CENTER ON POVERTY & SOCIAL POLICY
at Columbia University

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This memo presents our estimates of the short and long-term benefits and costs of the proposed Connecticut child tax credit for participants, taxpayers and the society as a whole.

Key Findings

- Connecticut is considering the establishment of a fully refundable state child tax credit worth up to $600 annually per qualifying child, capped at three children per tax unit, in families below $200,000 in household income.
- We estimate that an annual expenditure of $316 million on this credit would deliver $1.54 billion in short and long-term economic benefits to the state.
- Every $1 spent each year on this child tax credit in Connecticut would generate nearly $5 in economic gains at the state level.
- Economic gains are driven by the fact that the child tax credit would increase lifelong health, education, earnings, and future tax contributions of children and decrease costs for child protective services, for healthcare, and for victims of crimes and the criminal justice system. The credit would also lead to lifelong health improvement of parents.

Policy Context

To estimate the effects of a Connecticut child tax credit, we draw on the parameters of the child tax credit proposed in substitute for SB106 that came out of the Connecticut General Assembly in March 2026.[1] Beginning in tax year 2026, this bill would establish a state child tax credit worth up to a maximum of $600 per qualifying child aged 16 and younger, capped at a maximum of three children per tax unit. It would be a fully refundable credit: there is no minimum earnings requirement, no phase-in, and no refundability cap. It would phase out in 10% intervals from the following federal adjusted gross income (AGI) thresholds: $100,000 for single filers; $160,000 for head of household filers; and $200,000 for joint filers. No credit is available once the following federal AGI thresholds are reached: $109,000 for single filers; $169,000 for head of household filers; and $209,000 for joint filers. A fiscal note attached to the bill from the Connecticut Office of Fiscal Analysis estimates the annual cost of the state child tax credit to total $316 million and a one-time administrative cost of $75,000.[2]

The bill includes a number of other provisions, including free school breakfast and lunch in fiscal year 2027 for all students in school districts that do not currently provide this coverage through community eligibility participation and creates a new Connecticut Department of Education grant to provide funding. However, the benefit-cost analysis presented in this brief focuses

[1] For more information, see: https://cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&which_year=2026&bill_num=6 (last accessed April 9, 2026).
[2] Connecticut Office of Fiscal Analysis (2026). sSB-6: An Act Concerning Supports for Children and Families – OFA Fiscal Note.

specifically on the state child tax credit portion of the bill and does not analyze the free school meals portion or other provisions in the bill.

Results

Table 1 displays our estimates of the present discounted value of the short and long-term benefits and costs of the proposed Connecticut child tax credit for participants, taxpayers, and the society. We find that the proposed child tax credit would cost taxpayers $316 million a year, with a net economic benefit for society over the short- and long-term of $1.54 billion. This return is nearly five times the initial investment by taxpayers. In other words, for every $1 of the proposed Connecticut child tax credit direct towards families with children, society would gain approximately $5 in economic benefits. Below, we describe what drives the benefits and costs that contribute to the overall result.

Table 1: Estimated Benefits and Costs of the Connecticut Child Tax Credit, Present Discounted Value in Millions of Dollars

	Participants	+ Taxpayers	= Total society
I. Child tax credit program costs/transfers	316.000	-316.000	0.000
II. In-program household earnings and tax/transfer changes	-12.365	-10.004	-22.369
A. Earnings of parent recipients	-22.369	0.000	-22.369
i. Earnings from hours worked and employment	-44.738	0.000	-44.738
ii. Total cost of work	22.369	0.000	22.369
B. Tax payments by parent recipients	9.395	-9.395	0.000
C. Other cash or near-cash transfers received by parent recipients	0.609	-0.609	0.000
III. Outcomes due to increased household income	1026.262	587.702	1613.964
A. Improved children's health and longevity	712.374	0.000	712.374
B. Increased future earnings of child recipients [a]	385.350	0.000	385.350
C. Increased future tax payments by child recipients [a]	-107.898	107.898	0.000
D. Decreased future transfer payments to child recipients [a]	-6.993	6.993	0.000
E. Avoided expenditures on children's health care costs [b]	2.620	21.197	23.817
F. Expenditures from greater child educational attainment	-95.099	-22.751	-117.850
G. Avoided expenditures on crime	0.000	159.654	159.654
H. Decreased victimization costs of crime	0.000	390.876	390.876
I. Avoided expenditures on foster care	0.000	6.624	6.624
J. Payments due to increased children's longevity	72.311	-72.311	0.000
K. Improved parent's health and longevity	52.752	0.000	52.752
L. Avoided expenditures on parent's health care costs [b]	0.040	0.327	0.368
M. Payments due to increased parents' longevity	10.804	-10.804	0.000
IV. Other program impacts	0.000	-54.646	-54.646
A. Administrative costs [c]	0.000	-0.075	-0.075
B. Excess burden for taxpayers [d]	0.000	-54.571	-54.571
C. Deadweight loss to beneficiaries	0.000	0.000	0.000
V. Total benefits and costs [e]	1329.897	207.052	1536.949

***Source**: Center on Poverty and Social Policy at Columbia University.*

[a] Future earnings of child recipients are valued at 75 percent of the face value because we count 25 percent as increased earnings from additional hours worked, which we conservatively assume contribute no long-run surplus due to the disutility of work. Changes to future taxes and transfers of child recipients in III.C and III.D correspond to the full value of future increases in earnings.

[b] Reductions in health care expenditures reduce both out-of-pocket costs to beneficiaries and public and private insurance costs to taxpayers. Out-of-pocket medical expenditures are about 11 percent of national health expenditures in 2019 (Centers for Medicare and Medicaid Services, 2019). We allocate 11 percent of the reduced health care costs to beneficiaries and 89 percent of the costs to taxpayers at large in the form of reduced taxes and insurance premiums.

[c] Based on estimates of the Connecticut Office of Fiscal Analysis, we set administrative costs to 0.02 percent ($75000/$316000000) of costs for the child tax credit.

[d] Excess burden is assumed to be equal to 40 percent of the net increase or decrease in the present discounted value of taxes. Victim costs are excluded from the calculation of excess burden, and so are reductions in health insurance premiums, which are only 30 percent of the value of full reductions in healthcare costs.

[e] The number for the total may not be exactly the sum of the numbers in the columns due to rounding.

The separation of population into participants (in this case families with children) and taxpayers follows standard benefit-cost analysis. Participants benefit directly from the program. Taxpayers finance the program, but also benefit indirectly from the program. All parents are also taxpayers and their children will be in the future. Each row represents a single benefit or cost. All benefits and costs are denoted in their present discounted values, which are values measured in today's dollars. Discounting is the process of estimating future gains or losses in today's terms. Because a dollar today is worth more than a dollar next year (a dollar today can be invested at the current interest rate and will be worth more than a dollar next year), a benefit or cost of a certain level received in the future has a smaller monetary value in the present. Following the current recommendation of the Office of Management and Budget, we use a 3% interest rate for discounting.

According to the taxpayer column of Panel I, the proposed child tax credit would cost taxpayers $316 million a year, which is the same estimate of the Connecticut Office of Fiscal Analysis. A dollar of cash transfer is worth a dollar to participants. Therefore, this initial taxpayer costs would be exactly offset by $316 million of benefits received by participants, resulting in zero cost for the society. Panel II details the changes in household earnings, taxes and transfers in response to the proposed credit. The title row summarizes the changes. According to Row Ai, presents estimates of the reduction in parents' earnings that could result if the credit were instituted. We estimated that 488 parents may stop working in response to the policy, and benefitting parents may reduce work hours by 0.08 hours per week, on average. This translates to $45 million in total reduced earnings; note that impacted parents earn more than $50 billion per year, thus the reduction in earnings amounts to less than 0.1% of all parents' earnings. (And as shown later in the table in Panel III row K, potential losses of parents' earnings would be more than offset by benefits that parents receive from improved lifelong health and longevity, which amount to $53 million). Less work also means less work-related costs, which we conservatively assume to be half of the value of reduced earnings.[3] As a result of decreased earnings parents also pay less taxes and rely more on public transfers. Summing up the individual components of household income changes in Panel I and II, participants see an overall increase in household income.

Panel III lists the short and long-term benefits and costs generated by the increase in household income. According to row A, children would see lifelong (from age 0-78) improvement in health and longevity. After discounting, the lifelong health improvement has a present discounted value of $712 million, which is the biggest benefit of the credit, and more than twice the initial investment of taxpayers. In addition to being healthier throughout their lives, children would also have higher earnings in adulthood ($385 million), pay more taxes (around $108 billion) and become less dependent on public transfers ($7 million). The credit would also benefit parents by increasing their lifelong health and longevity (row K). For taxpayers, the biggest gain would

[3] According to calculations by the U.S. Census Bureau (2017), median weekly work-related expenses (excluding child care) were $56 in 2015 dollars, the equivalent of $60 in 2019 dollars. According to the Bureau of Labor Statistics (2015), the median weekly earnings of full-time workers were $801, the equivalent of $860 in 2019 dollars. This means that work-related costs for someone making half the median weekly wage (ex: our low-income Connecticut sample) are around only 14 percent of earnings (i.e., $60/($860/2)). The 50 percent figure we use here is thus very conservative.

come from savings in criminal legal system expenditures (row G) and victimization costs of crime (row H), a total of $551 million. These savings would accrue because as children have better health, more education, and higher earnings, they would be less likely to become involved in the criminal legal system throughout their adolescence and adulthood. Note that the majority of crime-related savings would come from victimization costs, which are costs inflicted on the victim of a crime. Taxpayers also see savings in healthcare expenditures and child protective system but spend more on children's education and longevity-related payments (ex: Social Security).

Panel IV captures the administrative costs and excess burden of the credit. According to the first row there is an administrative cost of $75,000, which is the same estimate as the Connecticut Office of Fiscal Analysis. Excess burden of taxation refers to the social welfare loss that comes from the distortion in prices from taxation. There would be a $55 million excess burden for taxpayers.

The last row of the table shows that the proposed credit would generate large, positive net economic benefits for participants, taxpayers, and the society. The net economic benefit for the society would be worth $1.54 billion which is nearly five times the initial investment by taxpayers. In other words, for every $1 of child tax credit given to families with children, society would gain approximately $5 in economic benefits. For taxpayers, they would not only recoup their initial investment, but also accrue additional benefits of $207 million in the long run.

Methods

The microsimulation of the Connecticut Child Tax Credit relies on American Community Survey (ACS) data retrieved from IPUMS USA (Ruggles et al. 2025) and reflects income in 2023. This data was then augmented by the Center on Poverty and Social Policy to more accurately impute tax credit and benefit receipt to create the SPM in the ACS, building upon the methods developed by Fox, Pacas, and Glassman (2020). Estimates of poverty measured using the SPM typically rely on data from the Current Population Survey Annual Social and Economic Supplement (CPS ASEC) as the CPS ASEC includes the detailed income and program participation data required to construct the SPM. However, the ACS offers a substantially larger sample size and more granular geographic coverage than the CPS ASEC, making it well-suited for generating reliable estimates at the state and sub-state levels. We also adjusted the underlying ACS data to reflect our estimates of tax liabilities and credits. These are based on tax units constructed by the Center on Poverty and Social Policy.[4] Tax liabilities are estimated using NBER's TAXSIM.

This analysis compares household resources and poverty rates, measured using the Supplemental Poverty Measure (SPM), before and after including income associated with the Connecticut Child Tax Credit in families' resources. The Connecticut Child Tax Credit was modeled according to the parameters outlined in S.B. 6 in the 2026 legislative session, with values

[4] See Appendix A of Collyer et al. 2025 for a description of this construction.

adjusted for inflation to match the income distribution in the 2023 ACS data. In addition, the latest version of the federal Child Tax Credit was modeled directly in the data according to the current structure under the 2025 budget reconciliation bill (H.R. 1), which increased the per-child maximum credit from $2,000 to $2,200 but retained the same phaseout structure. Credit amounts and parameters were adjusted for inflation in each respective year to reflect their effects on the poverty rate according to their structure in 2025 and value in 2025 dollars. Estimates of tax liabilities were also adjusted to account for changes resulting from the July 2025 H.R.1 budget reconciliation bill. However, this analysis does not account for other changes to the safety net under H.R.1, such as cuts to SNAP and Medicaid, which are expected to bring more people into poverty.

The model behind these estimates does not account for possible behavioral responses (other than parents' labor supply response) to these policies or possible financing mechanisms, both of which could alter the results. The model assumes full take-up of these credits by those eligible.

After estimating the value of the new Connecticut Child Tax Credit for all families in the data, we also estimate how the new credit may impact parents' labor supply. We follow the approach outlined in the National Academy of Sciences *Roadmap for Reducing Child Poverty* consensus report when simulating the potential labor supply response.[5] The authors of the NAS report model the income effects associated with various federal Child Tax Credit expansions and the related changes in parental employment on both the intensive and extensive margins. To implement this approach when modeling the Connecticut Child Tax Credit expansion, we first identify working parents and then identify the percent increase in income due to the policy change. We then apply a specified elasticity of employment (which varies across population sub groups) to this percent increase in order to determine the probability of that parent leaving employment. The elasticities of employment specified in NAS (2019) are -0.12 for married mothers, -0.085 for unmarried mothers, and 0 for fathers. Once identifying the probability of leaving employment, we assigned a random number to each working parent, and if the random number was less than their probability of stopping work, then they were assigned them to group that stopped working. We ran this process 50 times and determined the average amount of lost income on the extensive margin across these 50 simulations. To identify the parents who may reduce work hours, we first identify the total number of reduced hours worked among parent beneficiaries based on their percent change in income and the NAS authors' specified elasticities for hours: -0.09 for married mothers, -0.07 for unmarried mothers, and -0.05 for fathers. Once identifying the target number of reduced hours, we determined average hourly wages across

[5] The NAS (2019) report outlines a method for apply a labor supply response resulting from an "income effect" when estimating a change in labor supply in response to a Child Tax Credit. Other methods for applying the changes in labor supply resulting from a "substitution effect" are also outlined in other reports on modeling such responses, but these methods pertain to expansions when a fully-refundable federal Child Tax Credit replaces the current-law federal Child Tax Credit. Changes in labor supply driven by the substitution effect could occur with this federal reform as the current-law federal credit increases the return to work. However, there is currently no Child Tax Credit in Connecticut that the policy we are modeling could replace. Therefore, using the approach outline in the NAS is appropriate. Access the NAS (2019) report at: https://www.nationalacademies.org/projects/DBASSE-BCYF-16-05/publication/25246.

these groups and aggregates their total lost wages on the intensive margin based on total hours of reduced work and average wages.

We then apply our benefit-cost model on the economic returns of providing cash and near-cash assistance to families with children (Garfinkel et al. 2022). This model is built upon rigorous experimental and quasi-experimental studies that examine the causal impact of cash and near-cash transfers —mainly SNAP and the Earned Income Tax Credit (EITC)—on children and parents. These studies find that giving cash and near-cash to low-income families has an enduring positive impact on children and parents' health, earnings, crime and related outcomes. We use results from these studies to calculate the short- and long-run economic benefits of providing cash and near-cash assistance to families with children, finding that the benefits far outweigh the costs of providing these income supports. For detailed summaries of the studies and our calculation see Garfinkel et al. (2022). While applying the model, we also need to take account of the fact that the estimates from Garfinkel et al. (2022) apply to low-income families. Intuition and empirical evidence suggest that the social benefits generated by increases in household income will be lower the higher the income of the family. Though considerable correlational work in the US and elsewhere suggests income is more important for the poorest families, causal evidence on this point is surprisingly lacking; but based on causal analysis from Norway (Løken, Mogstad, and Wiswall, 2012), we assume that families with incomes under $65,000 derive the full benefits, which then decline smoothly between $65,000 and $130,000, and that benefits to families above $130,000 equal zero. Finally, because there is virtually no research that estimates the benefits to a second parent of transfers to low-income families, we follow Garfinkel et al (2022) and assume that only one parent/adult in a family derives social benefits from the increase in family income from the proposed credit.

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