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Economic Tonic

Earned Income Tax Credit Is Also Timely Medicine For A Nation Teetering On Recession

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This winter, Lisa Ray's son outgrew his shoes — not unusual for a 3-year-old.

"He's outgrown everything," said Ray, 30, with a mixture of pride and exasperation.

But the single mother, who earned just \$15,000 in 2007, has had to forgo buying her son James a new pair of shoes.

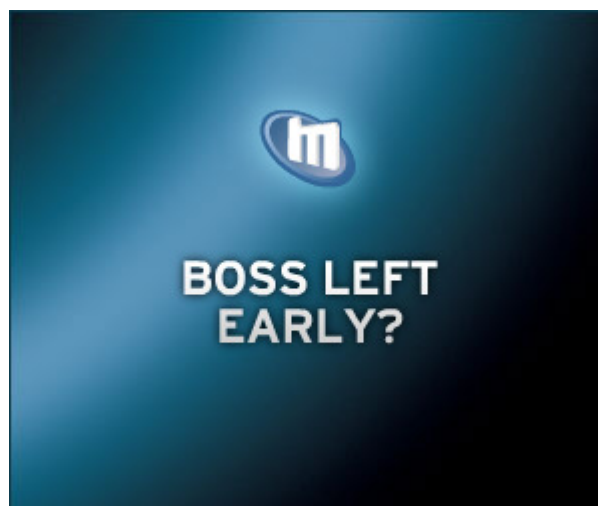
A string of layoffs and low-wage jobs left her with a car in need of repair and the nagging feeling that she was "robbing Peter to pay Paul, trying to figure out which bills to pay, the rent, the electric bill, or put food in my son's mouth," Ray said.

Ray, who now works full time at a Taco Bell restaurant, this month received a federal earned income tax credit — a pay bonus, in essence — of about \$4,500. That's enough to settle her past-due accounts, take James shopping and help her move from subsidized housing to an apartment on her own with a bedroom for James.

Tax season, for low-wage workers such as Lisa Ray, is not a time to fear, but rather a chance to make up ground financially. The federal Earned Income Tax Credit program, which is available only to those who have earned wages, returned \$44 billion to more than 22 million people last year — more than one of every seven workers, according to the [Internal Revenue Service](#), which administers the program.

The EITC, in operation since the mid-1970s, is one of the nation's largest anti-poverty programs, and that's how many people talk about it. But as recession descends on the nation this year, as taxpayers earning as much as \$174,000 a year await their portions of the emergency \$168 billion stimulus package, the EITC is also a vast but targeted economic jolt for the nation.

By the time the emergency stimulus checks hit mailboxes in May, the EITC will have coursed through the nation's poorest communities for months.



More households claim the EITC than food stamps or Medicaid. And unlike those programs, it puts cash directly into the hands of the working poor with no strings attached. The money will be used to pay overdue rent, purchase secondhand cars and pay utility bill debts. Many, like Ray, will spend some of it on consumer goods.

Its effect as a recession barrier is hard to measure, but in places such as Connecticut, where adopting a state version of the EITC is under debate, the program is gaining a lot of attention.

In Connecticut last year, more than 166,000 low-wage workers received an estimated \$290 million in federal earned income tax credit, with the average check totaling \$1,600.

People with two or more children who earned between \$12,000 and \$17,500 are eligible to receive the maximum federal benefit, \$4,716 this year.

In some areas of the state, including neighborhoods in Hartford, [Waterbury](#), [New Haven](#) and Bridgeport, more than 30 percent of taxpayers qualify for the federal credit.

"The federal program has already demonstrated how beneficial it is," said Bonita Grubbs, executive director of Christian Community Action in New Haven. "The state should be able to add to that. Without a doubt — it helps families."

Eligible But Unaware

As many as 25 percent of people eligible for the EITC don't know about it, or don't file to collect it. The credit requires a tax return, even if the workers don't owe anything to the IRS.

The check Lisa Ray received this month was her first under the program, even though she could have received hundreds, perhaps thousands of dollars in past years.

"I worked in previous years, but I never really knew about it," Ray said.

Until this month, Ray lived at Stepping Stone Transitional Housing, a federally funded program for former homeless families in New Haven that required her to pay 30 percent of her income toward rent. She learned about the EITC through a counselor at Stepping Stone.

"I was so happy. I couldn't believe it," Ray said.

Tax credit recipients hold an array of jobs in the retail and service industries. They are day-care providers, warehouse workers, retail clerks, grocery store workers, housekeepers, waitresses, landscapers and certified nursing assistants, said Jodi Gendrich, a volunteer certified tax preparer at Mi Casa, a social service center in Hartford.

The center is one of 90 volunteer sites in Connecticut that provide free tax return help to families earning less than \$40,000 a year.

On a recent afternoon, Mi Casa's waiting room was crowded with people waiting for an appointment to see one of the center's certified tax preparers.

A man in painters' pants and a padded flannel jacket waited for his name to be called; a young woman, clad in a fur-trimmed parka and jeans, shuffled through a folder containing W-2 forms.

On an average day, Gendrich, a finance analyst for [Pfizer Inc.](#), assists five to six people, three-quarters of whom are eligible for the credit, she said.

But the majority of taxpayers who qualify don't realize it, she said.

At the Community Renewal Team's [Albany](#) Avenue office in Hartford, the majority of recipients are single women, said Jeannette Soto-Sanchez, the location's lead case manager.

"We get mostly moms who are raising kids," Soto-Sanchez said.

That observation appears to approach the norm.

Nationally, fewer than 8 percent of the tax credit's recipients are single men with children, said Bruce D. Meyer, a professor of economics at the [University of Chicago](#).

More than 31 percent of recipients are single women with children; another 34 percent are married couples with children, Meyer said.

Politically Popular

Implemented as a temporary measure in 1975 to help offset the Social Security payroll taxes that low-income working parents pay, the earned income tax credit at first provided a small amount of cash.

It has expanded under most presidential administrations since then, with bipartisan support: Conservatives like it because it rewards work, unlike the old federal welfare system; liberals like it because it redistributes income to some of the neediest households.

In recent years, eligibility requirements have been loosened to allow childless workers to claim the credit.

This year, as in almost all recent years, a coalition of Connecticut lawmakers hopes to enact a state earned income tax credit that would work in tandem with the federal program. It would pay 20 percent of the federal credit, or a maximum of \$943, a total of slightly less than \$60 million, based on current participation.

Twenty-two states and the District of Columbia, including every New England state except [New Hampshire](#), which has no income tax, have enacted state earned income tax credit programs.

Annette M. Bombaci, 30, who has no children, earns \$8.05 an hour as a clerk at a Marshall's store. Last year, Bombaci, a Waterbury resident, said she earned about \$7,000 in several part-time jobs.

Her income made her eligible to receive a federal tax credit of \$426, she said.

But Bombaci, who said she was unaware of the free tax service sites around the state, went to a professional tax preparer and was charged \$329. That left her with less than \$100 of her rebate, part of which she spent on a birthday present for her 5-year-old nephew.

"If I would have gotten the full amount back," Bombaci said. "I would have used it for Weight Watchers because I hate how I look."

The program is not without its critics, who say the rebates are spent irresponsibly on big-screen TVs, gaming consoles or other consumer goods — exactly the sort of spending that many boosters of this year's emergency federal stimulus package are urging.

"Some people are going to spend it frivolously, but no more so than anyone else," said Andrea Hardy, who oversees the free tax preparation program at Community Renewal [Team Inc.](#), a local anti-poverty agency.

In the legislature, many people support the program in principle, but question whether the state can afford the \$60 million — especially in a year when recession could squeeze state coffers.

Other critics view the earned income tax credit program as an income subsidy that allows low-wage employers to avoid paying a "living wage." They say employers should help pay for the program because they benefit from it.

"There is now evidence that some businesses see it as a wage substitute, " said Pamela Herd, assistant professor of public affairs and sociology at the University of Wisconsin-Madison.

In recent years, businesses have become staunch supporters of the federal credit, in place of the minimum wage, Herd said.

"It's been an important policy in terms of improving the well-being of poor working Americans, but at the same time you look at it and think — why aren't wages a little better?"

Not everyone is ready to agree with Herd's findings.

"There just isn't enough solid evidence at this point to support the theory," Meyer said. "For one thing, employers don't know which employees might qualify for the EITC."

The credit also helps many people who work part time, such as Kristie Nickens of Hartford, a certified nursing assistant who earns \$14.65 an hour. It's a rare week when the 31-year-old single mother of three is asked by her employer to work more than 24 hours.

"They only call me when they need me," she said. "Other people have more seniority."

Nickens said she expects to receive a tax credit of about \$1,500 this year, which she plans to use to repair her car and pay bills.

Last year, Yaira Arroyo, a Hartford resident, used \$400 of her federal earned income tax credit to purchase a round-trip plane ticket to sunny [Puerto Rico](#).

In previous years, Arroyo who earns \$12 an hour as a full-time food stamp coordinator at End Hunger [Connecticut](#), a Hartford nonprofit agency, used her \$3,000 credit to buy a secondhand car, pay heating bills and buy school uniforms for her two daughters.

Last winter, however, the money paid her way to Puerto Rico to attend her father's funeral.

"I wouldn't have been able to go otherwise," she said.

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