in 2021, a historic increase of 7.2 percentage points. Disaggregated by race and ethnicity, 7.2 percent of children in white households, 18.4 percent of children in Black households, and 19.6 percent of children in Hispanic households lived in poverty.

In Connecticut in 2022, using the SPM, 10.1 percent of the total population lived in poverty, and 11.1 percent of children lived in poverty, up from 3.8 percent in 2021, a historic increase of 7.3 percentage points. Using the PSM—which, as noted, is an inferior measure but allows for an annual state-level analysis disaggregated by race and ethnicity—12.4 percent of children lived in poverty, including 5.1 percent of children in white households, 20 percent of children in Black households, and 23.1 percent of children in Hispanic households.

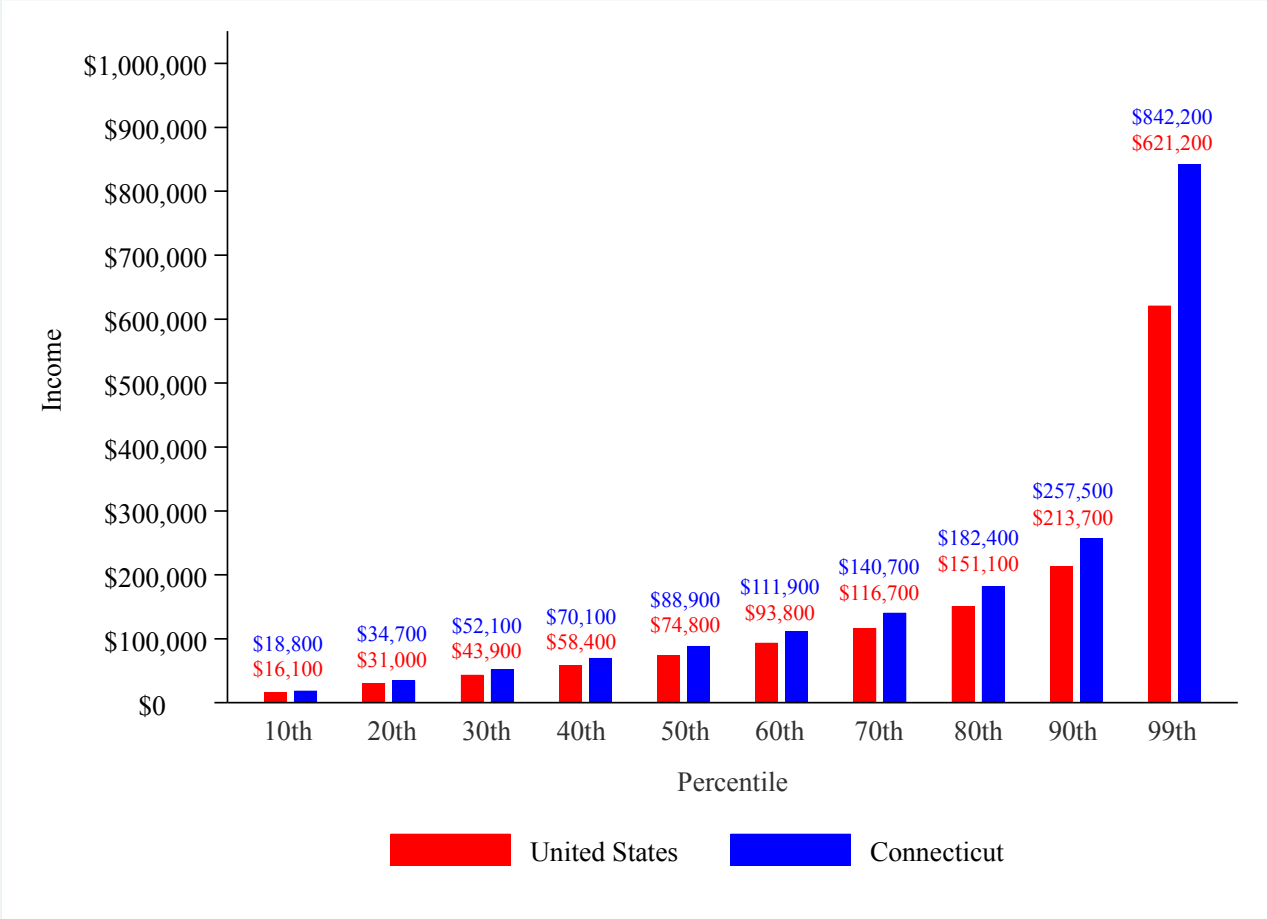
Overall, using the SPM, the rate of total poverty and child poverty in Connecticut are both high in absolute terms, though smaller relative to the U.S. More notable, however, is the historic increase in child poverty in both the U.S. and Connecticut from 2021 to 2022. According to the U.S. Census Bureau's analysis, the historic increase is due largely to the expiration of expansions to two federal tax credits: the Child Tax Credit and the Child and Dependent Care Tax Credit.[13] Additionally, the Connecticut Child Tax Rebate (CT CTR) in 2022 contributed in part to the state's lower poverty rate relative to the U.S., but the expiration of the temporary CT CTR will contribute to an increased poverty rate in Connecticut in 2023 and subsequent years relative to the poverty rate that the state would have if it were to establish a permanent, well-designed state-level child tax credit.[14]

Providing a broader analysis, a landmark 2019 report from the National Academy of Sciences (NAS) addresses the causes of child poverty based on a review of leading research, and the findings are similar to the major causes of income inequality reviewed earlier here. As the NAS report explains,

> Three broad sets of forces affect child poverty: demographics, the economy and its labor markets, and government policy. Demographic factors include parental age, education, race, and ethnicity; number of children in the family; and family structure, such as single or married parent. … Employment and earnings are influenced by secular forces such as macroeconomic growth, labor market forces such as technological change and globalization, and labor market factors such as minimum wage levels and unionization, as well as by cyclical forces such as unemployment. The third factor is … government policies, such as tax and transfer programs.[15]

The NAS report also highlights the negative impact of child poverty, explaining that research provides "overwhelming evidence" that "a child growing up in a family whose income is below the poverty line experiences worse outcomes than a child from a wealthier family in virtually every dimension, from physical and mental health, to educational attainment and labor market success."[16] Additionally, a 2023 NAS report highlights the problem of intergenerational poverty, explaining that research shows "[c]hildren living in economic poverty for most of their childhood are more likely to remain poor as they become adults and have children of their own."[17]

Figure 2. Distribution of Household Income by Percentile, 2022



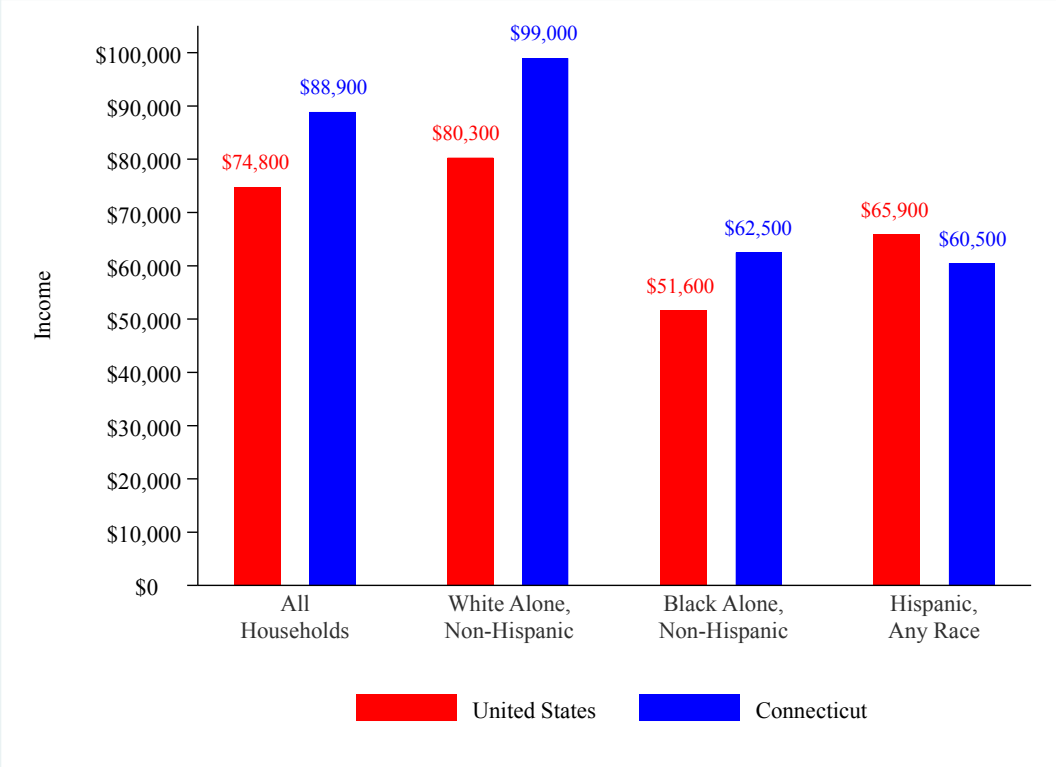
Source: American Community Survey and author's calculations. Rounded to nearest $100.

Table 1. Income Inequality, 2022

Group	United States			Connecticut		
	Income	Income Inequality		Income	Income Inequality	
		In Dollars	Ratio		In Dollars	Ratio
IRS: Tax Filers						
Average Top 1 Percent	$2,067,200	$0	1.0	$3,416,500	$0	1.0
99th Percentile	$640,500	$1,426,700	3.2	$935,200	$2,481,300	3.7
ACS: Households						
99th Percentile	$621,200	$1,446,000	3.3	$842,200	$2,574,300	4.1
90th Percentile	$213,700	$1,853,500	9.7	$257,500	$3,159,000	13.3
50th Percentile	$74,800	$1,992,400	27.6	$88,900	$3,327,600	38.4
10th Percentile	$16,100	$2,051,100	128.4	$18,800	$3,397,700	181.7

Sources: American Community Survey, IRS Statistics of Income, and author's calculations. Rounded to nearest $100. Income inequality is measured in relation to the income for the average of the top 1 percent of tax filers.

Figure 3. Median Household Income by Race and Ethnicity, 2022



Source: American Community Survey and author's calculations. Rounded to nearest $100.

Table 2. Income Poverty:
Total and Child Populations Below Poverty Level, 2022

Poverty Measure and Population	United States				Connecticut			
	Total Poverty		Child Poverty		Total Poverty		Child Poverty	
	Number	%	Number	%	Number	%	Number	%
CPS ASEC SPM								
All	40,959,980	12.4%	8,988,900	12.4%	363,620	10.1%	82,050	11.1%
White Alone, Non-Hispanic	17,707,500	9.2%	2,518,630	7.2%	*	*	*	*
Black Alone, Non-Hispanic	7,117,560	17.2%	1,877,120	18.4%	*	*	*	*
Hispanic, Any Race	12,364,090	19.3%	3,688,380	19.6%	*	*	*	*
ACS Poverty Status								
All	40,786,520	12.5%	11,499,710	16.2%	347,500	9.9%	89,100	12.4%
White Alone, Non-Hispanic	17,721,800	9.4%	3,429,010	10.1%	143,010	6.6%	17,730	5.1%
Black Alone, Non-Hispanic	8,112,010	21.3%	2,707,880	29.9%	48,710	14.2%	14,380	20.0%
Hispanic, Any Race	10,402,410	16.7%	4,016,800	21.8%	119,960	18.7%	45,290	23.1%

Sources: Current Population Survey Annual Social and Economic Supplement, American Community Survey, and author's calculations. Number in poverty is rounded to nearest 10. *Estimate not provided due to small sample size.

The Distribution of Wealth

Wealth, or net worth, is the total value of assets after subtracting liabilities, and it is essential to economic well-being because it provides a financial resource for unexpected expenses and allows households and families to maintain an adequate standard of living during periods of unemployment or other economic hardships. Several key findings on the distribution of wealth are reviewed below.

Connecticut has an even higher level of wealth inequality than income inequality, with an average estimated wealth of $48.3 million for the top 1 percent of families compared to -$1,800 for households at the 10th percentile.

Using the most recent five years of microdata from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP), **Figure 4** shows in 2021 dollars the distribution of household wealth on average from 2017 to 2021 in the U.S. and Connecticut.[18] Unlike the single-year analysis of the income distribution, a five-year analysis of the wealth distribution is used due to the smaller sample size of the SIPP compared to the ACS. The SIPP's measure of wealth includes the following assets and liabilities: retirement accounts (e.g., a 401k and defined-benefit plan), interest-earning assets (e.g., a checking account and savings account), other income-generating assets (e.g., stocks and rental properties), other assets (e.g., a residence and life insurance policy), debts secured by assets (e.g., residence debt and vehicle debt), and debts not secured by an asset (e.g., credit card debt and student loans).[19] The SIPP is the only regular survey by the federal government that provides data on the distribution of wealth at both the national and state levels, but the measure of wealth is top-coded to protect privacy, which limits the accuracy of the data for analyzing the wealthiest households. To address that major limitation, **Table 3** provides an overview of wealth inequality that incorporates data on the wealthiest families from the Federal Reserve Board's Survey of Consumer Finances (SCF).[20] Although the SCF does not provide state-level data, it is possible to develop a wealth estimate for Connecticut's wealthiest households using a combination of the SCF data and a wealth ratio from the SIPP data.[21] Moreover, although the units of analysis differ for the two datasets (households versus families), the closeness of the wealth levels for both units at the 90th percentile indicates that relying on SCF data above that threshold in place of SIPP data is a reasonable approach for showing the full extent of wealth inequality.

The wealth inequality analysis here primarily focuses on the following points in the distribution: the 10th percentile, 50th percentile (median), 90th percentile, and average for the top 1 percent.

In the U.S. on average from 2017 to 2021, using SIPP data in 2021 dollars, households had a wealth of -$3,700 at the 10th percentile, $133,800 at the 50th percentile, and $1,448,000 at the 90th percentile. Using SCF data for the U.S. in 2019, the top 1 percent of families had an average wealth of $30,194,000 in 2021 dollars. Incorporating both sources, the average wealth for the top 1 percent of families was $28.7 million, or 20.9 times, greater than the wealth for a household at the 90th percentile, $30.1 million, or 225.7 times, greater than the wealth for a household at the 50th percentile, and $30.2 million greater than the wealth for a household at the 10th percentile.

In Connecticut on average from 2017 to 2021, using SIPP data in 2021 dollars, households had a wealth of -$1,800 at the 10th percentile, $197,900 at the 50th percentile, and $2,283,100 at the 90th percentile. Using SCF data for 2019, the top 1 percent of families had an estimated average wealth of $48,310,400 in 2021 dollars. Incorporating both sources, the average wealth for the top 1 percent of families was $46 million, or 21.2 times, greater than the wealth for a household at the 90th percentile, $48.1 million, or 244.1 times, greater than the wealth for a household at the 50th percentile, and $48.3 million greater than the wealth for a household at the 10th percentile.

Overall, wealth inequality is greater in Connecticut than in the U.S. as a whole when measured using either the difference in dollars or inequality ratios.

Researchers have extensively studied the causes of the exceptionally high level of wealth inequality in the U.S., and two of the most prominent explanations are reviewed below.[22]

Income Inequality. Research shows that income inequality is a major driver of wealth inequality. Low-income families generally struggle to save and invest, limiting their accumulation of wealth. In contrast, high-income and wealthy families find it easier to save and invest, facilitating their accumulation of wealth. This dynamic also creates a feedback loop, as increased wealth generates increased income, perpetuating and exacerbating both forms of economic inequality.

Intergenerational Wealth Transfer. Research shows that the transfer of wealth and its associated advantages through inheritance, gifts, and other mechanisms is a major driver of wealth inequality.

The Northeast, which includes Connecticut, has substantial racial and ethnic wealth gaps, with the median Black and median Hispanic households both averaging $0.05 for each dollar in wealth for the median white household.

Continuing to use the most recent five years of SIPP data, **Figure 5** shows in 2021 dollars racial and ethnic wealth gaps on average from 2017 to 2021 in the U.S. and Northeast rather than Connecticut because the sample size of the survey is too small to reliably disaggregate wealth by race and ethnicity at the state level.[23] The *racial wealth gap* is the difference in wealth levels across racial groups. The *ethnic wealth gap* is the difference in wealth levels across ethnic groups. The racial and ethnic wealth gap analysis focuses on the difference in wealth for the median household for each demographic group. The racial wealth gap analysis compares white alone, non-Hispanic households to Black alone, non-Hispanic households. The ethnic wealth gap analysis compares white alone, non-Hispanic households to Hispanic households of any race.

In the U.S. on average from 2017 to 2021, the median white, non-Hispanic household had $212,200 in wealth compared to $16,700 for the median Black, non-Hispanic household, meaning the median Black household had $0.08 for each dollar in wealth for the median white household. The median Hispanic household of any race had $37,100 in wealth, equivalent to $0.17 for each dollar in wealth for the median white, non-Hispanic household.

In the Northeast on average from 2017 to 2021, the median white, non-Hispanic household had $268,300 in wealth compared to $13,000 for the median Black, non-Hispanic household, meaning the median Black household had $0.05 for each dollar in wealth for the median white household. The median Hispanic household of any race had $13,900 in wealth, equivalent to $0.05 for each dollar in wealth for the median white, non-Hispanic household.

Overall, the racial wealth gap and the ethnic wealth gap in the Northeast are both substantial in absolute terms and they are also both larger relative to the gaps in the U.S.

Like wealth inequality in general, researchers have studied the causes of racial and ethnic wealth gaps. Some of the most prominent causes include *historical discrimination, especially slavery and segregation,* which limited the accumulation of wealth in the past and its transfer across generations. Additionally, *ongoing racial and ethnic income gaps* continue to limit the accumulation of wealth by reducing the ability to save and invest.[24] These factors and others place a disproportionate percentage of Black and Hispanic families in the lower half of the wealth distribution, which then makes the exceptionally high level of wealth inequality especially harmful to those families.

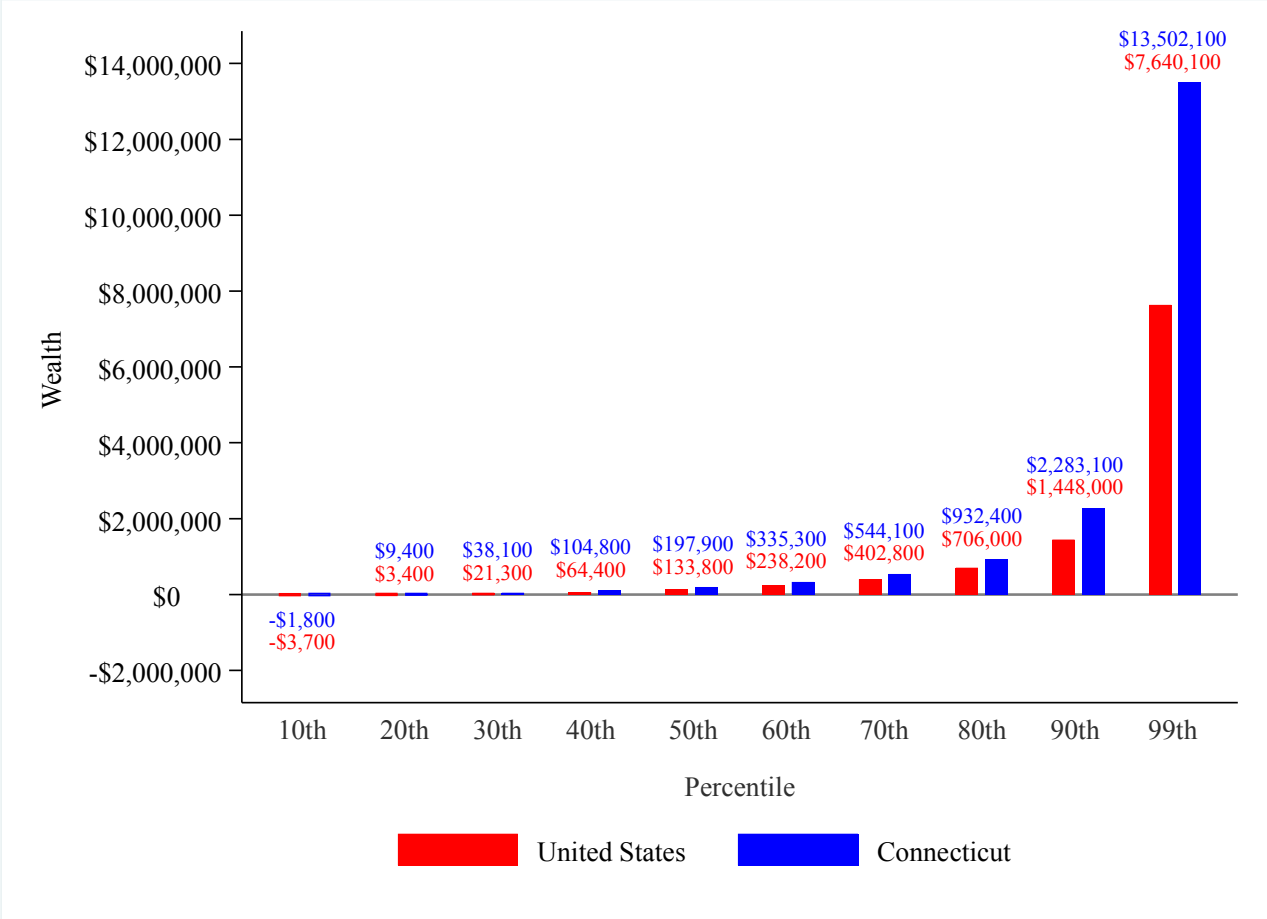
An exceptionally high level of wealth inequality and substantial racial and ethnic wealth gaps contribute to an overall wealth poverty rate of 13.7 percent in Connecticut and an even higher rate for Black and Hispanic households.

Further using the most recent SIPP data, **Table 4** provides an overview of wealth poverty on average from 2017 to 2021.[25] *Wealth poverty* is defined here as when a household or family has zero or negative wealth because their liabilities equal or exceed their assets. Wealth inequality and wealth poverty are closely related because a high concentration of wealth at the top can lead to lower wealth for the rest of the population, ultimately increasing the percentage of households with zero or negative wealth. It is essential to note, however, that these two concepts differ in scope. An analysis of wealth inequality covers the entire wealth distribution, or at least multiple portions of it, whereas an analysis of wealth poverty concentrates solely on the bottom of the wealth distribution.

On average from 2017 to 2021, 14.4 percent of households in the U.S. had zero or negative wealth, including 28.5 percent of Black households and 17.8 percent of Hispanic households. In the Northeast, 14.2 percent of households had zero or negative wealth, including 30.6 percent of Black households and 24.1 percent of Hispanic households. In Connecticut, 13.7 percent of households had zero or negative wealth. Moreover, although it is not possible to provide a reliable disaggregation by race and ethnicity in Connecticut due to the small sample size, it is clear based on the other analyses that the wealth poverty rate in the state is higher for Black and Hispanic households compared to the overall rate.

Overall, the percentage of households with zero or negative wealth in the Northeast and Connecticut is high in absolute terms, though smaller relative to the U.S. However, for Black and Hispanic households in the Northeast, the rate is high in absolute terms and it is also higher relative to the U.S.

Figure 4. Distribution of Household Wealth by Percentile, 2017–2021 Average



Source: Survey of Income and Program Participation and author's calculations. In 2021 dollars. Rounded to nearest $100.

Table 3. Wealth Inequality, 2017–2021 Average

Group	United States			Connecticut		
	Wealth	Wealth Inequality		Wealth	Wealth Inequality	
		In Dollars	Ratio		In Dollars	Ratio
SCF: Families						
Average Top 1 Percent	$30,194,000	$0	1.0	$48,310,400	$0	1.0
90th Percentile	$1,324,500	$28,869,500	22.8	$2,119,200	$46,191,200	22.8
SIPP: Households						
90th Percentile	$1,448,000	$28,746,000	20.9	$2,283,100	$46,027,300	21.2
50th Percentile	$133,800	$30,060,200	225.7	$197,900	$48,112,500	244.1
10th Percentile	-$3,700	$30,197,700	*	-$1,800	$48,312,200	*

Sources: Survey of Consumer Finances, Survey of Income and Program Participation, and author's calculations. In 2021 dollars. Rounded to nearest $100. Wealth inequality is measured in relation to the wealth for the average of the top 1 percent of families. *Ratio not provided due to negative net wealth.

Figure 5. Median Household Wealth by Race and Ethnicity, 2017–2021 Average

Source: Survey of Income and Program Participation and author's calculations. In 2021 dollars. Rounded to nearest $100.

Table 4. Wealth Poverty:
Households with Zero or Negative Wealth, 2017–2021 Average

Households	Zero or Negative Wealth					
	United States		Northeast		Connecticut	
	Number	%	Number	%	Number	%
All	18,833,390	14.4%	3,201,230	14.2%	191,000	13.7%
White Alone, Non-Hispanic	9,598,730	11.2%	1,602,120	10.3%	*	*
Black Alone, Non-Hispanic	4,685,590	28.5%	718,770	30.6%	*	*
Hispanic, Any Race	3,312,620	17.8%	670,050	24.1%	*	*

Source: Survey of Income and Program Participation and author's calculations. Number in poverty is rounded to nearest 10. *Estimate not provided due to small sample size.

The Ability of Households to Pay Usual Expenses

While the preceding analyses provide critical insight into economic difficulties and disparities—inadequate income growth, a high level of income inequality, substantial racial and ethnic income gaps, substantial income poverty, an exceptionally high level of wealth inequality, substantial racial and ethnic wealth gaps, and substantial wealth poverty—the examination here of the ability of households to pay usual expenses, especially households with children, provides a timelier and more direct overview of economic well-being.

The analysis below first includes two key findings using inflation-adjusted data from the federal government's latest report on "The Cost of Raising a Child" as well as supplemental data on the cost of child care.

Raising a child is very expensive, costing an average of $18,390 a year for a married, middle-income family in the Northeast.

As part of its work in food and nutrition, the U.S. Department of Agriculture periodically provides estimates for the direct costs of raising a child from birth through age 17. The direct costs include housing, food, transportation, clothing, health care, child care and education, and miscellaneous costs. Excluded from the estimates are indirect costs, such as a parent's time and foregone earnings, as well as costs after age 17, such as college. Updating the most recent analysis from the federal government, last published in 2017, **Table 5** shows in 2023 dollars the average cost to raise a child for a married, middle-income family in the U.S. and the Northeast.[26] In the U.S., the average cost is $16,760 a year and $301,590 in total through age 17. In the Northeast, the average cost is $18,390 a year and $331,050 in total. Raising a child is also very expensive for low-income families. In the U.S., the average cost is $12,530 a year and $225,480 in total. In the Northeast, the average cost is $14,230 a year and $256,170 in total.

Raising a child is even more expensive for families that require full-time child care, as that alone costs between $12,630 and $19,180 a year in Connecticut.

The most expensive costs of raising a child include housing, food, and the combined cost of child care and education. For young children, the estimate for the combined cost of child care and education is based almost entirely on child care, and it includes families that require only sporadic babysitting as well as families that require part-time and full-time child care, meaning the estimate substantially understates the cost for families that need to pay for full-time child care. To address that issue, **Table 6** shows the median annual cost for center-based and home-based child care for infants, toddlers, and preschoolers in the U.S. and Connecticut using the latest data from the Women's Bureau in the U.S. Department of Labor.[27] For example, the median cost for a preschooler in Connecticut at a child care center is $15,470 a year. Using that cost estimate in place of the average cost estimate of $4,390 for child care and education for a preschooler in the Northeast, the total annual cost of raising a child that age would increase from $17,790 a year to $28,870 a year.

Table 5. Average Annual and Total Direct Cost of Raising a Child in the U.S. and Northeast, 2023

Cost for a Married, Middle-Income Family in the U.S.

Age	Total Per Year	Housing	Food	Trans-portation	Clothing	Health Care	Child Care & Education	Misc.
0 - 2	$16,250	$4,940	$2,070	$2,340	$790	$1,440	$3,610	$1,060
3 - 5	$16,350	$4,940	$2,210	$2,400	$630	$1,360	$3,610	$1,200
6 - 8	$16,030	$4,940	$2,990	$2,480	$630	$1,380	$2,270	$1,340
9 - 11	$17,060	$4,940	$3,510	$2,530	$820	$1,570	$2,270	$1,420
12 - 14	$16,860	$4,940	$3,640	$2,730	$910	$1,520	$1,900	$1,220
15 - 17	$17,980	$4,940	$3,650	$2,960	$870	$1,590	$2,770	$1,200
Annual Average	$16,760	$4,940	$3,010	$2,570	$780	$1,480	$2,740	$1,240
Total Over 18 Years	**$301,590**	**$88,920**	**$54,210**	**$46,320**	**$13,950**	**$26,580**	**$49,290**	**$22,320**

Cost for a Married, Middle-Income Family in the Northeast

Age	Total Per Year	Housing	Food	Trans-portation	Clothing	Health Care	Child Care & Education	Misc.
0 - 2	$17,690	$5,540	$2,090	$2,260	$1,070	$1,270	$4,390	$1,070
3 - 5	$17,790	$5,540	$2,230	$2,330	$910	$1,190	$4,390	$1,200
6 - 8	$17,520	$5,540	$3,020	$2,400	$910	$1,220	$3,080	$1,350
9 - 11	$18,550	$5,540	$3,540	$2,460	$1,130	$1,390	$3,080	$1,410
12 - 14	$18,600	$5,540	$3,680	$2,650	$1,240	$1,330	$2,930	$1,230
15 - 17	$20,200	$5,540	$3,690	$2,890	$1,210	$1,400	$4,270	$1,200
Annual Average	$18,390	$5,540	$3,040	$2,500	$1,080	$1,300	$3,690	$1,240
Total Over 18 Years	**$331,050**	**$99,720**	**$54,750**	**$44,970**	**$19,410**	**$23,400**	**$66,420**	**$22,380**

Sources: U.S. Department of Agriculture, U.S. Bureau of Labor Statistics, and author's calculations.

Table 6. Median Annual Market Rate Cost of Full-Time Child Care, 2023

Location	Infant		Toddler		Preschool	
	Child Care Center	Child Care Home	Child Care Center	Child Care Home	Child Care Center	Child Care Home
United States	$12,860	$9,180	$11,590	$8,680	$10,440	$8,420
Connecticut	$19,180	$13,160	$19,180	$12,630	$15,470	$12,630

Source: U.S. Department of Labor Women's Bureau.

Next, using the latest data from the U.S. Census Bureau's Household Pulse Survey (HPS)—and building on the analysis of the high cost of raising children—several key findings are reviewed below on the ability of households to pay usual expenses in 2023, especially households with children.

Nearly 18 percent of households in Connecticut report that it is "very difficult" to pay usual expenses, and the rate increases significantly for low- and middle-income households with children (27.6 percent) and Black and Hispanic households with children (38.9 percent and 32.2 percent).

Addressing usual household expenses broadly, the HPS asks, "In the last 7 days, how difficult has it been for your household to pay for usual household expenses, including but not limited to food, rent or mortgage, car payments, medical expenses, student loans, and so on?" The options include: "not at all difficult"; "a little difficult"; "somewhat difficult"; and "very difficult." **Figure 6** shows the average results for 2023 in the U.S. and Connecticut for the last category.[28]

Focusing on Connecticut, 17.7 percent of all households report that it is "very difficult" to pay usual expenses, and the rate increases to 27.6 percent of low- and middle-income households with children. Disaggregated by race and ethnicity, 18 percent of white households with children, 38.9 percent of Black households with children, and 32.2 percent of Hispanic households with children report that it is "very difficult."

The substantial percentage of households reporting that it is "very difficult" to pay usual expenses is a major, urgent problem, especially in Connecticut for low- and middle-income households with children and Black and Hispanic households with children, because those households are struggling financially and are either possibly living in poverty or at risk of falling into poverty. Moreover, children living in poverty or near poverty is itself a major, urgent problem because a substantial body of research finds that poverty "*causes* negative child outcomes, especially when it begins in early childhood and/or persists throughout a large share of a child's life." As noted earlier, those negative or worse outcomes cover "virtually every dimension" of life, "from physical and mental health, to educational attainment and labor market success," and contribute to a cycle of intergenerational poverty.[29]

More than 11 percent of households in Connecticut report that they "sometimes" or "often" do not have enough to eat, and the rate increases significantly for low- and middle-income households with children (15.2 percent) and Black and Hispanic households with children (25.2 percent and 21.6 percent).

Addressing the specific household expense of food—which, as noted, is one of the most expensive costs of raising a child—the HPS asks, "Getting enough food can also be a problem for some people. In the last 7 days, which of these statements best describes the food eaten in your household?" The options include: "enough of the kind of foods we wanted to eat"; "enough, but not always the kinds of food we wanted to eat"; "sometimes not enough to eat"; or "often not enough to eat." **Figure 7** shows the average results for 2023 in the U.S. and Connecticut for the last two categories.[30]

Focusing on Connecticut, 11.4 percent of all households report that they "sometimes" or "often" did not have enough to eat, and the rate increases to 15.2 percent of low- and middle-income households with children. Disaggregated by race and ethnicity, 8.7 percent of white households with children, 25.2 percent of Black households with children, and 21.6 percent of Hispanic households with children report that they "sometimes" or "often" did not have enough to eat.

The substantial percentage of households experiencing food insecurity is a major, urgent problem, especially in Connecticut for low- and middle-income households with children and Black and Hispanic households with children, because research finds that food insecurity in particular is associated with a wide range of negative health outcomes for children, including, but not limited to, increased risks of hospitalization and poorer health in general, anemia, asthma, cognitive problems, behavioral problems, anxiety, and depression.[31]

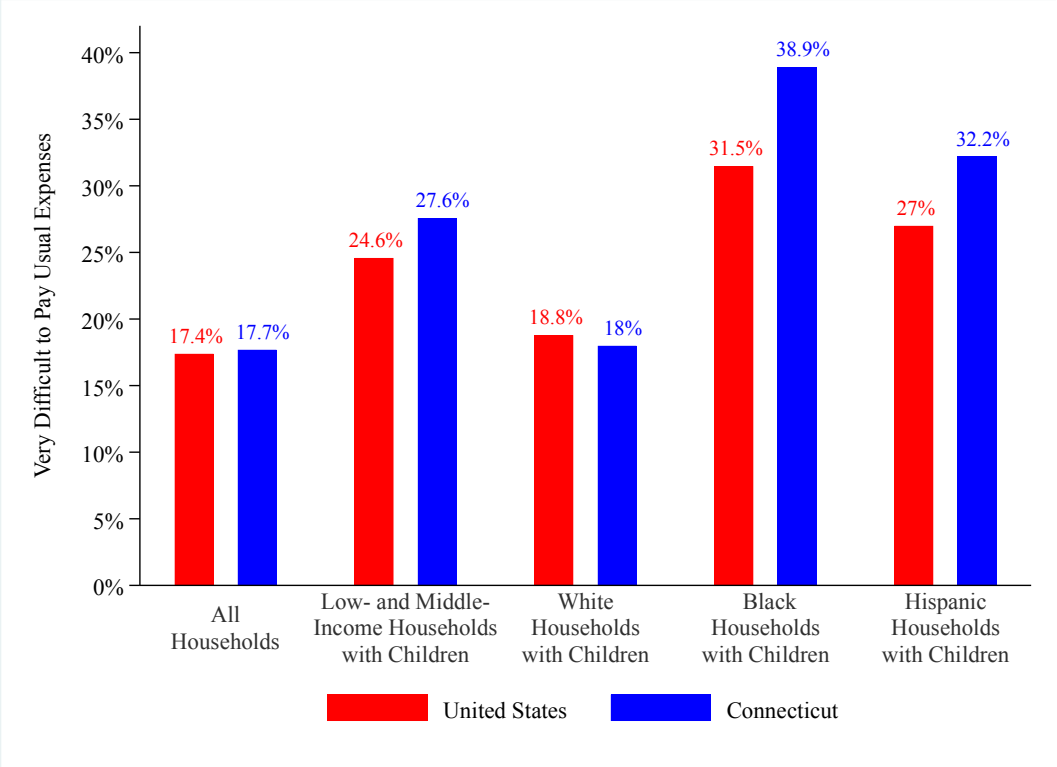
More than 15 percent of renter households in Connecticut report that they are not caught up on their housing payment, and the rate increases significantly for low- and middle-income renter households with children (22.6 percent) and Black and Hispanic renter households with children (33.5 percent and 20.7 percent).

Addressing the specific household expense of housing—which, as noted, is another one of the most expensive costs of raising a child—the HPS asks renters and homeowners if the household is currently caught up on their rent or mortgage payments. **Figure 8** shows the average results for 2023 in the U.S. and Connecticut for renters and **Figure 9** shows the average results for homeowners.[32]

Focusing on Connecticut, 15.1 percent of all renter households and 5.6 of all homeowner households report that they are not caught up on their housing payment, and the rate increases to 22.6 percent of low- and middle-income renter households with children and 8.8 percent of low- and middle-income homeowner households with children. Disaggregated by race and ethnicity for renters, 10.9 percent of white households with children, 33.5 percent of Black households with children, and 20.7 percent of Hispanic households with children report that they are not caught up on their housing payment. For homeowners, 5.7 percent of white households with children, 13.4 percent of Black households with children, and 8.6 percent of Hispanic households with children report that they are not caught up on their housing payment.

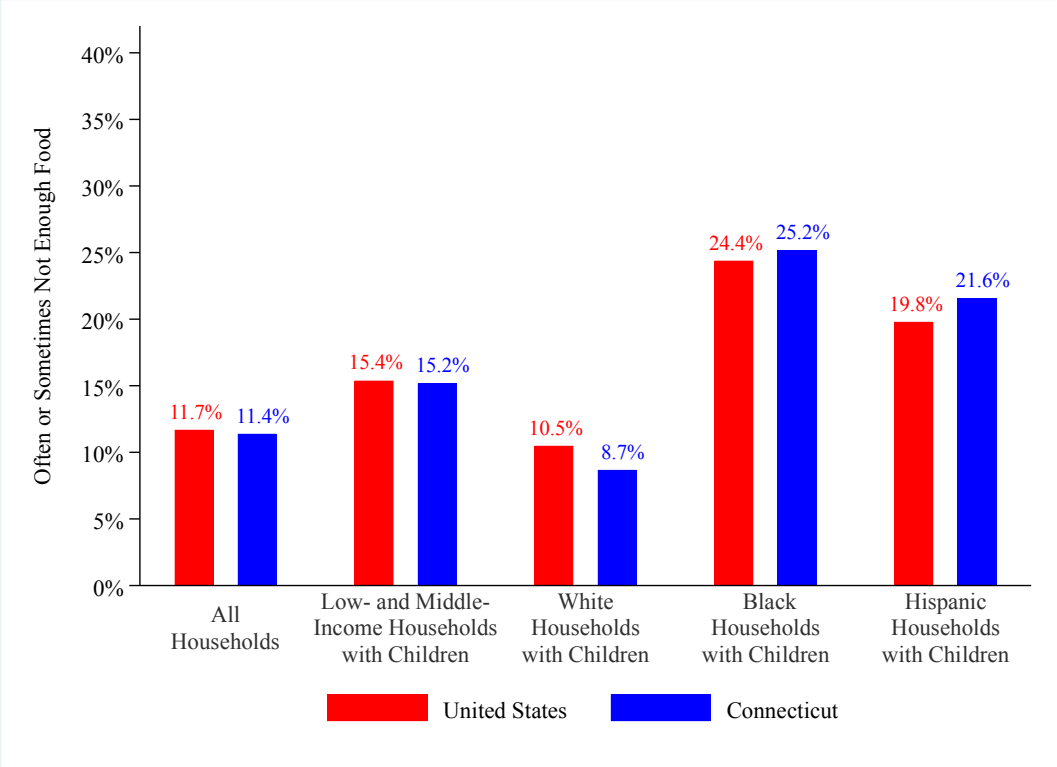
The substantial percentage of households not caught up on their housing payment is a major, urgent problem, especially in Connecticut for low- and middle-income households with children and Black and Hispanic households with children, because those households are at increased risk of eviction or foreclosure. Moreover, eviction and foreclosure are themselves major, urgent problems because research finds that they can contribute to housing instability and homelessness, loss of employment, criminal legal system involvement, problems in school, and poor health, meaning they can "disrupt nearly every facet of a family's life."[33]

Figure 6. "Very Difficult" for Household to Pay Usual Expenses, 2023



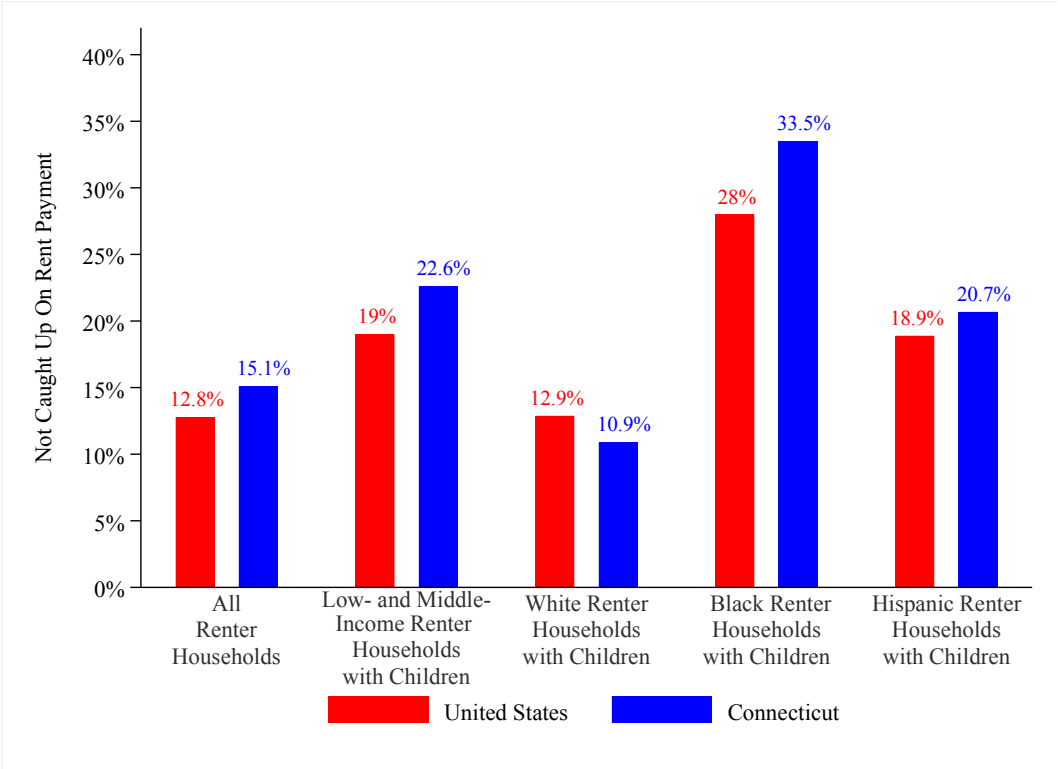
Source: Household Pulse Survey and author's calculations.

Figure 7. "Sometimes" or "Often" Not Enough Food for Household, 2023



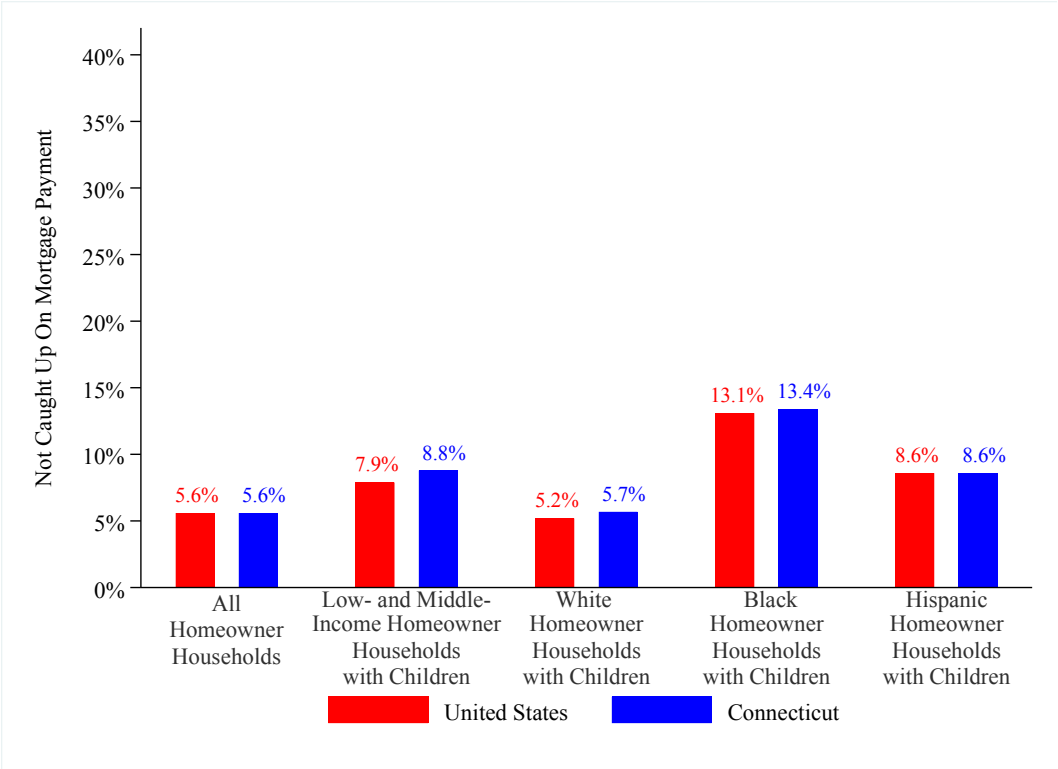
Source: Household Pulse Survey and author's calculations.

Figure 8. Household Not Caught Up on Rent Payment, 2023



Source: Household Pulse Survey and author's calculations.

Figure 9. Household Not Caught Up on Mortgage Payment, 2023



Source: Household Pulse Survey and author's calculations.

Overview of the CT Child Tax Credit

This second section provides an overview of the proposed Connecticut Child Tax Credit (CT CTC) and proceeds in two parts. The first part provides an overview of the case for establishing the CT CTC. The second part provides an overview of policy options for establishing the CT CTC.

The Case for Establishing the CT Child Tax Credit

During the 2021 and 2022 legislative sessions, the Finance, Revenue, and Bonding Committee of the Connecticut General Assembly supported establishing a permanent CT CTC. Although that proposal ultimately failed to pass into law, policymakers succeeded in passing a one-time CT Child Tax Rebate (CT CTR) in 2022. Building upon that temporary success, this part of the report makes the case for establishing a permanent, well-designed CT CTC, which requires using one of the options modeled in the second part of this section as an example. The option used here is a $500 CT CTC per child that is fully refundable and has no income floor and no income-based phase-in. The design of this CT CTC option—reviewed later in detail—closely mirrors that of the temporary CT CTR, though the per child amount is increased from $250 to $500, resulting in an estimated total cost of nearly $300 million per year. This closely aligns with the total cost of the permanent CT CTC proposal that the Finance, Revenue, and Bonding Committee supported.

Below is an overview of several key reasons for establishing a permanent, well-designed CT CTC.

Establishing a permanent, well-designed CT CTC will support the economic well-being of Connecticut's low- and middle-income families with children. This includes helping to reduce income inequality, racial and ethnic income gaps, income poverty, wealth inequality, racial and ethnic wealth gaps, and wealth poverty, all of which will increase the ability of low- and middle-income families with children to make ends meet.

Building on the earlier analysis of income inequality that uses the latest data from the ACS and the IRS, **Table 7** shows the impact of the example CT CTC on income inequality for households with two children.[34] As noted, the example CT CTC used here is fully refundable and has no income floor or income-based phase-in. It also does not provide support for high-income and wealthy families due to an income ceiling for eligibility. Based on these key features and the close relationship between income and wealth addressed earlier, the example CT CTC will help to reduce income inequality, racial and ethnic income gaps, income poverty, wealth inequality, racial and ethnic wealth gaps, and wealth poverty, which in turn will increase the ability of low- and middle-income families with children to make ends meet. An overview of the CT CTC's impact on each component of economic well-being is provided below.

The CT CTC will help to reduce income inequality. Consider the impact on income inequality between the top 1 percent of tax filers and the median household. Without the CT CTC, the top 1 percent of tax filers have an average income of $3,416,500 compared to $88,900 for a household at the 50th

percentile, making the average income for the top 1 percent of tax filers 38.4 times greater than the income for the median household. With the CT CTC, the income for the top 1 percent of tax filers will stay the same because they do not qualify for the tax credit, but the income for households at the 50th percentile will increase by $1,000 to $89,900 if the household has two children under 18 years old. As a result, the average income for the top 1 percent will decrease from 38.4 to 38 times greater than the income for the median household, a reduction of 0.4 points in the income inequality ratio.

The CT CTC will help to reduce racial and ethnic income gaps. Consider the impact on income inequality between the top 1 percent of tax filers, the median white household, and the median Black household. Without the CT CTC, the top 1 percent of tax filers have an average income of $3,416,500 compared to $99,000 for the median white household and $62,500 for the median Black household, making the average income for the top 1 percent of tax filers 34.5 times greater than the income for the median white household and 54.7 times greater than the income for the median Black household. With the CT CTC, the income for the top 1 percent of tax filers will stay the same because they do not qualify for the tax credit, but the income for the median white household will increase by $1,000 to $100,000 and the income for the median Black household will increase by $1,000 to $63,500 if those households have two children under 18 years old. As a result, the average income for the top 1 percent will decrease from 34.5 to 34.2 times greater than the income for the median white household, a reduction of 0.3 points in the income inequality ratio, and it will decrease from 54.7 to 53.8 times greater than the income for the median Black household, a reduction of 0.9 points in the income inequality ratio. The larger reduction in the income inequality ratio for the median Black household will reduce the racial income gap in addition to reducing income inequality more generally.

The CT CTC will help to reduce income poverty. Consider the impact on households at the 10th percentile of the income distribution. Without the CT CTC, a household at the 10th percentile has an income of $18,800, which is below the federal poverty level for a household with children. With the CT CTC, the household's income will increase by $1,000, or 5.3 percent, to $19,800 if the household has two children under 18 years old. For low-income households that are very close to the federal poverty level, the CT CTC will increase their income enough to lift them out of poverty. However, even in cases where the CT CTC is not enough to technically lift households out of poverty, it will help to decrease the negative impact of poverty by providing substantial income support.

The CT CTC will help to reduce wealth inequality, racial and ethnic wealth gaps, and wealth poverty. As addressed earlier, income inequality and racial and ethnic income gaps are major causes of wealth inequality and racial and ethnic wealth gaps, which in turn contribute to a high level of wealth poverty, defined here as households with zero or negative wealth. Therefore, by helping to reduce income inequality, racial and ethnic income gaps, and income poverty, the CT CTC will help to reduce wealth inequality, racial and ethnic wealth gaps, and wealth poverty. Additionally, by helping to reduce child poverty and the negative outcomes it causes throughout life, the CT CTC will help to ensure that the beneficiaries of CT Baby Bonds are better positioned to take advantage of the program once they come of age, which will further help to reduce wealth inequality, racial and ethnic wealth gaps, and wealth poverty.

The CT CTC will increase the ability of low- and middle-income households with children to make ends meet. As addressed earlier, a substantial percentage of households with children in Connecticut, especially low- and middle-income households with children and Black and Hispanic households with children, report that it is "very difficult" to pay usual expenses and that in particular they "sometimes" or "often" do not have enough to eat and are not caught up on their rent or mortgage payment. Designed specifically to provide support to low- and middle-income households with children, the CT CTC will increase the ability of those households to pay usual expenses, including paying for sufficient food and housing.

Table 7. Impact of Example CT CTC on Income Inequality for Households with Two Children

Group	Without CT CTC		CT CTC for Two Children	With CT CTC		Change in Inequality Ratio
	Income	Inequality Ratio		Income	Inequality Ratio	
IRS: Tax Filers						
Average Top 1 Percent	$3,416,500	1.0	$0	$3,416,500	1.0	0.0
99th Percentile	$935,200	3.7	$0	$935,200	3.7	0.0
ACS: Households						
99th Percentile	$842,200	4.1	$0	$842,200	4.1	0.0
90th Percentile	$257,500	13.3	$0	$257,500	13.3	0.0
50th Percentile	$88,900	38.4	$1,000	$89,900	38.0	-0.4
10th Percentile	$18,800	181.7	$1,000	$19,800	172.6	-9.1
ACS: Median Households						
White Alone, Non-Hispanic	$99,000	34.5	$1,000	$100,000	34.2	-0.3
Black Alone, Non-Hispanic	$62,500	54.7	$1,000	$63,500	53.8	-0.9
Hispanic, Any Race	$60,500	56.5	$1,000	$61,500	55.6	-0.9

Sources: IRS Statistics of Income, American Community Survey, and author's calculations. Income rounded to nearest $100. Income inequality is measured in relation to the income for the average of the top 1 percent of tax filers.

Establishing a permanent, well-designed CT CTC will help to offset the reduction in federal support that contributed to a historic increase in child poverty. From 2021 to 2022, child poverty in Connecticut jumped sharply from 3.8 percent (about 27,000 children) to 11.1 percent (about 82,000 children).

In 2021, the American Rescue Plan Act (ARPA) made substantial but temporary changes to two federal tax credits that support families with children: the Child Tax Credit (CTC) and the Child and Dependent Care Tax Credit (CDCTC). Below is an overview of both tax credits.

First, the CTC is a refundable tax credit to help with the high cost of raising children. For reference, a "refundable" tax credit is paid to a tax filer even if it exceeds their income tax liability, whereas a "nonrefundable" tax credit is capped by the amount of income tax liability, limiting the support provided to low-income families. **Figure 10** shows (for a married tax filer with one child) the key permanent parameters of the CTC as well as temporary changes, and the details are reviewed below.[35]

Permanent Law. Under permanent law, set to resume in 2026, the CTC operates as follows: After exceeding an income floor of $3,000, the credit is phased-in, increasing for each additional dollar earned until reaching a maximum level for a specified income range. If a tax filer's income exceeds the specified income range, the credit is phased-out, decreasing for each additional dollar earned until the credit is no longer available. The maximum credit is $1,000 per child up to age 16, it is fully refundable, and the phase-out threshold is $75,000 for single filers and $110,000 for married filers.

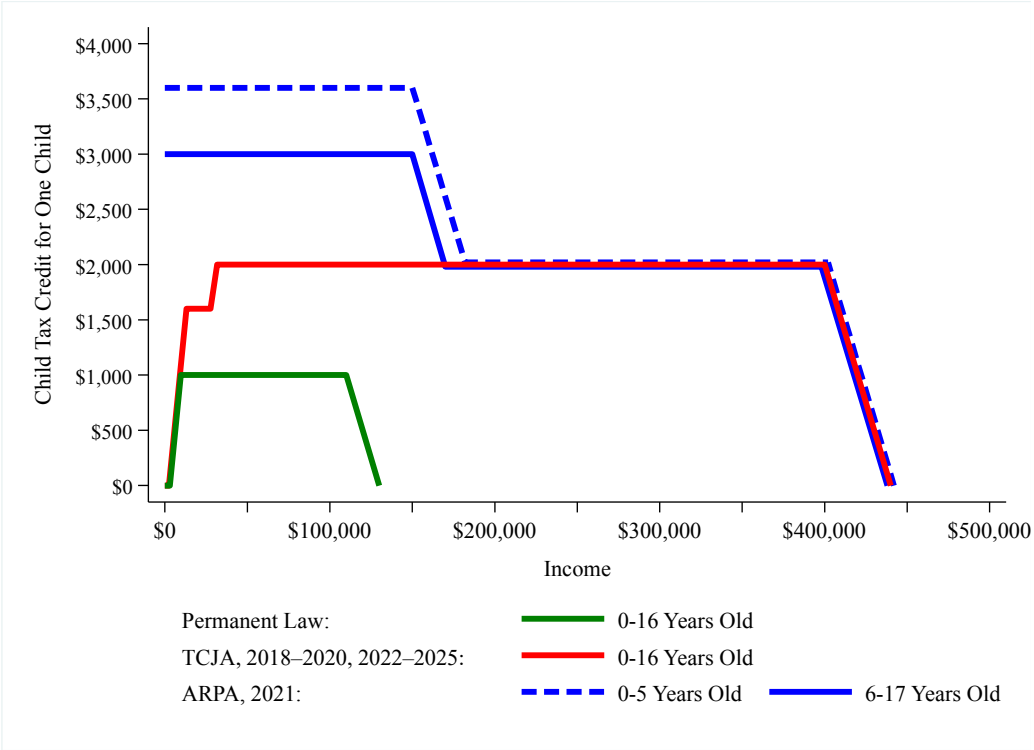
Tax Cut and Jobs Act. Under the TCJA, the CTC operates as follows through 2025: The income floor is lowered to $2,500; the maximum credit is increased to $2,000 per child up to age 16, but the inflation-adjusted refundable portion is only $1,600 (in 2023); and the phase-out threshold is increased to $200,000 for single filers and $400,000 for married filers.

American Rescue Plan Act. Under ARPA, the CTC operated as follows in 2021: The income floor and income-based phase-in were both eliminated; the credit was increased to $3,600 per child up to age five and $3,000 up to age 17; the credit was made fully refundable; the first phase-out began at $75,000 for single filers and $150,000 for married filers; and the second phase-out began at $200,000 for single filers and $400,000 for married filers.

Second, the CDCTC is a nonrefundable tax credit to help with the cost of child care. **Figure 11** shows the key permanent parameters as well as temporary changes, and the details are reviewed below.[36]

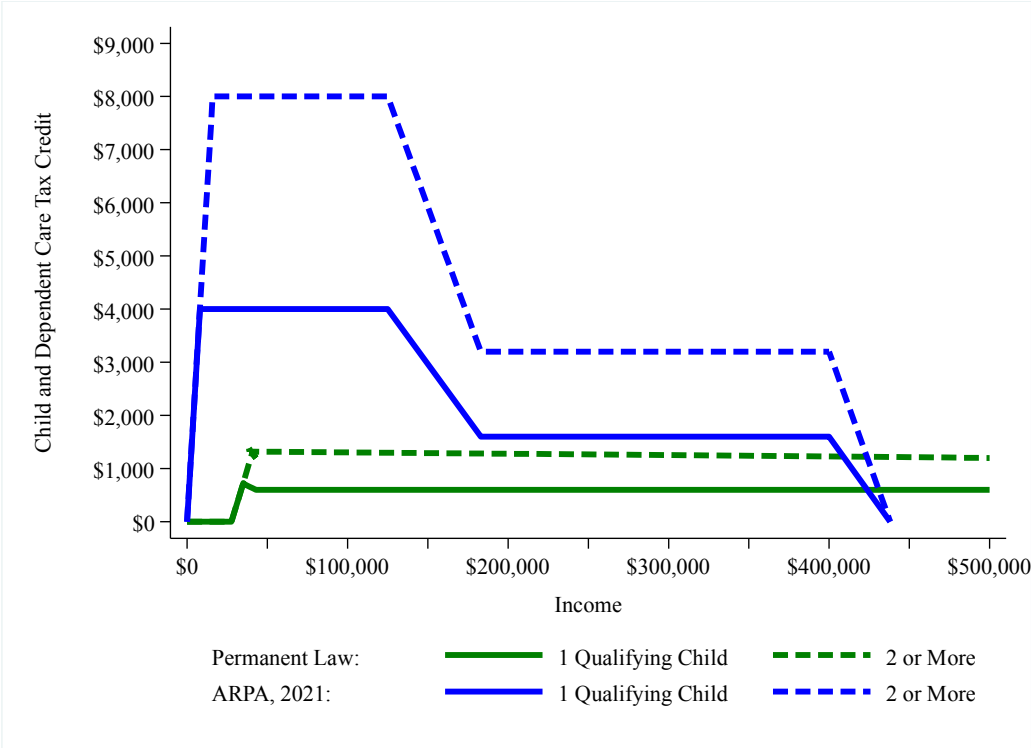
Permanent Law. Under permanent law, the CDCTC operates as follows: The credit equals the maximum credit rate, ranging from 35 percent to 20 percent based on income, multiplied by the amount of qualifying child care expenses, a maximum of $3,000 for one child or $6,000 for two or more children. However, because the CDCTC is nonrefundable, it phases-in with income tax liability and therefore generally provides a maximum credit of $600 for one child or $1,200 for two or more children. Additionally, the CDCTC has no income ceiling or phase-out.

Figure 10. Federal Child Tax Credit, Married Tax Filer



Sources: U.S. Code, Internal Revenue Service, and author's calculations.

Figure 11. Federal Child and Dependent Care Tax Credit, All Tax Filers

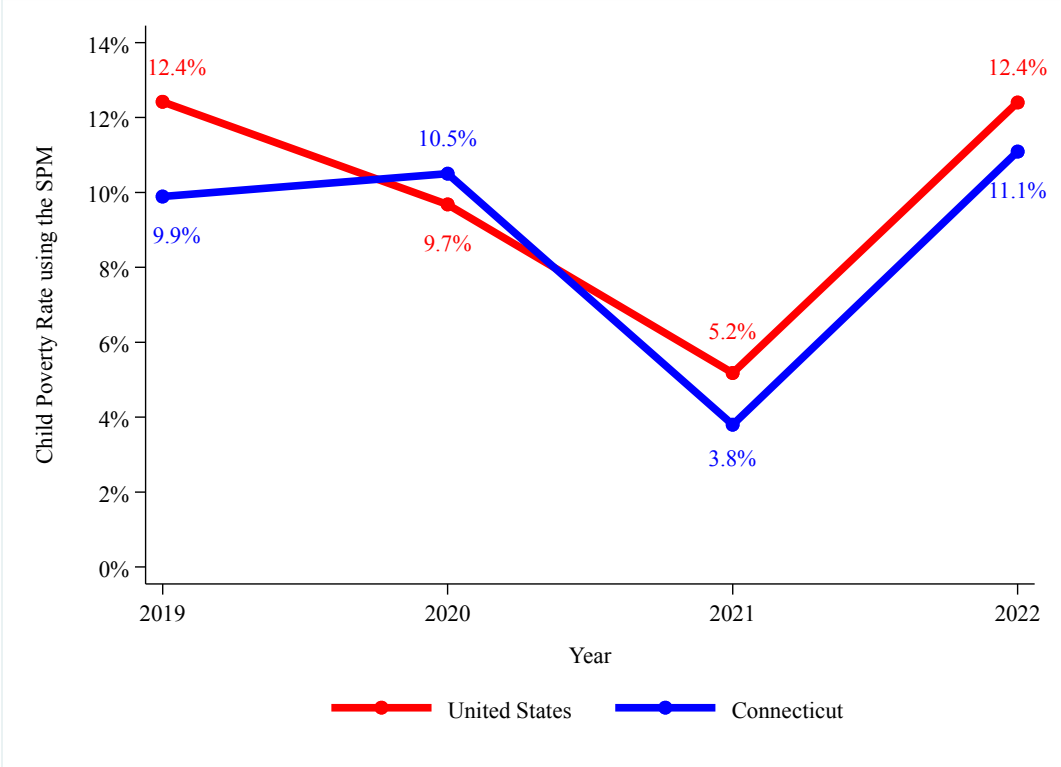


Sources: U.S. Code, Internal Revenue Service, and author's calculations.

American Rescue Plan Act. Under ARPA, the CDCTC operated as follows in 2021: The credit was made refundable, sharply increasing the phase-in rate; the maximum qualifying expenses were increased to $8,000 for one child or $16,000 for two or more children, substantially increasing the maximum credit; and two income phase-outs were set, the first at $125,000, the second at $400,000.

Together, the ARPA-expanded CTC and CDCTC provided unprecedented support for families with children, resulting in a historic decrease in child poverty in 2021. However, the expiration of the expanded credits then resulted in a historic increase in child poverty in 2022. To understand the extent of these shifts and the importance of establishing a permanent, well-designed CT CTC to help offset the reduction in federal support, **Figure 12** shows the child poverty rate from 2019 to 2022 using the Supplemental Poverty Measure (SPM).[37] As discussed, the SPM is superior to the Official Poverty Measure (OPM) because, among its many features, the SPM incorporates tax credits. Based on the SPM, child poverty in the U.S. decreased from 12.4 percent in 2019, before the pandemic-induced recession, to a low of 5.2 percent in 2021 due largely to the ARPA-expanded tax credits. The following year, child poverty increased back to 12.4 percent due largely to the expiration of the ARPA-expanded tax credits. Similarly, in Connecticut, child poverty decreased from 9.9 percent in 2019 to 3.8 percent in 2021 and then increased to 11.1 percent in 2022. Put in terms of the number of children affected, more than 47,000 children in Connecticut were lifted out of poverty in 2021, and then nearly 55,000 children fell into poverty in 2022, bringing the overall level to more than 82,000 children in poverty, which is higher than the pre-pandemic level in 2019.

Figure 12. Child Poverty Rate: Supplemental Poverty Measure, 2019–2022



Source: Current Population Survey Annual and Social Economic Supplement and author's calculations.

Establishing a permanent, well-designed CT CTC will make Connecticut's tax system fairer. As currently designed, Connecticut's tax system unfairly burdens low- and middle-income families compared to high-income and wealthy families, which harms the economic well-being of low- and middle-income families. The tax system also unfairly burdens many families with children compared to families without children because Connecticut is the only high-cost-of-living state with a broad-based personal income tax that does not adjust for the number of children or child care expenses, which especially harms the economic well-being of many low- and middle-income families with children.

The fairness of a tax system is based on two major principles: vertical equity and horizontal equity. *Vertical equity* is the principle that families with higher incomes should pay a higher percentage of their income in taxes than families with lower incomes. *Horizonal equity* is the principle that families with similar financial circumstances should bear similar tax burdens, which is particularly relevant when comparing families with and without children because the high cost of raising children significantly impacts a family's financial circumstances. Together, these two principles ensure that the tax system incorporates each family's ability to pay taxes.

Connecticut's tax system is unfair because it violates both principles. While the discussion of tax policy in Connecticut has increasingly focused on the principle of vertical equity—often without explicit reference to the term—both principles are essential, and below is an overview of each one.

Connecticut's tax system violates the principle of vertical equity, harming the economic well-being of low- and middle-income families.

Using the latest tax incidence study from the Connecticut Department of Revenue Services (DRS), **Table 8** shows the effective state and local tax rate by income decile.[38] Three terms are important to define. "Tax incidence" is an estimate of the total tax burden on families (or tax filers)—specifically, the direct tax burden on families plus the indirect tax burden that comes from businesses that shift their tax liability to families through higher prices and/or lower compensation. "Effective state and local tax rate" is a measure of the combined state and local tax burden as a percentage of income. "Income deciles" divide the state's families into ten groups, with each group constituting ten percent of the state's total adjusted gross income.

Variation in effective tax rates across income deciles generates three types of tax systems from the perspective of vertical equity: an unfair, or regressive, tax system requires low- and middle-income families to pay a higher percentage of their income in taxes than high-income and wealthy families; a fairer, or proportional, tax system requires all families to pay the same percentage of their income in taxes; and the fairest, or a progressive, tax system requires high-income and wealthy families to pay a higher percentage of their income in taxes than low- and middle-income families.

In Connecticut, the average effective state and local tax rate *decreases* as a family's income *increases*. This violates the principle of vertical equity, making the tax system unfair and harming the economic well-being of low- and middle-income families, especially Black and Hispanic families.

To understand how Connecticut's unfair tax system harms the economic well-being of low- and middle-income families, **Table 9** shows the impact on income inequality.[39] Consider the case of the top 1 percent of tax filers and the median household. Before taxes, the top 1 percent of tax filers have an average income of $3,416,500 compared to $88,900 for a household at the 50th percentile, making the average income for the top 1 percent of tax filers 38.4 times greater than the income for the median household. Connecticut's state and local tax system then taxes the average of the top 1 percent of tax filers at an average rate of 7.08 percent compared to 15.5 percent for the median household. Therefore, after applying taxes, the average income for the top 1 percent is 42.3 times greater than the income for the median household, an increase of 3.9 points in the income inequality ratio. Note also that a similar but more extreme process occurs for low-income families, with the income inequality ratio increasing by 46.7 points for households at the 10th percentile when compared to the average of the top 1 percent.

To understand how Connecticut's unfair tax system especially harms the economic well-being of Black and Hispanic families, consider the case of the top 1 percent of tax filers, the median white household, and the median Black household. Before taxes, the top 1 percent of tax filers have an average income of $3,416,500 compared to $99,000 for the median white household and $62,500 for the median Black household, making the average income for the top 1 percent of tax filers 34.5 times greater than the income for the median white household and 54.7 times greater than the income for the median Black household. Connecticut's state and local tax system then taxes the average of the top 1 percent of tax filers at an average rate of 7.08 percent compared to 15.5 percent for the median white household and 19.55 percent for the median Black household. Therefore, after applying taxes, the average income for the top 1 percent is 37.9 times greater than the income for the median white household, an increase of 3.4 points in the income inequality ratio, and it is 63.1 times greater than the income for the median Black household, an increase of 8.4 points. The larger increase in the income inequality ratio for the median Black household increases the racial income gap in addition to increasing income inequality more generally. Note also that a similar process occurs for the ethnic income gap, with the income inequality ratio increasing by 8.7 points for the median Hispanic household when compared to the average of the top 1 percent.

As the only high-cost-of-living state in the U.S. with a broad-based personal income tax that does not adjust for the number of children or child care expenses, Connecticut's tax system violates the principle of horizontal equity, especially harming the economic well-being of many low- and middle-income families with children.

The principle of horizontal equity—that families with similar financial circumstances should bear similar tax burdens—is particularly relevant when comparing families with and without children because the high cost of raising children significantly impacts a family's financial circumstances. As

addressed earlier, the average cost to raise a child for a married, middle-income family in the Northeast is $331,050 in total and an average of $18,390 a year through age 17, and the cost is even higher for families that require paying for full-time child care.

To address the high cost of raising children, which reduces a family's ability to pay taxes compared to a family with the same income but no children, the federal personal income tax (PIT) and state PITs generally include a tax exemption, deduction, or credit for children.

A tax *exemption* or *deduction* indirectly reduces a tax filer's PIT liability by reducing their taxable income. For example, in 2017, before the TCJA, the federal PIT had a standard deduction of $12,700 for married tax filers and a personal exemption of $4,050. This reduced the taxable income for a married family with no children by $20,800 (the standard deduction plus two personal exemptions for the two adults), and it reduced the taxable income for a married family with two children by $28,900 (the standard deduction plus four personal exemptions for the two adults and two children).[40]

In contrast to an exemption, a tax *credit* directly reduces a tax filer's PIT liability, and as noted earlier, two major tax credits for children include the Child Tax Credit (CTC) and the Child and Dependent Care Tax Credit (CDCTC). For example, in 2023, the CTC is partially refundable and provides a maximum credit of $2,000 per child ($1,600 is refundable and $400 is nonrefundable), and the CDCTC is nonrefundable and generally provides a maximum credit of $1,200 for a family with two or more children and child care expenses.

Another prominent tax credit in the federal tax system and many state tax systems is the Earned Income Tax Credit (EITC). The EITC operates as follows: The credit is phased-in, increasing for each additional dollar earned until reaching a maximum level for a specified income range. If a tax filer's income exceeds the specified income range, the credit is phased-out, decreasing for each additional dollar earned until the credit is no longer available. The phase-in, maximum credit, and phase-out vary based on family structure and tax filing status.

The example of the EITC used here is for a married tax filer with three or more qualifying children because this is the family structure and tax filing status that provides the largest maximum credit as well as the largest income range, making it the best-case example for showing the support the EITC provides. In 2023, based on inflation-adjusted parameters, the credit has a phase-in of $0.45 for each dollar earned up to an income of $16,510, at which point the tax filer receives the maximum credit of $7,430. The maximum credit remains available up to an income of $28,120. The credit then has a phase-out of $0.21 for each dollar earned up to an income of $56,838, at which point the credit is $0.

To demonstrate both the substantial level of support the EITC provides and the narrow income range that is required to receive that substantial support, **Figure 13** shows the amount of the current CT EITC and the proposed CT CTC for a family with three children.[41] For reference, the CT EITC mirrors the federal EITC at a rate of 40 percent, meaning the CT EITC provides a maximum credit of $2,972, equal to 40 percent of the maximum credit for the federal EITC. Additionally, the proposed CTC used

here is a $500 credit per child that begins to phase-out for single tax filers making above $100,000 and married tax filers making above $200,000. Even when using the most supportive example for the CT EITC, the comparison shows that the proposed CT CTC would provide more support for three income groups: the very poorest families, higher low-income families, and middle-income families. Specifically, with an income below $8,300—the very poorest families—a tax filer (single, head of household, or married) with three children will receive more support from the CT CTC than the CT EITC. For the case of higher low-income families and middle-income families, a tax filer with three children will receive more support from the CT CTC than the CT EITC if they are a single or head of household tax filer with an income above $39,100 or a married tax filer with an income above $45,600.

To further demonstrate the limited coverage of the CT EITC, **Figure 14** uses the latest data from the CPS ASEC and its associated tax model to show the following: the total number of children under the age of 18 in Connecticut, the number of children supported by the CT EITC, and the number of children supported by the proposed CT CTC.[42] As of 2022, Connecticut has an estimated 739,700 children under the age of 18, and the CT EITC provides support for an estimated 217,600 children, or 29.4 percent, on average each year, whereas the CT CTC will provide support for an estimated 612,700 children, or 82.8 percent.

Due to the high cost of raising children and the limited percentage of children that the federal and state EITCs support, the federal PIT and nearly all state PITs include a tax exemption, deduction, or credit for children or dependents more generally. This is in addition to the EITC, which is not designed specifically to help with the cost of raising children and is available to childless workers. However, Connecticut is a major outlier as the only high-cost-of-living state in the U.S. with an independent, broad-based PIT that does not adjust for the number of children or child care expenses through a tax exemption, deduction, or credit. As **Figure 15** shows, the 50-state analysis includes five groups reviewed below.[43]

No PIT. Eight states do not have a PIT and therefore do not provide support for families with children through an income tax exemption, deduction, or credit.

No broad-based PIT. Washington only taxes income from capital gains and only for tax filers earning more than $250,000, and New Hampshire only taxes income from dividends and interest. These sources of investment income primarily apply to high-income and wealthy families and therefore, unlike most broad-based PITs, the two states' relatively limited PITs do not adjust for the number of children or child care expenses.

PIT adjusts for the number of children or child care expenses. Along with the District of Columbia, 40 states have a broad-based PIT—meaning they tax most sources of income, such as wages and salaries—and 37 of those states (plus D.C.) adjust for the number of children and/or child care expenses through a tax exemption, deduction, or credit to provide support for families with children. The analysis here counts a state's PIT as adjusting for the number of children or child care expenses

if it incorporates one or more of the following: a state-level exemption or deduction for children; a state-level CTC; a state-level CDCTC; or a state-level calculation of PIT liability that carries through from the federal PIT adjustments for the number of children or child care expenses.

Linked to federal PIT, state PIT temporarily does not adjust for the number of children or child care expenses. North Dakota and Missouri both have a PIT that is tied to the federal PIT, and these state PITs temporarily do not adjust for the number of children because the Tax Cut and Jobs Act (TCJA) eliminated the personal exemption for the federal PIT for tax years 2018 through 2025. However, the TCJA is set to expire in 2026, and the return of the personal exemption for the federal PIT will result in both state tax systems once again adjusting based on the number of children.[44]

PIT does not adjust for the number of children or child care expenses. Only one state, Connecticut, has an independent, broad-based PIT that does not adjust for the number of children or child care expenses. The "independent" qualifier means that, unlike North Dakota and Missouri, the absence of an adjustment for the number of children or child care expenses with Connecticut's PIT is not due to temporary changes with the federal PIT. Using a different qualifier, Connecticut is the only high-cost-of-living state with a broad-based PIT that does not adjust for the number of children or child care expenses. In this case, the "high-cost-of-living" qualifier replaces the "independent" qualifier because, based on the latest data from the U.S. Bureau of Economic Analysis, North Dakota and Missouri both have a below average cost of living compared to the U.S. as a whole, whereas Connecticut has a high cost of living, making it especially difficult to afford to raise children.[45]

To demonstrate the impact of Connecticut's outlier position, **Figure 16** shows a comparison of PIT liabilities under different tax systems, and **Table 10** provides details.[46] The comparison uses the median household income in Connecticut of $88,900 to calculate the following: the federal PIT, New York's PIT, California's PIT, and Connecticut's PIT. For the state-level comparison, New York and California are selected for three reasons. First, like Connecticut, New York and California are both high-cost-of-living states.[47] Second, based on the latest tax migration data from the Internal Revenue Service, New York and California are both in the top five most popular destinations for tax filers leaving Connecticut, making these particularly interesting case studies for a comparison of PIT liability.[48] Third, New York and California both have a higher top statutory income tax than Connecticut, which is one of the most prominent measures for assessing whether a state has a high or low tax burden, but, as shown here, it is not useful for understanding whether the PIT liability is high or low for the typical household, especially those with children and child care expenses.[49]

Federal PIT Liability. For a household at the CT median income level and that has no children or child care expenses, the federal PIT liability is $7,149, an effective tax rate of 8 percent. If the household has two children, the federal CTC ($2,000 per child) reduces the PIT liability to $3,149, an effective tax rate of 3.5 percent. If the household has two children and full-time child care expenses, the federal CDCTC ($600 per child) further reduces the PIT liability to $1,949, an effective tax rate of 2.2 percent.

New York's PIT Liability. For a household at the CT median income level and that has no children or child care expenses, New York's PIT liability is $3,832, an effective tax rate of 4.3 percent. If the household has two children, the dependent exemption ($1,000 per child) and state-level CTC ($330 per child) reduce the PIT liability to $3,172, an effective tax rate of 3.6 percent. If the household has two children and full-time child care expenses, the state-level CDCTC ($360 per child) further reduces the PIT liability to $2,452, an effective tax rate of 2.8 percent.

California's PIT Liability. For a household at the CT median income level and that has no children or child care expenses, California's PIT liability is $1,758, an effective tax rate of 2 percent. If the household has two children, the state-level CTC ($433 per child) reduces the PIT to $892, an effective tax rate of 1 percent. If the household has two children and full-time child care expenses, the state-level CDCTC ($204 per child) further reduces the PIT liability to $484, an effective tax rate of 0.5 percent.

Connecticut's PIT Liability. For a household at the CT median income level and that has no children or child care expenses, Connecticut's PIT liability is $3,641, an effective tax rate of 4.1 percent. If the household has two children and full-time child care expenses, the CT PIT liability remains $3,641 because the CT PIT does not adjust for those factors at the CT median income level, unlike the federal PIT and other state PITs.

The changes made to Connecticut's tax system during the 2023 legislative session are important but insufficient to make the tax system fair, especially for many families with children.

In 2023, Connecticut passed several important changes to the tax system, including improvements to the tax incidence report and a requirement to provide a tax gap report, both of which are essential for ultimately establishing a fair tax system. For the purposes of the analysis here, the two most important tax changes are the reduction in Connecticut's PIT liability and the increase in the CT EITC.

The change to Connecticut's PIT goes into effect in tax year 2024 and consists of lowering the 3 percent tax bracket to 2 percent, lowering the 5 percent tax bracket to 4.5, and establishing a new tax recapture provision.[50] The result is a tax cut of $490 for a married family earning the median household income. While this will help to reduce the Connecticut tax system's vertical inequity moving forward, it is likely insufficient to fully resolve that problem—a question that future tax incidence reports will ultimately answer—and it does not address the tax system's horizontal inequity.

The change to the CT EITC goes into effect in tax year 2023 and consists of increasing the credit from 30.5 percent to 40 percent.[51] While this is a needed, substantial tax cut for families that qualify, it does not resolve the tax system's horizontal inequity because, as demonstrated, the CT EITC provides little-to-no support for the very poorest families, little-to-no support for higher low-income families, and no support for middle-income families.

Table 8. Effective State and Local Tax Rate in CT by Income Decile

Income Decile	Adjusted Gross Income	Tax Filers	Effective Tax Rate
1	Up to $44,758	850,332	25.96%
2	$44,758 to $74,688	308,221	19.55%
3	$74,688 to $107,823	199,666	15.50%
4	$107,823 to $148,081	142,306	15.73%
5	$148,081 to $205,199	103,736	12.23%
6	$205,200 to $316,507	71,895	11.47%
7	$316,513 to $602,253	42,689	10.35%
8	$602,263 to $1,631,362	19,672	8.99%
9	$1,631,481 to $8,246,680	5,746	7.08%
10	$8,249,490 to $387,821,183	772	6.64%

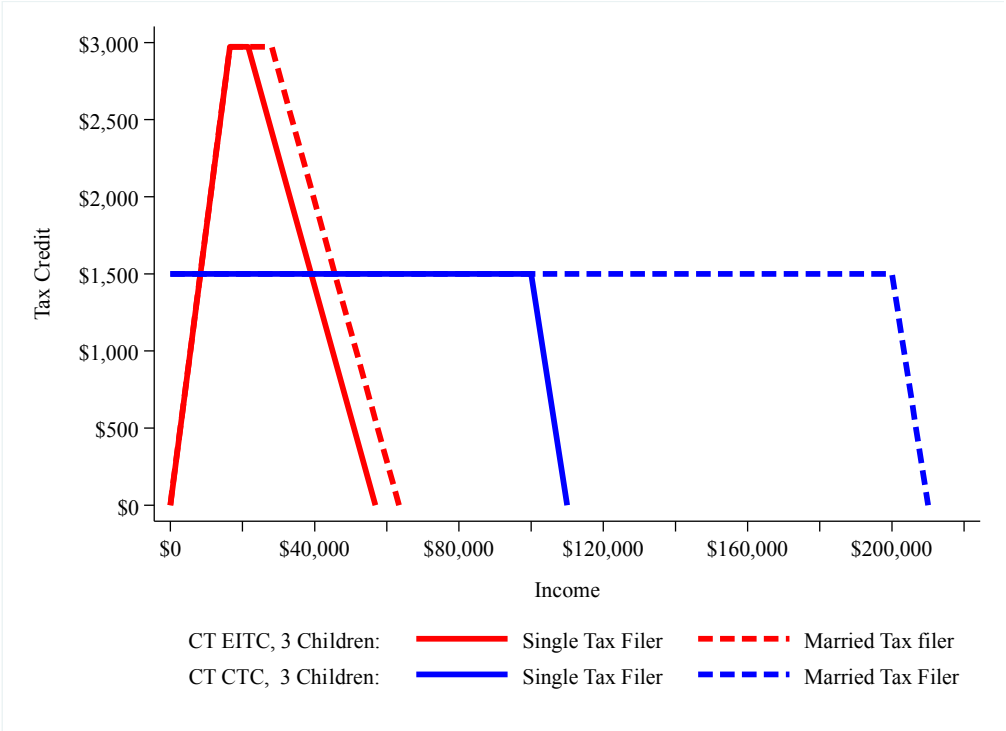
Source: CT Department of Revenue Services.

Table 9. Impact of CT's Tax System

Group	Pre-Tax		Effective CT Tax Rate	Pre-Tax		Change in Inequality Ratio
	Income	Inequality Ratio		Income	Inequality Ratio	
IRS: Tax Filers						
Average Top 1 Percent	$3,416,500	1.0	7.08%	$3,174,600	1.0	0.0
99th Percentile	$935,200	3.7	8.99%	$851,100	3.7	0.0
ACS: Households						
99th Percentile	$842,200	4.1	8.99%	$766,500	4.1	0.0
90th Percentile	$257,500	13.3	11.47%	$228,000	13.9	+0.6
50th Percentile	$88,900	38.4	15.50%	$75,100	42.3	+3.9
10th Percentile	$18,800	181.7	25.96%	$13,900	228.4	+46.7
ACS: Median Households						
White Alone, Non-Hispanic	$99,000	34.5	15.50%	$83,700	37.9	+3.4
Black Alone, Non-Hispanic	$62,500	54.7	19.55%	$50,300	63.1	+8.4
Hispanic, Any Race	$60,500	56.5	19.55%	$48,700	65.2	+8.7

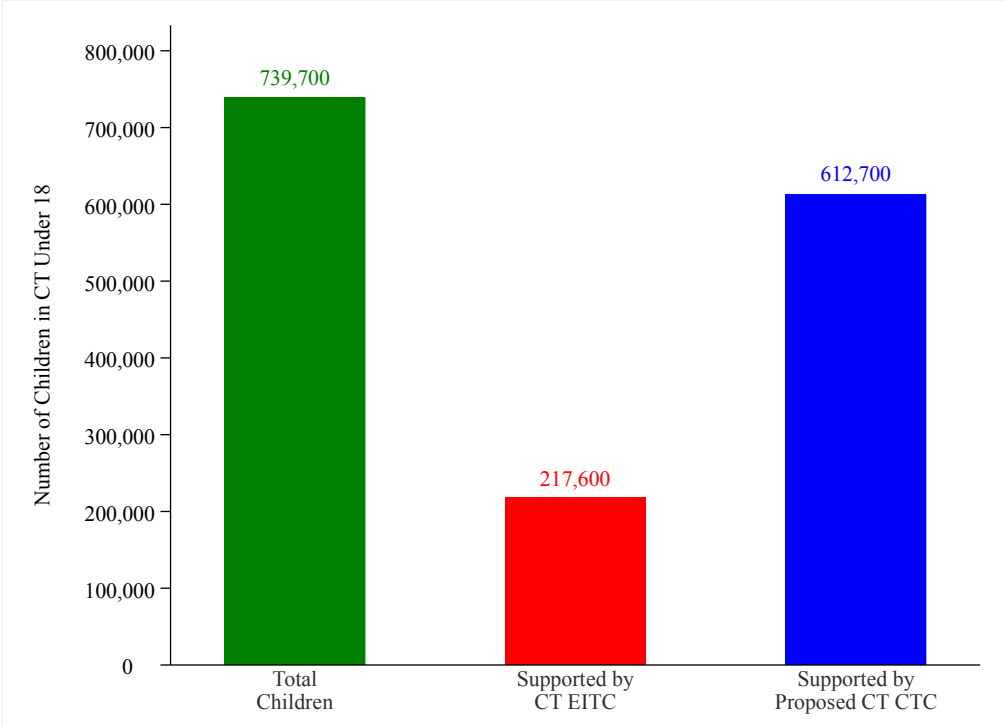
Sources: IRS Statistics of Income, American Community Survey, CT DRS, and author's calculations. Pre- and post-tax income rounded to nearest $100. Income inequality is measured in relation to the income for the average of the top 1 percent of tax filers.

Figure 13. Amount of CT EITC and CT CTC for a Family with 3 Children



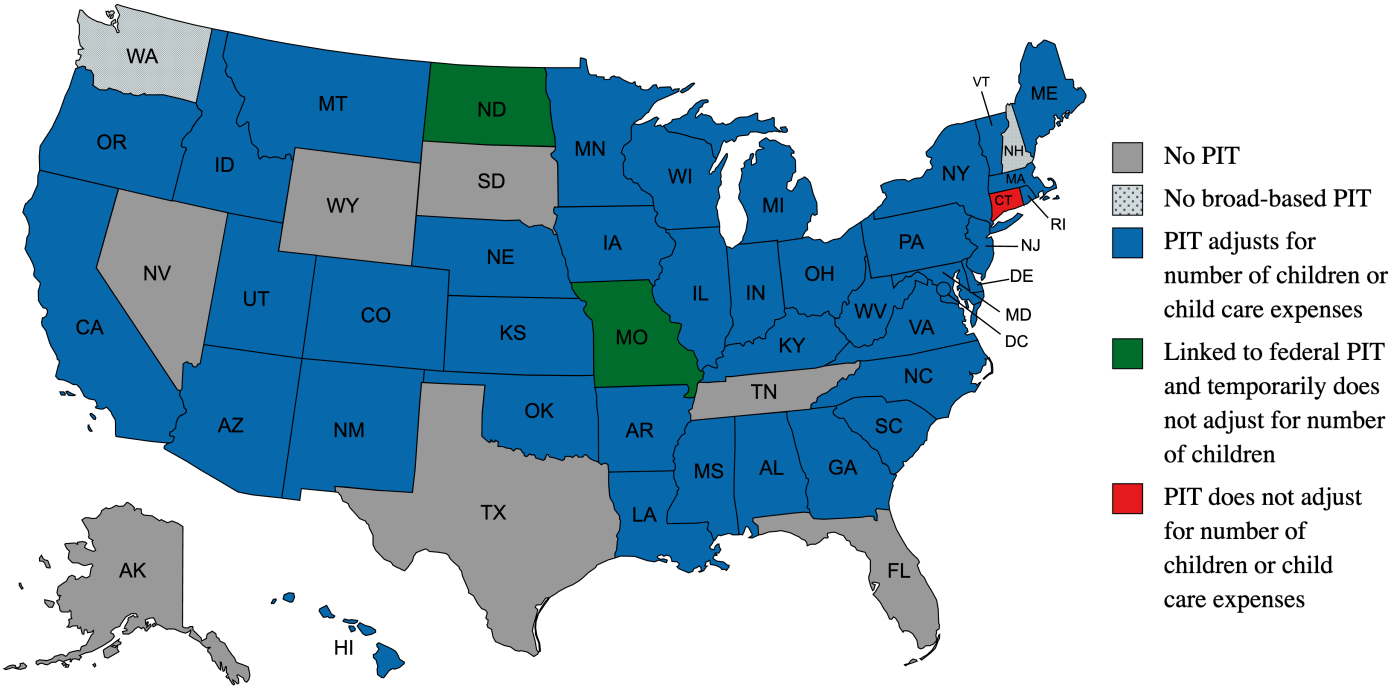
Source: Internal Revenue Service and author's calculations.

Figure 14. Number of Children Under 18 Supported by CT EITC and CT CTC



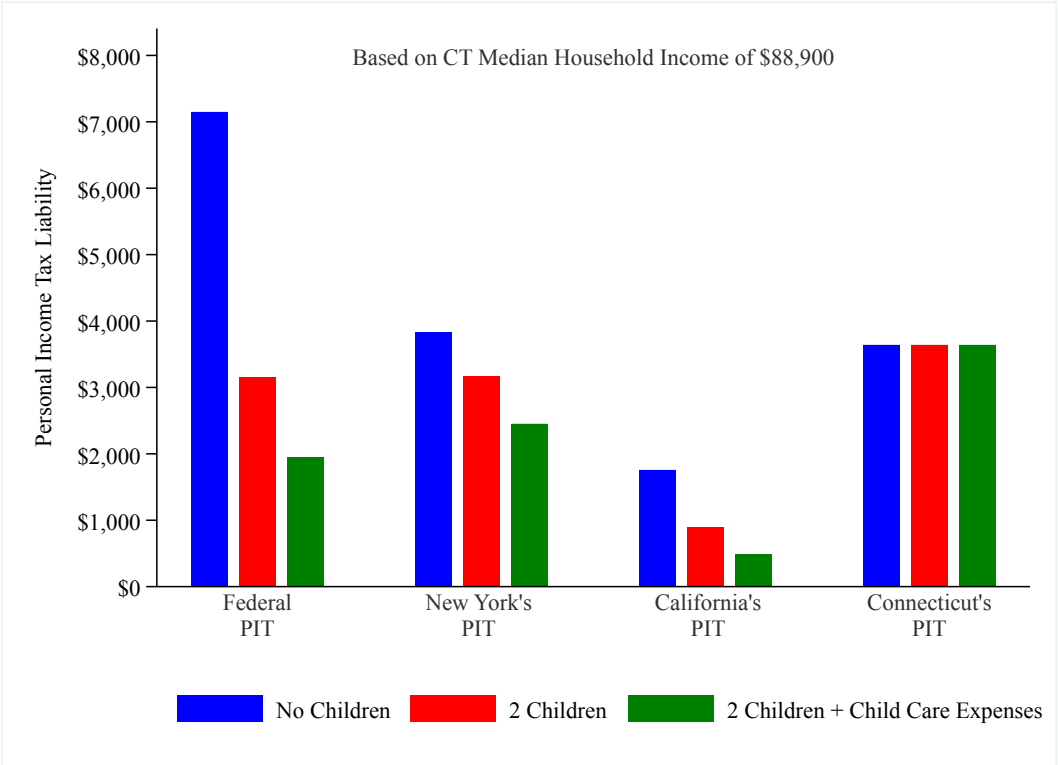
Sources: Current Population Survey Annual Social and Economic Supplement, Internal Revenue Service, and author's calculations. Number of children rounded to nearest 100. Estimate for CT EITC is based on the average from 2018 through 2022.

Figure 15. State Personal Income Taxes that Adjust for the Cost of Children



Source: Author's review of state personal income taxes.

Figure 16. PIT Liability by Location and Household Characteristics



Source: Data from relevant federal and state tax authorities and author's calculations. Analysis is based on the latest tax data available in each location and excludes CT's one-time child tax rebate in 2022.

Table 10. PIT Liability by Location and Household Characteristics

Household Characteristics			
Tax Filing Status	Married (MFJ)	Married (MFJ)	Married (MFJ)
Pre-Tax Income	$88,900	$88,900	$88,900
Number of Children	0	2	2
Child Care Expenses	No	No	Yes
New York's PIT Liability			
Tax Dedution/Exemption			
Standard Deduction	$16,050	$16,050	$16,050
Dependent Exemption	$0	$2,000	$2,000
Total Taxable Income	$72,850	$70,850	$70,850
Tax Brackets			
Total Tax Liability Before Credits	$3,832	$3,832	$3,832
Tax Credits			
Child Tax Credit	$0	$660	$660
Child and Dependent Care Tax Credit	$0	$0	$720
Personal Income Tax Liability			
In Dollars	$3,832	$3,172	$2,452
Effective Tax Rate	4.3%	3.6%	2.8%
California's PIT Liability			
Tax Dedution/Exemption			
Standard Deduction	$10,404	$10,404	$10,404
Total Taxable Income	$78,496	$78,496	$78,496
Tax Brackets			
Total Tax Liability Before Credits	$2,038	$2,038	$2,038
Tax Credits			
Personal Exemption Credit	$280	$280	$280
Child Tax Credit	$0	$866	$866
Child and Dependent Care Tax Credit	$0	$0	$408
Personal Income Tax Liability			
In Dollars	$1,758	$892	$484
Effective Tax Rate	2.0%	1.0%	0.5%
Connecticut's PIT Liability			
Tax Dedution/Exemptiob			
Exemption	$0	$0	$0
Total Taxable Income	$88,900	$88,900	$88,900
Tax Brackets			
Total Liability Before Credits	$4,045	$4,045	$4,045
Tax Credits			
Personal Tax Credit	$405	$405	$405
Personal Income Tax Liability			
In Dollars	$3,641	$3,641	$3,641
Effective Tax Rate	4.1%	4.1%	4.1%

Source: Data from relevant federal and state tax authorities and author's calculations. Analysis is based on the latest tax data available in each location and excludes CT's one-time child tax rebate in 2022.

Establishing a permanent, well-designed CT CTC will help grow Connecticut's economy, which has grown substantially slower than both the U.S. economy and New England's economy. It will also help to generate a positive feedback loop, as a faster-growing economy will increase the state's budget capacity—both increased spending cap capacity and increased tax revenue—and that will make it possible to provide even more support for Connecticut's families and children while also managing the state's substantial debt.

Gross domestic product (GDP) is a measure of the final value of goods and services produced, which is a function of consumer spending, private domestic investment, government spending and investment, and net exports. Its counterpart, *gross domestic income* (GDI), is a measure of the income earned and cost incurred in the production of GDP. In theory, the two measures are identical, though there can be differences in practice because they are constructed using different data sources, and GDP is more popular for several reasons, including the increased timeliness of the data. Growth in GDP—commonly referred to simply as economic growth—is therefore one of the most prominent economic indicators of the health of an economy because it reflects the increase in not only an economy's output but also its income, which is essential to increasing the standard of living for a state's residents and the tax revenue available to the government.

Using data from the U.S. Bureau of Economic Analysis, the analysis here begins with two comparisons of GDP growth: the first comparison is the recovery from the pandemic-induced recession, and the second comparison is the recovery from both the Great Recession and the pandemic-induced recession.

First, **Figure 17** shows real, or inflation-adjusted, GDP growth from the fourth quarter of 2019, the last quarter preceding the pandemic-induced recession, through the fourth quarter of 2022, the last full year data are available.[52] 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. When compared to the U.S. as a whole, which had real GDP growth of 5 percent, Connecticut's real GDP growth was slower by 3.7 percentage points. When compared to New England, which had real GDP growth of 5.2 percent, Connecticut's real GDP growth was slower by 3.9 percentage points and, in fact, was the slowest of all the states in the region, indicating this is more a Connecticut-specific problem than a regional slow growth problem.

Second, **Figure 18** shows real GDP growth from the fourth quarter of 2007, the start of the Great Recession, through the fourth quarter of 2022.[53] This provides essential historical context because it shows that Connecticut's slower GDP growth since the pandemic-induced recession builds on slower GDP growth since the Great Recession. Specifically, when compared to other states in recovering from both the Great Recession and the pandemic-induced recession, Connecticut ranks 48th out of 50, with real GDP growth of -1.7 percent. When compared to the U.S. as a whole, which had real GDP growth of 28 percent, Connecticut's real GDP growth was slower by 29.7 percentage points. When compared to New England, which had real GDP growth of 19 percent, Connecticut's real GDP growth

was slower by 20.7 percentage points and, once more, was the slowest of all the states in the region, further indicating this is more a Connecticut-specific problem than a regional slow growth problem.

Building on the two preceding comparisons, the next analysis here demonstrates the impact of Connecticut's slow economic growth on the state's tax revenue. This requires shifting from real GDP growth to nominal, or current dollar, GDP growth because tax revenue is based on nominal GDP.

First, **Table 11** shows the impact of Connecticut's slow economic growth on the state's tax revenue in recovering from the pandemic-induced recession.[54] From the fourth quarter of 2019 through the fourth quarter of 2022, nominal GDP growth totaled 20.6 percent in the U.S., 18 percent in New England, and 13.6 percent in Connecticut. Moreover, in fiscal year 2022, Connecticut's General Fund realized $21.5 billion in net tax revenue, equal to 6.5 percent of the state's GDP of $329 billion. When holding tax revenue as a percentage of GDP constant at 6.5 percent, Connecticut's General Fund would have realized an estimated $22.7 billion, or $1.2 billion more, in net tax revenue in 2022 if the state's growth rate had tracked the growth rate for the U.S. during this period; and Connecticut's General Fund would have realized an estimated $22.2 billion, or $700 million more, in net tax revenue in 2022 if the state's growth rate had tracked the growth rate for New England.

Second, **Table 12** shows the impact of Connecticut's slow economic growth on the state's tax revenue in recovering from both the Great Recession and the pandemic-induced recession.[55] This provides essential historical context because it shows that the revenue impact of Connecticut's slower GDP growth since the pandemic-induced recession builds on the revenue impact of the state's slower GDP growth since the Great Recession. Specifically, when holding tax revenue as a percentage of GDP constant at 6.5 percent, Connecticut's General Fund would have realized an estimated $27.4 billion, or $5.9 billion more, in net tax revenue in 2022 if the state's growth rate had tracked the growth rate for the U.S. from the fourth quarter of 2007 through 2022; and Connecticut's General Fund would have realized an estimated $25.6 billion, or $4.1 billion more, in net tax revenue in 2022 if the state's growth rate had tracked the growth rate for New England.

The key finding is that Connecticut's slow economic growth has resulted in the state losing billions of dollars a year in tax revenue. It is therefore important for policymakers to consider not only the direct cost of funding a program like the CT CTC but also the potential cost of not funding the 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. For a basic explanation of the potential related economic and fiscal impacts of establishing a permanent, well-designed CT CTC, below is an overview of the key components: consumer spending growth, job growth, and budget capacity.

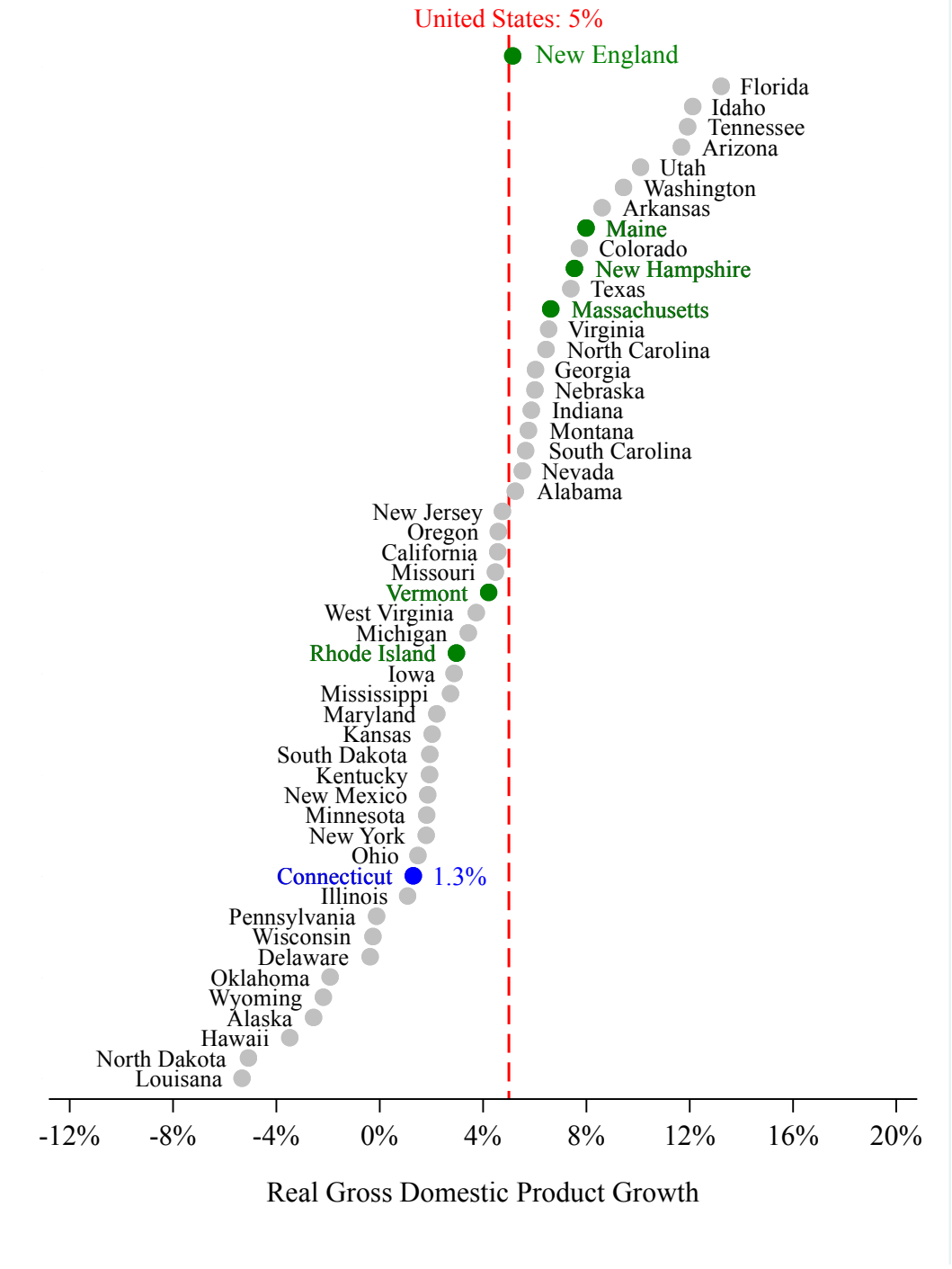
Increase in consumer spending growth. Consumer spending growth in Connecticut was slower than consumer spending growth in the U.S. during the recoveries from the last two recessions. This contributed to the state's slower economic growth because consumer spending accounts for nearly 70 percent of GDP, making it by far the most important component of GDP growth.[56] Establishing a permanent, well-designed CT CTC will help to increase consumer spending growth in Connecticut

through at least two pathways: a demand pathway in the short term and a supply pathway in the longer term. In the short term, the CT CTC will provide direct financial support to low- and middle-income families with children, increasing their disposable income. From an economic perspective, this is important because low- and middle-income families tend to spend a larger percentage of their additional income on goods and services. Consequently, if the CT CTC is funded through a tax on wealthy families, the increase in consumer spending by low- and middle-income families due to their tax cut will more than compensate for the decrease in consumer spending by wealthy families due to their tax increase, leading to an overall increase in consumer spending. In the longer term, the CT CTC will help to increase the number of consumers by making it more affordable for families to raise children in the state. The CT CTC will also help to improve child development and educational outcomes by providing families with the resources they need to support their children's basic needs and invest in their education, leading to higher productivity and increased potential earnings.

Increase in job growth. Jobs are important because wages and salaries comprise the primary source of income for most families, and job growth is important because growth in wages and salaries is a major driver of GDP growth through increased consumer spending. Like consumer spending, job growth in Connecticut was slower than job growth in the U.S. during the recoveries from the last two recessions, contributing to the state's slower economic growth.[57] Establishing a permanent, well-designed CT CTC will help to increase job growth in Connecticut through at least two pathways: a demand pathway in the short term and a supply pathway in the longer term. In the short term, increased consumer spending will generate increased revenue for businesses, resulting in the hiring of more employees. In the longer term, the increased supply of higher productivity workers will help to start new businesses and grow existing businesses, resulting in more jobs.

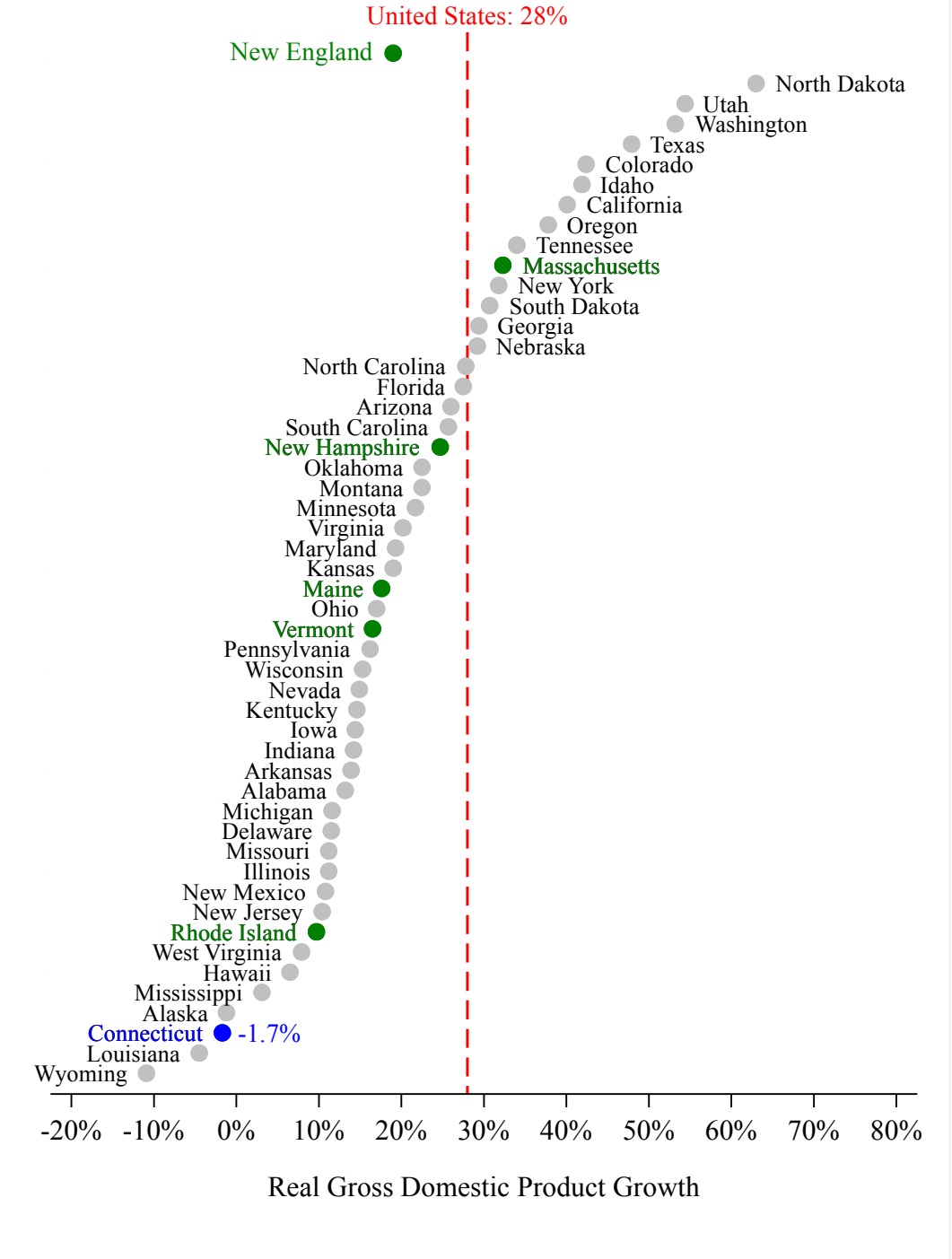
Increase in budget capacity. The increase in economic growth generated by the increase in consumer spending growth and the increase in job growth will increase the state's budget capacity through two pathways: increased spending cap capacity and increased tax revenue. First, Connecticut's spending cap limits the growth in budget appropriations to the level in the preceding year plus a percentage increase based on the greater of two economic indicators: the increase in personal income or the increase in inflation. In general, the increase in personal income is greater than the increase in inflation, making personal income the more important economic indicator. Moreover, the largest component of personal income is wages and salaries and therefore the related increase in consumer spending and job growth will generate growth in personal income and in turn increase the state's spending cap capacity. Second, the increase in consumer spending and job growth will increase the state's tax revenue. This will provide funding for further tax cuts for low- and middle-income families and increased public investments under the increased spending cap, contributing to a positive feedback loop. It will also help the state manage its substantial debt by decreasing the size of the debt in relation to the size of the state's economy.

Figure 17. Real Economic Growth in Recovering from the Pandemic-Induced Recession, 2019–2022



Source: U.S. Bureau of Economic Analysis and author's calculations.

Figure 18. Real Economic Growth in Recovering from the Great Recession and the Pandemic-Induced Recession, 2007–2022



Source: U.S. Bureau of Economic Analysis and author's calculations.

Table 11. Impact of Connecticut's Slow Economic Growth on Tax Revenue: Recovery from the Pandemic-Induced Recession, 2019–2022

Economy	Nominal GDP			FY 2022 General Fund Tax Revenue	
	2019: Q4	2022: Q4	Growth Rate	$	% of GDP
Actual Performance					
United States	$21.9 Trillion	$26.4 Trillion	20.6%	-	-
New England	$1.1 Trillion	$1.4 Trillion	18.0%	-	-
Connecticut	$289.6 Billion	$329 Billion	13.6%	$21.5 Billion	6.5%
Potential Performance					
CT with U.S. Growth Rate	$289.6 Billion	$349.1 Billion	20.6%	$22.7 Billion	6.5%
CT with N.E. Growth Rate	$289.6 Billion	$341.7 Billion	18.0%	$22.2 Billion	6.5%

Sources: U.S. Bureau of Economic Analysis, CT Office of State Comptroller, and author's calculations.

Table 12. Impact of Connecticut's Slow Economic Growth on Tax Revenue: Recovery from the Great Recession and Pandemic-Induced Recession, 2007–2022

Economy	Nominal GDP			FY 2022 General Fund Tax Revenue	
	2007: Q4	2022: Q4	Growth Rate	$	% of GDP
Actual Performance					
United States	$14.7 Trillion	$26.4 Trillion	79.5%	-	-
New England	$807.4 Billion	$1.4 Trillion	67.7%	-	-
Connecticut	$235 Billion	$329 Billion	40.0%	$21.5 Billion	6.5%
Potential Performance					
CT with U.S. Growth Rate	$235 Billion	$421.7 Billion	79.5%	$27.4 Billion	6.5%
CT with N.E. Growth Rate	$235 Billion	$394.1 Billion	67.7%	$25.6 Billion	6.5%

Sources: U.S. Bureau of Economic Analysis, CT Office of State Comptroller, and author's calculations.

Policy Options for Establishing the CT Child Tax Credit

This part of the report provides an overview of policy options for establishing the CT CTC. It first includes a general overview of key design and eligibility features and then includes an overview of specific policy options.

To best support the economic well-being of Connecticut's families with children, especially the lowest-income families, a well-designed CT CTC would include some or all the following key design and eligibility features: full refundability, no income floor, no income-based phase-in, and no cap on the number of children.

Below is a general overview of key design and eligibility features for establishing a CT CTC that best supports the economic well-being of Connecticut's families with children.

Refundability. A refundable tax credit is paid to a tax filer if it exceeds their income tax liability, whereas a nonrefundable tax credit is capped by the amount of income tax liability, which especially limits the size of the tax credit available to lowest-income families because they tend to have little or no income tax liability. For context, the ARPA-based CTC was fully refundable, whereas the TCJA-based CTC is currently 80 percent refundable.

Income floor. An income floor is a minimum level of income below which a tax filer is not eligible for the tax credit, and it especially limits the size of the tax credit available to the lowest-income families. Also, a tax credit that includes an income-based phase-in automatically has an income floor of at least $1 because any phase-in rate applied to no income is equal to zero. For context, the ARPA-based CTC had no income floor, whereas the TCJA-based CTC has an income floor of $2,500.

Income-based phase-in. An income-based phase-in increases the value of the tax credit as a tax filer's income increases, which especially limits the size of the tax credit available to the lowest-income families. For context, the ARPA-based CTC had no income-based phase-in, whereas the TCJA-based CTC has an income-based phase-in that allows a tax filer to receive a tax credit equal to 15 percent of either earnings above $2,500 up to the maximum refundable portion of the tax credit.

Cap on the number of children. A cap on the number of children limits the number of tax credits that a tax filer can claim, unfairly burdening larger families. For context, the ARPA-based CTC had no cap on the number of children, whereas the TCJA-based CTC provides a different standard for calculating the refundable portion of the CTC for families with three or more children, decreasing the amount of the tax credit per child for the largest families.

Overall, the ARPA-based CTC in 2021 had the following key design and eligibility features: full refundability, no income floor, no income-based phase-in, and no cap on the number of children. Along with the increase in the maximum amount of the tax credit, these key design and eligibility features contributed to the historic decrease in child poverty in 2021. In comparison to the ARPA-

based CTC, the current TCJA-based CTC has the following key design and eligibility features: partial refundability, an income floor, an income-based phased-in, and a restriction on the amount of the tax credit available to families with three or more children. Along with the decrease in the maximum amount of the tax credit, these key design and eligibility features contributed to the historic increase in child poverty in 2022.[58]

To best support the economic well-being of Connecticut's families with children, especially the lowest-income families, all the options provided here reference the key design and eligibility features reviewed above. Additionally, **Table 13** provides an overview of the options, and **Figure 19** models the options for a married family with one qualifying child.[59]

Option 1. A maximum $600 CT CTC that is 80 percent refundable, has an income floor of $1, has an income-based phase-in at a rate of 4.5 percent, and is capped at three children per tax filer.

Option 1 is based on the CT CTC proposal that passed the Finance, Revenue, and Bonding Committee in 2021 and 2022. An important change to that proposal is an increase in the refundability from 70 percent to 80 percent. Note that when this similar CT CTC proposal initially passed through the Finance, Revenue, and Bonding Committee, it mirrored in large part the TCJA-based CTC that was 70 percent refundable at the time. Since then, the TCJA-based CTC has increased to 80 percent refundable because that portion of the tax credit is indexed to inflation.

This option costs $298.5 million a year and includes the following key design and eligibility features. The maximum CT CTC is $600 per child, with a maximum refundable portion of $480, or 80 percent. The tax credit has a minimal income floor of $1 and an income-based phase-in at a rate of 4.5 percent. The tax credit is capped at three children per tax filer. The tax credit has no citizenship or immigration status restrictions. The tax credit begins to phase-out for single tax filers making more than $100,000, head of household tax filers making more than $160,000, and joint tax filers making more than $200,000.

Based on the key design and eligibility features of this option, the number of children eligible to receive the full or partial CT CTC is 550,000, or 74.4 percent of all children in the state under the age of 18. However, due to the income-based phase-in and partial refundability, the number of children eligible to receive the full refundable portion of the tax credit decreases to 483,700, or 65.4 percent of all children, and the number of children eligible to receive the full CT CTC decreases to 411,600, or 55.6 percent.

Option 2. A maximum $600 CT CTC that is 100 percent refundable, has an income floor of $1, has an income-based phase-in at a rate of 4.5 percent, and is capped at three children per tax filer.

Option 2 is based on option 1, though the refundability is increased from 80 percent to 100 percent.

This option costs $307.6 million a year and includes the following specific design and eligibility features. The maximum tax credit is $600 per child, with a maximum refundable portion of $600. The tax credit has a minimal income floor of $1 and an income-based phase-in at a rate of 4.5 percent. The tax credit is capped at three children per tax filer. The tax credit has no citizenship or immigration status restrictions. The tax credit begins to phase-out for single tax filers making more than $100,000, head of household tax filers making more than $160,000, and joint tax filers making more than $200,000.

Based on the key design and eligibility features of this option, the number of children eligible to receive the full or partial CT CTC is 550,000, or 74.4 percent of all children in the state under the age of 18. However, even with full refundability, the number of children eligible to receive the full CT CTC decreases to 478,600, or 64.7 percent of all children due largely to the income-based phase-in.

Option 3. A maximum $500 CT CTC that is 100 percent refundable, has no income floor, has no income-based phase-in, and has no cap on the number of children.

Option 3 largely mirrors the ARPA-based CTC and the temporary CT Child Tax Rebate, though the size of the credit is reduced compared to options 1 and 2 to keep the overall cost nearly the same.

This option costs $303.7 million a year and has the following key design and eligibility features. The maximum tax credit is $500 per child, with a maximum refundable portion of $500. The tax credit has no income floor and no income-based phase-in. The tax credit has no cap on the number of children per tax filer. The tax credit has no citizenship or immigration status restrictions. The tax credit begins to phase-out for single tax filers making more than $100,000, head of household tax filers making more than $160,000, and joint tax filers making more than $200,000.

Based on the key design and eligibility features of this option, the number of children eligible to receive the full or partial CT CTC is 612,700, or 82.8 percent of all children in the state under the age of 18. Moreover, with no income-based phase-in, the number of children eligible to receive the full CT CTC only decreases to 602,200, or 81.4 percent of all children.

All three options here would provide considerable support for Connecticut's low- and middle-income families with children, though option 3 would provide the most support for the lowest-income families with children, which disproportionately includes Black and Hispanic families with children.

Inflation indexing is essential to maintain the support of a permanent, well-designed CT CTC.

Inflation indexing the CT CTC means annually adjusting the parameters of the tax credit—the maximum value and the phase-out thresholds—to prevent both the real value of the tax credit and the percentage of children supported from decreasing over time in response to increases in the cost of living. A cost estimate for inflation indexing the CT CTC is not provided here because the cost increase changes each year due to compounding. However, for any CT CTC option, it is relatively

easy to estimate the cost of inflation indexing over time. For example, using an average of 2 percent inflation per year—the Federal Reserve's target—an inflation-indexed CT CTC that costs a total of $300 million in year one would increase to approximately $306 million in year two, $312 million in year three, $318 million in year four, $325 million in year five, and so on. While the increased cost in this example may seem substantial by year five, it also demonstrates the extent to which the real value of the tax credit and its coverage will decrease over time without inflation indexing.

The CT CTC can be phased-in over multiple years if necessary.

For all three options, a 5-year phase-in proposal is also provided. The first year is based on 33.3 percent of the total proposed CT CTC, and each of the subsequent four years is based on 16.7 percent of the tax credit.

For option 1, the maximum CT CTC in the first year is $200 per child, with a maximum refundable portion of $160, and the total cost is $102.8 million. Over the next four years, the maximum tax credit gradually increases to $600 per child, the maximum refundable portion gradually increases to $480, and the total cost gradually increases to $298.5 million a year.

For option 2, the maximum CT CTC in the first year is $200 per child and the total cost is $106.3 million. Over the next four years, the maximum tax credit gradually increases to $600 per child, and the total cost gradually increases to $307.6 million a year.

For option 3, the maximum CT CTC in the first year is $167 per child, and the total cost is $101.4 million. Over the next four years, the maximum tax credit gradually increases to $500 per child, and the total cost gradually increases to $303.7 million a year.

Multiple funding options are available for the CT CTC.

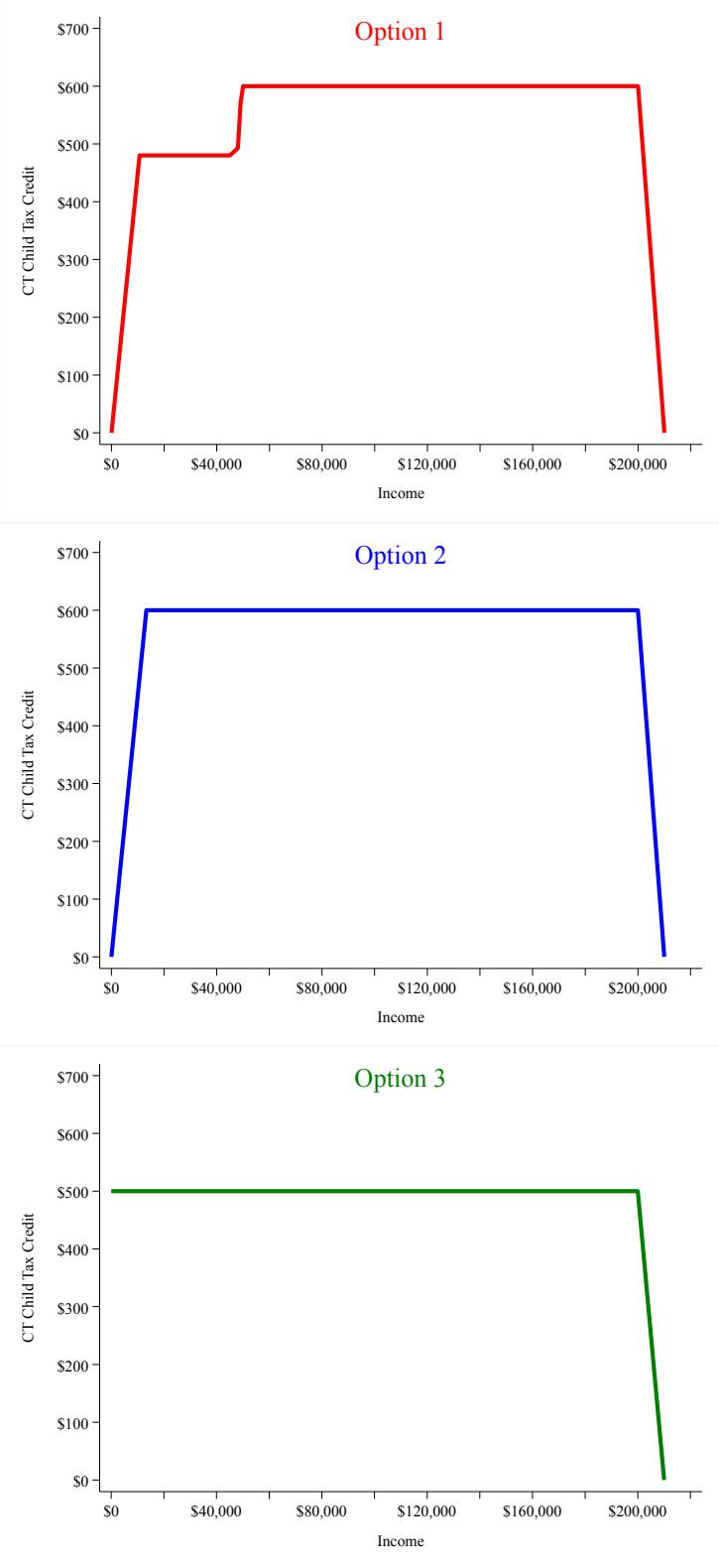
To fund the CT CTC, policymakers could use one or more of the following four broad approaches: eliminate or reduce Connecticut's tax gap; eliminate or reduce Connecticut's high-cost, high-growth tax expenditures; reform Connecticut's tax revenue restrictions; and/or increase Connecticut's taxes on the wealthy. Note that only the fourth approach requires raising tax rates. For details and estimates, see "The Case and Policy Options for Improving Connecticut's FY 2024 – FY 2025 Budget."[60] Updated tax revenue estimates will be published later this year.

Table 13. CT Child Tax Credit Options

Options	1	2	3
Cost of CT CTC			
Total	$298.5 million	$307.6 million	$303.7 million
Size of CT CTC			
Maximum CT CTC per child under 18 years old	$600	$600	$500
Maximum refundable portion	$480	$600	$500
Elgibility for CT CTC			
Number of children eligible to receive full or partial CT CTC	550,000	550,000	612,700
Percent of total children under 18	74.4%	74.4%	82.8%
Number of children eligible to receive full refundable portion	483,700	478,600	602,200
Percent of total children under 18	65.4%	64.7%	81.4%
Number of children eligible to receive full CT CTC	411,600	478,600	602,200
Percent of total children under 18	55.6%	64.7%	81.4%
Design of CT CTC			
Refundable portion	80%	100%	100%
Income floor	$1	$1	None
Income-based phase-in rate	4.5%	4.5%	None
Cap on number of CT CTCs per tax filer	3	3	None
Citizenship or immigration status restrictions	None	None	None
Start of income-based phase-out			
Single	$100,000	$100,000	$100,000
Head of household	$160,000	$160,000	$160,000
Married filing jointly	$200,000	$200,000	$200,000
End of income-based phase-out			
Single	$110,000	$110,000	$110,000
Head of household	$170,000	$170,000	$170,000
Married filing jointly	$210,000	$210,000	$210,000
5-Year Phase-In	**1**	**2**	**3**
Year 1			
Maximum CT CTC per child / refundable portion	$200 / $160	$200 / $200	$167 / $167
Cost	$102.8 million	$106.3 million	$101.4 million
Year 2			
Maximum CT CTC per child / refundable portion	$300 / $240	$300 / $300	$250 / $250
Cost	$152.5 million	$158.1 million	$151.9 million
Year 3			
Maximum CT CTC per child / refundable portion	$400 / $320	$400 / $400	$333 / $333
Cost	$201.9 million	$209.3 million	$202.3 million
Year 4			
Maximum CT CTC per child / refundable portion	$500 / $400	$500 / $500	$417 / $417
Cost	$250.7 million	$258.8 million	$253.3 million
Year 5			
Maximum CT CTC per child / refundable portion	$600 / $480	$600 / $600	$500 / $500
Cost	$298.5 million	$307.6 million	$303.7 million

Source: Current Population Survey Annual Social and Economic Supplement and author's calculations.

Figure 19. CT Child Tax Credit Options for a Married Family with One Qualifying Child



Source: CT Department of Revenue Services and author's calculations.

Conclusion

Many of Connecticut's families, especially those with children, are struggling to make ends meet, and the state's tax system and distribution of income and wealth contribute to the problem. CT Voices' two reports on supporting the economic well-being of Connecticut's families and children provide two solutions. To address the problem in the immediate term, policymakers could establish a permanent, well-designed CT CTC, as this report details. To further address the problem over the longer term, policymakers could improve the impact of CT Baby Bonds, as the other report details.

Acknowledgments

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[21] Using the SIPP data, the average wealth in Connecticut is 1.6 times greater than the average wealth in the U.S. Additionally, the average of the wealth levels for the 10th, 20th, 30th, 40th, 50th, 60th, 70th, 80th, and 90th percentiles is 1.6 times greater in Connecticut compared to the U.S. The same is also true when focusing on only the 80th, 90th, and 99th percentiles. The wealth estimates for Connecticut using the SCF data is therefore based on the wealth estimates for the U.S. multiplied by 1.6.

[22] Kerwin Kofi Charles and Erik Hurst, "The Correlation of Wealth Across Generations," *NBER Working Paper Series*, October 2002; Adrian Adermon, Mikael Lindahl, Daniel Waldenstrom, "Intergenerational Wealth Mobility and the Role of Inheritance: Evidence from Multiple Generations," *The Economic Journal*, June 2018; Simon H. Boserup, Wojciech Kopczuk, Claus T. Kreiner, "The Role of Bequests in Shaping Wealth Inequality: Evidence from Danish Wealth Records," *NBER Working Paper Series*, January 2016.

[23] U.S. Census Bureau, Survey of Income and Program Participation, 2022–2018.

[24] Dionissi Aliprantis and Daniel R. Carroll, "What is Behind the Persistence of the Racial Wealth Gap?" Federal Reserve Bank of Cleveland, Economic Commentary, March 2019;
Ellora Derenoncourt, Chi Hyun Kim, Moritz Kuhn, and Moritz Schularick, "Wealth of Two Nations: The U.S. Racial Wealth Gap, 1860–2020," *NBER Working Paper Series*, June 2022;

[25] U.S. Census Bureau, Survey of Income and Program Participation, 2022–2018.

[26] Mark Lino, Kevin Kuczynski, Nestor Rodriguez, TusaRebecca Schap, "Expenditures on Children by Families, 2015," U.S. Department of Agriculture, August 2017. For the U.S., costs are updated from July 2015 to July 2023 using relevant cost category from the U.S. Bureau of Labor Statistics (U.S. city average, all urban consumers, not seasonally adjusted): "Housing," Series ID CUUR0000SAH; "Food," Series ID CUUR0000SAF; "Transportation," Series ID CUUR0000SAT; "Apparel," Series ID CUUR0000SAA; "Medical Care," Series ID CUUR0000SAM; "Day care and preschool," Series ID CUUR0000SEEB03; "Elementary and high school tuition and fees," Series ID CUUR0000SEEB02; "All items," Series ID CUUR0000SA0. The combined "child care and education" category is calculated using a combination of the "Day care and preschool" price index for children from birth through age 5 and the "Elementary and high school tuition and fees" price index for children from age 6 through age 17. For the Northeast, costs are updated from July 2015 to July 2023 using relevant cost category from the U.S. Bureau of Labor Statistics (Northeast urban, all urban consumers, not seasonally adjusted): "Housing," Series ID CUUR0100SAH; "Food," Series ID CUUR0100SAF1; "Transportation," Series ID CUUR0100SAT; "Apparel," Series ID CUUR0100SAA; "Medical Care," Series ID CUUR0100SAM; "All items," Series ID

CUUR0100SA0. The combined "child care and education" category is calculated using a combination of the "Day care and preschool" U.S. price index for children from birth through age 5 and the "Elementary and high school tuition and fees" U.S. price index for children from age 6 through age 17. The U.S. price indexes are used for this category because regional price indexes are not publicly available.

[27] U.S. Department of Labor Women's Bureau, National Database of Childcare Prices: 2018 and 2023 State-Level Estimates.

[28] U.S. Census Bureau, Household Pulse Survey Public Use File, 2023. Low- and middle-income households are defined here as making less than $200,000 a year.

[29] National Academy of Sciences, Engineering, and Medicine, "A Roadmap to Reducing Child Poverty," 2019; National Academy of Sciences, Engineering, and Medicine, "Reducing Intergenerational Poverty," 2023.

[30] U.S. Census Bureau, Household Pulse Survey Public Use File, 2023.

[31] Craig Gunderson and James P. Ziliak, "Food Insecurity and Health Outcomes," *Health Affairs*, November 2015.

[32] U.S. Census Bureau, Household Pulse Survey Public Use File, 2023.

[33] Megan E. Hatch and Jinhee Yun, "Losing Your Home is Bad for Your Health: Short- and Medium-Term Health Effects of Eviction on Young Adults," *Housing Policy Debate*, October 2020; Bruce Ramphal, Ryan Keen, Sakurako S. Okuzuno, Dennis Ojogho, and Natalie Slopen, "Evictions and Infant and Child Health Outcomes: A Systematic Review," *JAMA Network Open*, April 2023.

[34] U.S. Census Bureau, American Community Survey Public Use Microdata Sample, 2022; Internal Revenue Service, Adjusted Gross Income Percentiles by State Tax Year, 2020; U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, Series ID CUSR0000SA0.

[35] U.S. Code, Title 26, Section 24, Child tax credit; Internal Revenue Service, "1040 (and 1040-SR) Instructions," November 2023.

[36] U.S. Code, Title 26, Section 21, Expenses for household and dependent care services necessary for gainful employment; Internal Revenue Service, "1040 (and 1040-SR) Instructions," November 2023.

[37] U.S. Census Bureau, Current Population Survey Annual Social and Economic Supplement, 2023.

[38] Connecticut Department of Revenue Services, "Connecticut Tax Incidence Study Tax – Year 2019," 2022. See also Patrick R. O'Brien, "Connecticut's 2022 Tax Incidence Report: A High-Level Overview and Comparison to the 2014 Report," Connecticut Voices for Children, 2022.

[39] U.S. Census Bureau, American Community Survey Public Use Microdata Sample, 2022; Internal Revenue Service, Adjusted Gross Income Percentiles by State Tax Year, 2020; U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, Series ID CUSR0000SA0; Connecticut Department of Revenue Services, "Connecticut Tax Incidence Study Tax – Year 2019," 2022.

[40] Internal Revenue Service, "1040 Instructions, 2017," February 2018.

[41] Internal Revenue Service, "Internal Revenue Bulletin: 2022-45," November 2022.

[42] U.S. Census Bureau, Current Population Survey Annual Social and Economic Supplement, 2019–2023; Internal Revenue Service, Statistics for Tax Returns with the Earned Income Tax Credit. The estimate for children supported by the EITC is calculated in two steps using the averages for years 2018 through 2022: first, the number of children is calculated using the CPS ASEC dataset; second, the number of children is adjusted upwards using the ratio of EITC tax filers according to the CPS ASEC dataset and the IRS dataset on EITC tax filers. The second step is necessary because the CPS ASEC dataset tends to undercount the number of EITC tax filers.

[43] In addition to the use of various sources from relevant federal and state tax authorities, the review of state personal income taxes relied on the following sources: Tax Foundation, State Individual Income Tax Rates and Brackets for 2023; Bipartisan Policy Center, State Child Care Tax Supports for Businesses and Parents; and Tax Credits for Workers and Families, State Tax Credits.

[44] In Missouri, the state personal income tax allows a tax filer to claim a $1,200 exemption "for each dependent for whom such resident is entitled to a dependency exemption deduction for federal income tax purposes, provided that the exemption amount as defined under 26 U.S.C. Section 151 is not zero." See Revisor of Missouri, Title X Taxation and Revenue, Chapter 143.161, Missouri dependency exemptions. Under permanent federal law, the personal exemption for the federal income tax is scheduled to resume in 2026, which will restore Missouri's dependent exemption. In North Dakota, the starting point for the state personal income tax is federal taxable income. See North Dakota Office of State Tax Commissioner, "2022 North Dakota Individual Income Tax Instructions"; North Dakota Office of State Tax Commissioner, "Form ND-1 2022 Individual Income Tax Return". Under permanent federal law, the personal exemption for the federal income is scheduled to resume in 2026, which will reduce federal taxable income more for families with children compared to families without children at the same income level, which will then lower the state personal income tax burden in North Dakota for families with children compared to families without children.

[45] U.S. Bureau of Economic Analysis, SARPP Regional Price Parities by State, 2022.

[46] For the federal personal income tax: Internal Revenue Service, "1040 (and 1040-SR) Instructions, 2022," January 2023; Internal Revenue Service, "1040 U.S. Individual Income Tax Return, 2022"; Internal Revenue Service, "Instructions for Schedule 8812, 2022"; Internal Revenue Service, "Schedule 8812, 2022"; Internal Revenue Service, "Form 2441, 2022". For New York's personal income tax: New York Department of Taxation and Finance, "Instructions for Form IT-201, 2022"; New York Department of Taxation and Finance, "Form IT-201, 2022"; New York Department of Taxation and Finance, "Instructions for Form IT-213, 2022"; New York Department of Taxation and Finance, "Instructions for Form IT-216, 2022". For California's personal income tax: California Franchise Tax Board, "2022 California 2EZ Table"; California Franchise Tax Board, "California Resident Income Tax Return, 2022"; California Franchise Tax Board, "2022 Instructions for Form FTB 3506". For Connecticut's personal income tax, Connecticut Department of Revenue Services, "Form CT-1040 Instructions, 2022"; Connecticut Department of Revenue Services, "Form CT-1040".

[47] U.S. Bureau of Economic Analysis, SARPP Regional Price Parities by State, 2022.

[48] Internal Revenue Service, Migration Data, 2020-2021.

[49] Tax Foundation, State Individual Income Tax Rates and Brackets for 2023.

[50] Connecticut General Assembly, "An Act Concerning the State Budget for the Biennium Ending June 30, 2025," Public Act 23-204, Section 376.

[51] Connecticut General Assembly, "An Act Concerning the State Budget for the Biennium Ending June 30, 2025," Public Act 23-204, Section 378.

[52] U.S. Bureau of Economic Analysis, SQGDP1 Gross Domestic Product by State, published December 2023.

[53] U.S. Bureau of Economic Analysis, Gross Domestic Product by State, 4th Quarter and Annual 2022, published March 2023. It is not possible to use the updated state-level GDP data for the analysis of the recovery from the Great Recession because the dataset only begins to 2018. As a result, this analysis relies on archived data published in March 2023.

[54] Connecticut Office of the State Comptroller, "Budgetary/Statutory Basis (GAAP Based Budgeting) Annual Report: For Fiscal Year Ended June 30, 2022"; U.S. Bureau of Economic Analysis, SQGDP1 Gross Domestic Product by State, published December 2023.

[55] Connecticut Office of the State Comptroller, "Budgetary/Statutory Basis (GAAP Based Budgeting) Annual Report: For Fiscal Year Ended June 30, 2022"; U.S. Bureau of Economic Analysis, SQGDP1 Gross Domestic Product by State, published December 2023; U.S. Bureau of Economic Analysis, Gross Domestic Product by State, 4th Quarter and Annual 2022, published March 2023. Nominal GDP for 2007, quarter 4 based on the estimates published in March 2023. Nominal GDP for 2019, quarter 4 and 2022, quarter 4 based on the estimates published in December 2023.

[56] U.S. Bureau of Economic Analysis, SAPCE1 Personal Consumption Expenditures (PCE) by Major Type of Product, updated October 2023; U.S. Bureau of Economic Analysis, "News Release: Gross Domestic Product (Third Estimate), Corporate Profits (Revised Estimate), and GDP by Industry, First Quarter 2023," Table 3, Gross Domestic Product, June 2023.

[57] Patrick R. O'Brien, "State of Working Connecticut, 2023," Connecticut Voices for Children, September 2023.

[58] U.S. Code, Title 26, Section 24, Child tax credit; U.S. Code, Title 26, Section 21, Expenses for household and dependent care services necessary for gainful employment; Emily A. Shrider and John Creamer, "Poverty in the United States: 2022," U.S. Census Bureau, September 2023.

[59] U.S. Census Bureau, Current Population Survey Annual Social and Economic Supplement, 2023.

[60] Patrick R. O'Brien, "The Case and Policy Options for Improving Connecticut's FY 2024 – FY 2025 Budget," Connecticut Voices for Children, December 2022.