

# Connecticut Personal Income Tax

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# Outline

- Overview
- Tax Evaluation Criteria
- Revenue Adequacy
- Fairness
- Administrative/Compliance Cost
- Economic Effects
- Conclusion

# Connecticut Personal Income Tax (PIT)

- Connecticut is 1<sup>st</sup> among the states in its reliance on the PIT as a source of own state tax revenue; 2<sup>nd</sup> among the states in its reliance on the PIT as a source of total state revenue.
- Base of the Connecticut PIT = Federal AGI + Ct. additions – Ct. Subtractions.
- Graduated Tax Rate Schedule
- Includes a state Earned Income Tax Credit (EITC)
- Projected to raise \$

# Connecticut PIT Collections Tax Year 2013

<b>Table 1: Federal Adjusted Gross Income and Connecticut Adjusted Gross Income Tax Year 2013</b>							
	<b>No. Returns</b>	<b>Federal Agi</b>	<b>Additions To Federal Agi</b>	<b>Subtract From Federal Agi</b>	<b>Connecticut AGI</b>	<b>Fed AGI-CtAGI</b>	<b>Diff. per Return</b>
<b>Connecticut AGI</b>	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(6) ÷ (1)</b>
Less than \$50,000	844,294	\$20,109,219,611	\$42,296,405	\$899,081,076	\$19,252,434,940	(\$856,784,671)	(\$1,015)
\$50,000 to \$100,000	384,210	\$28,688,808,609	\$64,392,637	\$1,262,538,733	\$27,490,662,513	(\$1,198,146,096)	(\$3,118)
\$100,000 to \$250,000	273,655	\$41,068,365,698	\$140,427,105	\$927,653,502	\$40,281,139,301	(\$787,226,397)	(\$2,877)
\$250,000 to \$500,000	47,075	\$16,022,936,650	\$125,253,681	\$228,771,046	\$15,919,419,285	(\$103,517,365)	(\$2,199)
\$500,000 and over	25,621	\$47,472,651,506	\$617,503,879	\$519,392,926	\$47,570,762,459	\$98,110,953	\$3,829
<b>Total</b>	<b>1,574,855</b>	<b>\$153,361,982,074</b>	<b>\$989,873,707</b>	<b>\$3,837,437,283</b>	<b>\$150,514,418,498</b>	<b>(\$2,847,563,576)</b>	<b>(\$1,808)</b>



# Connecticut Consensus Revenue Estimates

<u>Taxes</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Personal Income Tax	\$ 9,645.0	\$ 10,004.1	\$ 10,437.0	\$ 10,889.9	\$ 11,332.2
Sales & Use	4,121.1	4,084.7	3,998.9	4,146.6	4,293.7
Corporation	902.2	908.8	859.0	890.4	853.9
Public Service	288.0	295.9	303.9	312.2	320.6
Inheritance & Estate	193.4	174.6	180.1	186.1	192.4
Insurance Companies	237.9	241.3	222.8	226.3	229.8
Cigarettes	361.2	362.3	344.7	329.1	314.3
Real Estate Conveyance	194.7	199.7	206.2	212.7	220.9
Oil Companies	-	-	-	-	-
Alcoholic Beverages	61.7	62.2	62.6	63.0	63.4
Admissions & Dues	38.3	39.0	39.5	39.8	40.1
Health Provider Tax	673.2	680.2	683.0	685.3	687.6
Miscellaneous	<u>19.7</u>	<u>20.1</u>	<u>20.5</u>	<u>21.0</u>	<u>21.5</u>
Total Taxes	\$ 16,736.4	\$ 17,072.9	\$ 17,358.2	\$ 18,002.4	\$ 18,570.4
Refund of Taxes	(1,090.4)	(1,101.5)	(1,141.8)	(1,196.0)	(1,252.4)
Earned Income Tax Credit	(127.4)	(133.6)	(150.0)	(155.6)	(161.8)
R&D Credit exchange	<u>(8.1)</u>	<u>(8.5)</u>	<u>(8.8)</u>	<u>(9.2)</u>	<u>(9.6)</u>
Total Taxes Less Refunds	\$ 15,510.5	\$ 15,829.3	\$ 16,057.6	\$ 16,641.6	\$ 17,146.6
<u>Other Revenue</u>					
Transfers-Special Revenue	\$ 327.4	\$ 351.0	\$ 372.1	\$ 380.9	\$ 389.9
Indian Gaming Payments	258.8	252.4	247.4	183.6	181.3
Licenses, Permits, Fees	308.5	290.8	313.1	293.4	317.3
Sales of Commodities	38.0	39.1	40.2	41.3	42.4
Rents, Fines, Escheats	126.0	128.0	130.1	132.1	134.1
Investment Income	1.2	3.4	5.5	6.6	7.5
Miscellaneous	171.3	173.4	175.6	179.2	182.9
Refund of Payments	<u>(69.2)</u>	<u>(70.1)</u>	<u>(71.5)</u>	<u>(73.0)</u>	<u>(74.5)</u>
Total Other Revenue	\$ 1,162.0	\$ 1,168.0	\$ 1,212.5	\$ 1,144.1	\$ 1,180.9
<u>Other Sources</u>					
Federal Grants	\$ 1,263.1	\$ 1,255.3	\$ 1,277.5	\$ 1,297.1	\$ 1,317.6
Transfer From Tobacco Fund	106.6	104.5	89.7	90.2	90.0
Transfers From/ (To) Other Funds	<u>(97.3)</u>	<u>(45.3)</u>	<u>(106.4)</u>	<u>(106.4)</u>	<u>(106.4)</u>
Total Other Sources	\$ 1,272.4	\$ 1,314.5	\$ 1,260.8	\$ 1,280.9	\$ 1,301.2
Total General Fund Revenues	<u>\$ 17,944.9</u>	<u>\$ 18,311.8</u>	<u>\$ 18,530.9</u>	<u>\$ 19,066.6</u>	<u>\$ 19,628.7</u>

# 2015 Connecticut PIT Tax Rate Schedule

Table 2: Connecticut Personal Income Tax Brackets: 2015					
Single Filers			Joint Filers		
Taxable Income			Taxable Income		
<u>From</u>	<u>To</u>	<u>Rate</u>	<u>From</u>	<u>To</u>	<u>Rate</u>
\$0	\$10,000	3.0%	\$0	\$20,000	3.0%
\$10,000	\$50,000	5.0%	\$20,000	\$100,000	5.0%
\$50,000	\$100,000	5.5%	\$100,000	\$200,000	5.5%
\$100,000	\$200,000	6.0%	\$200,000	\$400,000	6.0%
\$200,000	\$250,000	6.5%	\$400,000	\$500,000	6.5%
\$250,000	\$500,000	6.9%	\$500,000	\$1,000,000	6.9%
\$500,000	& Over	6.99%	\$1,000,000	& Over	6.99%

# Tax Evaluation Criteria

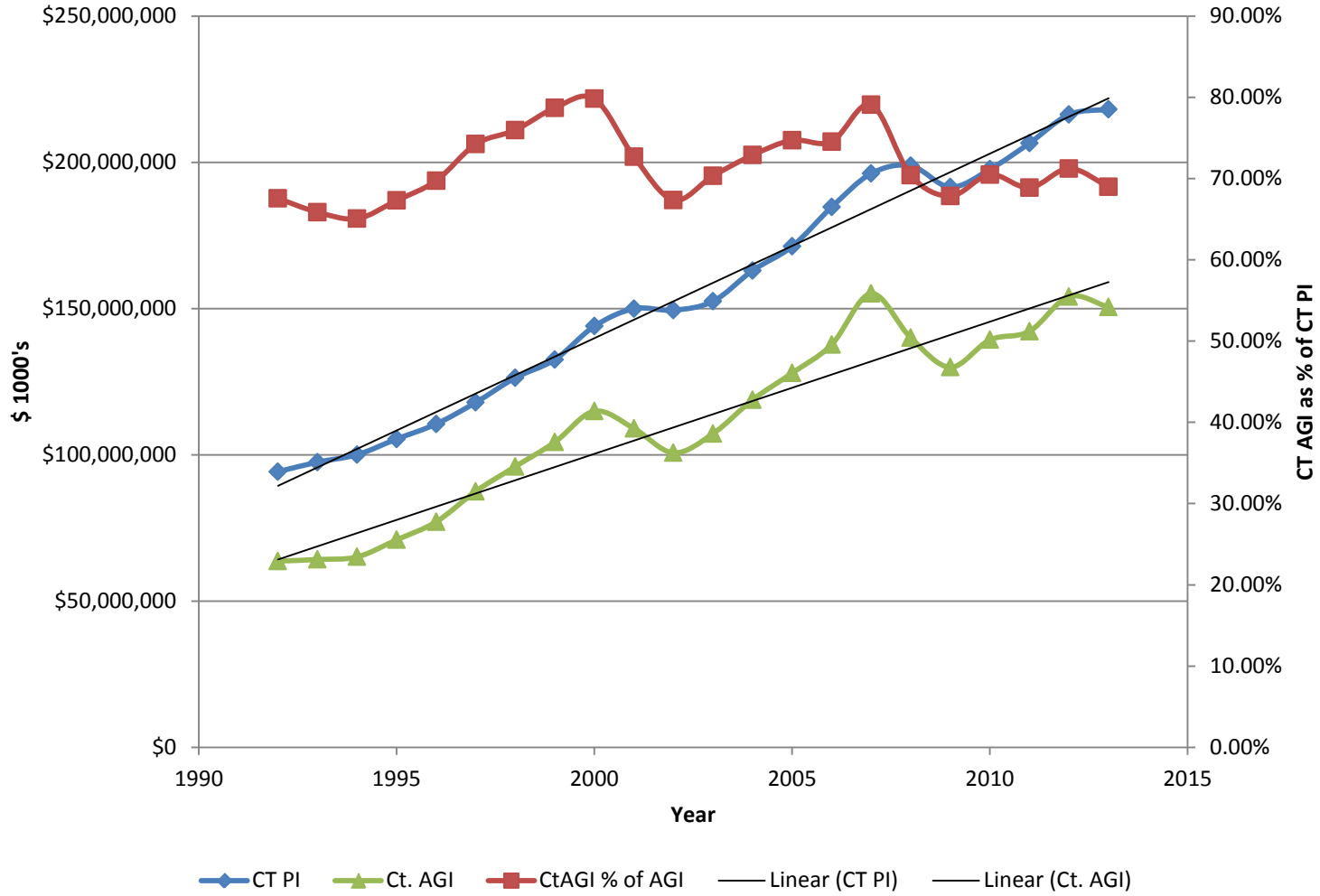
- Revenue Adequacy
  - Does the PIT raise revenue adequate to meet state needs?
- Tax Fairness
  - Does the PIT distribute the tax burden fairly?
- Administrative/Compliance Costs
  - Are the costs of collection and compliance reasonable?
- Economic Efficiency and Competitiveness
  - Does the Connecticut PIT have reasonable incentive effects?
  - Is the Connecticut PIT tax burden competitive with that of other states?



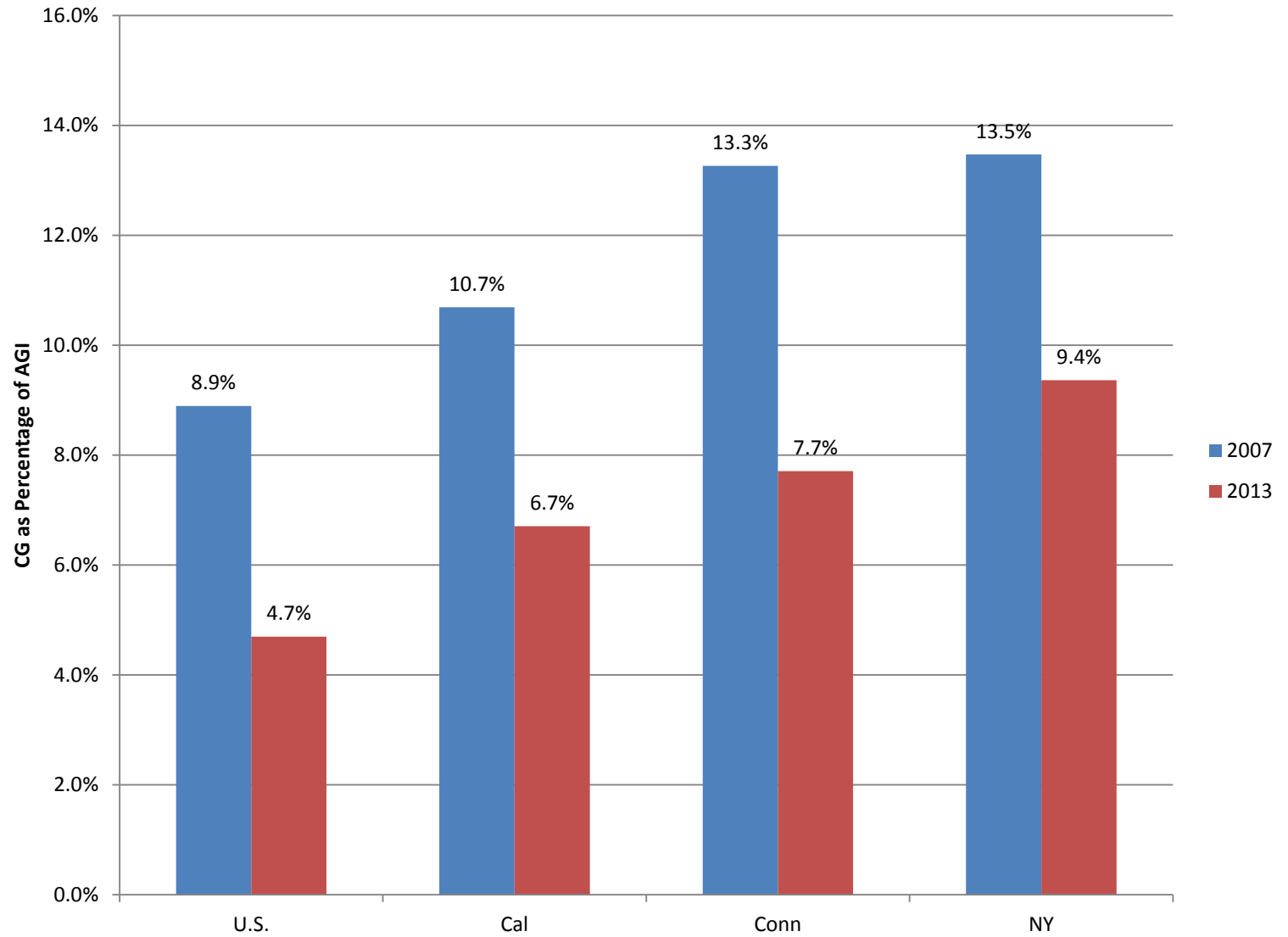
# Revenue Adequacy

- The base of the Connecticut PIT:
  - Is broad
  - Has grown apace with Connecticut personal income
- Connecticut PIT revenue
  - Is buoyant
  - Is volatile
  - $\approx$  \$1 out of every \$9 “leaks out” to other states
- Future outlook for growth in Connecticut PIT:
  - Positives: growth in knowledge-based sectors
  - Negatives: growth in service sector, aging population

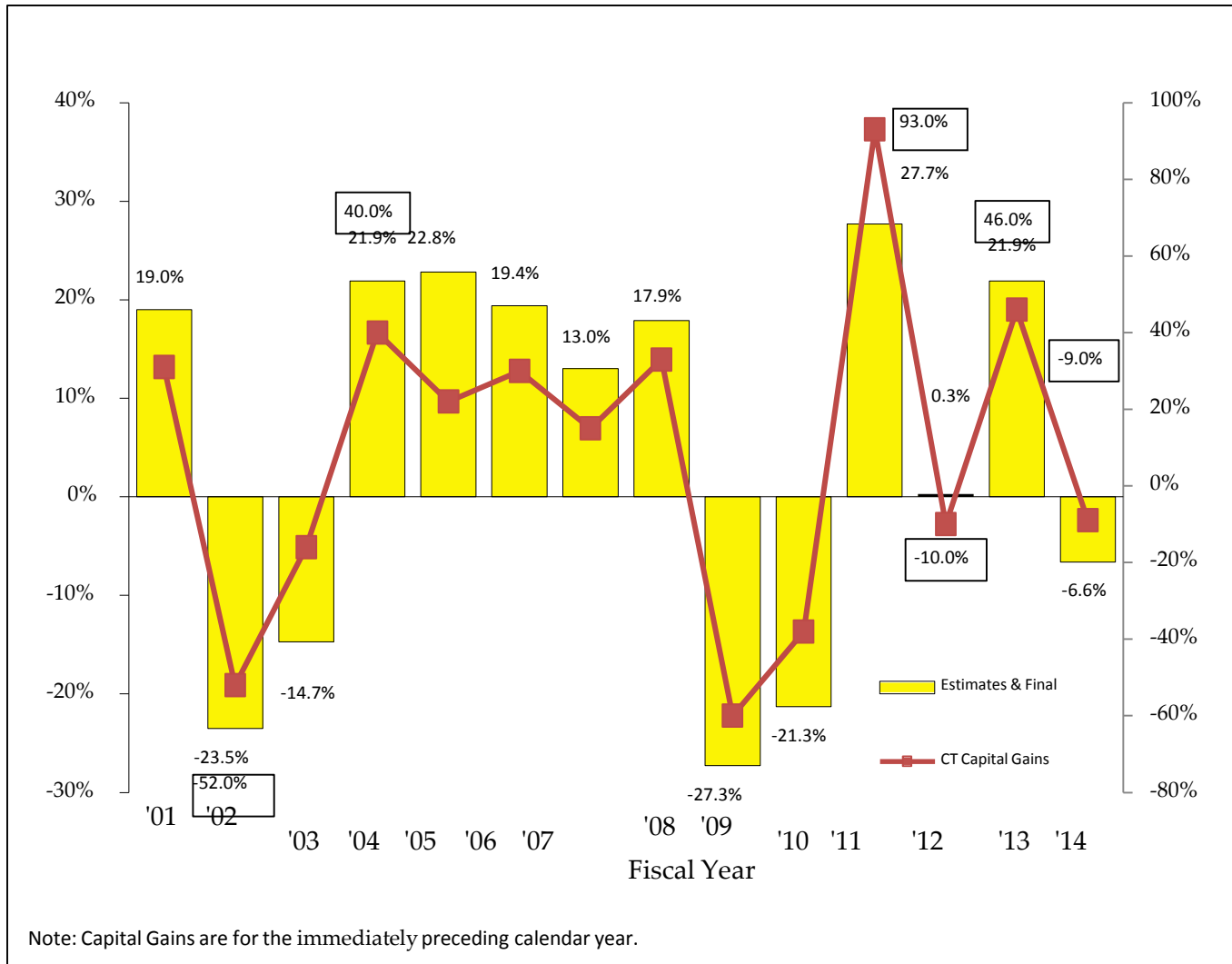
### Figure 1: Trends in Connecticut Personal Income and in Connecticut AGI



### Figure 2: Net Capital Gains as a Share of AGI



# : Capital Gains and Revenue Forecast Volatility



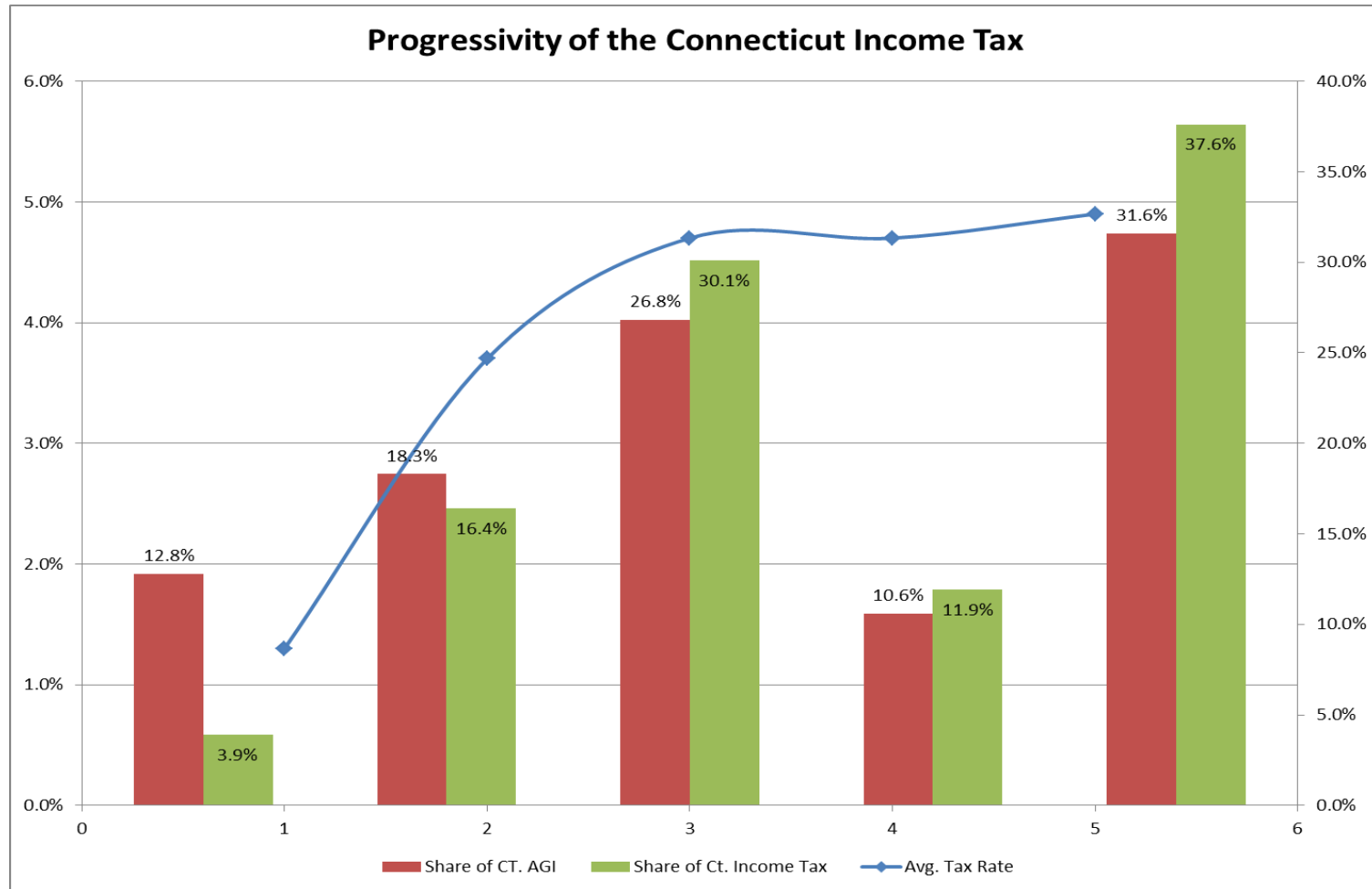
# Tax Fairness

- Horizontal Equity (equal treatment of equals)
  - Broad tax base is a “+”
  - Some issues
    - Different average effective tax rates by filing status
    - Full or partial exemption of Social Security benefits
    - Full exemption of military retirement benefits
    - Three small tax credits
- Vertical Equity (progressivity)
  - Connecticut PIT is progressive.
  - Increase in progressivity of Connecticut PIT over time.
  - Connecticut state EITC results in negative tax rates for low income Connecticut families.

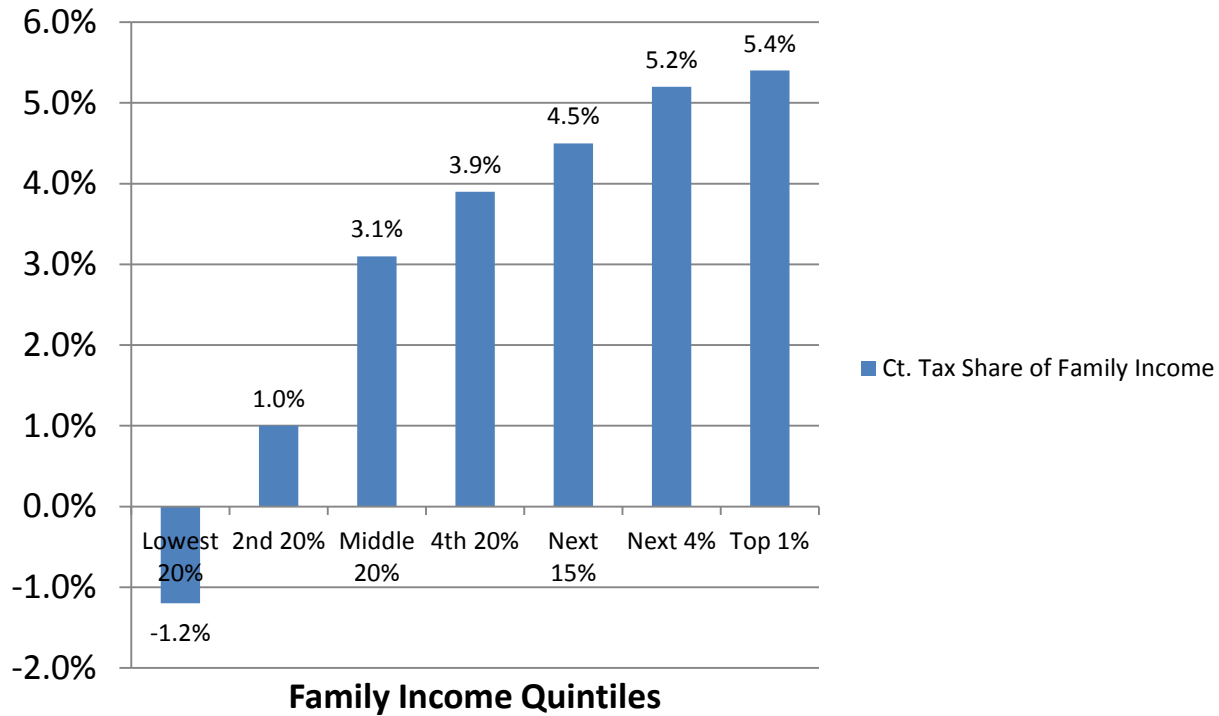
**Table 5: Connecticut Personal Income Tax Expenditures**

<b>Item</b>	<b>FY 14 Estimates</b>	<b>FY 15 Estimates</b>	<b>Revenue Gain in FY 15 if Repealed</b>
<b>Personal Income Tax</b>			
<i>Exemptions and Deductions</i>			
Interest on US Obligations	29.6	29.6	29.6
Dividends from Mutual Funds Derived from US Government Obligations	1.0	1.0	1.0
Tier I Railroad Retirement Benefits	0.5	0.5	0.5
Beneficiary's share of Connecticut fiduciary adjustment	0.2	0.2	0.2
Gain on sale of Connecticut Bonds	0.8	0.8	0.8
Social Security Benefits	100.0	102.2	102.2
Military Retirement Income	3.9	4.0	4.0
Contributions to CHET	7.3	7.5	7.5
Other Deductions	12.3	12.3	12.3
<i>Credits</i>			
Credit for Property Taxes Paid	213.1	214.3	214.3
Earned Income Tax Credit	104.5	120.7	120.7
Angel Investor Tax Credit	6.0	3.0	3.0
Insurance Reinvestment	1.6	1.6	1.6
Job Expansion Tax Credit	6.0	6.0	6.0
<b>Total Personal Income Tax</b>	<b>486.8</b>	<b>503.7</b>	<b>503.7</b>

# Progressivity of the Connecticut PIT



**Figure 5 : Share of Family Income Paid in CT.  
Personal Income Tax Including EITC**





**Table 7: Comparison of the Progressivity of the Connecticut Income Tax**

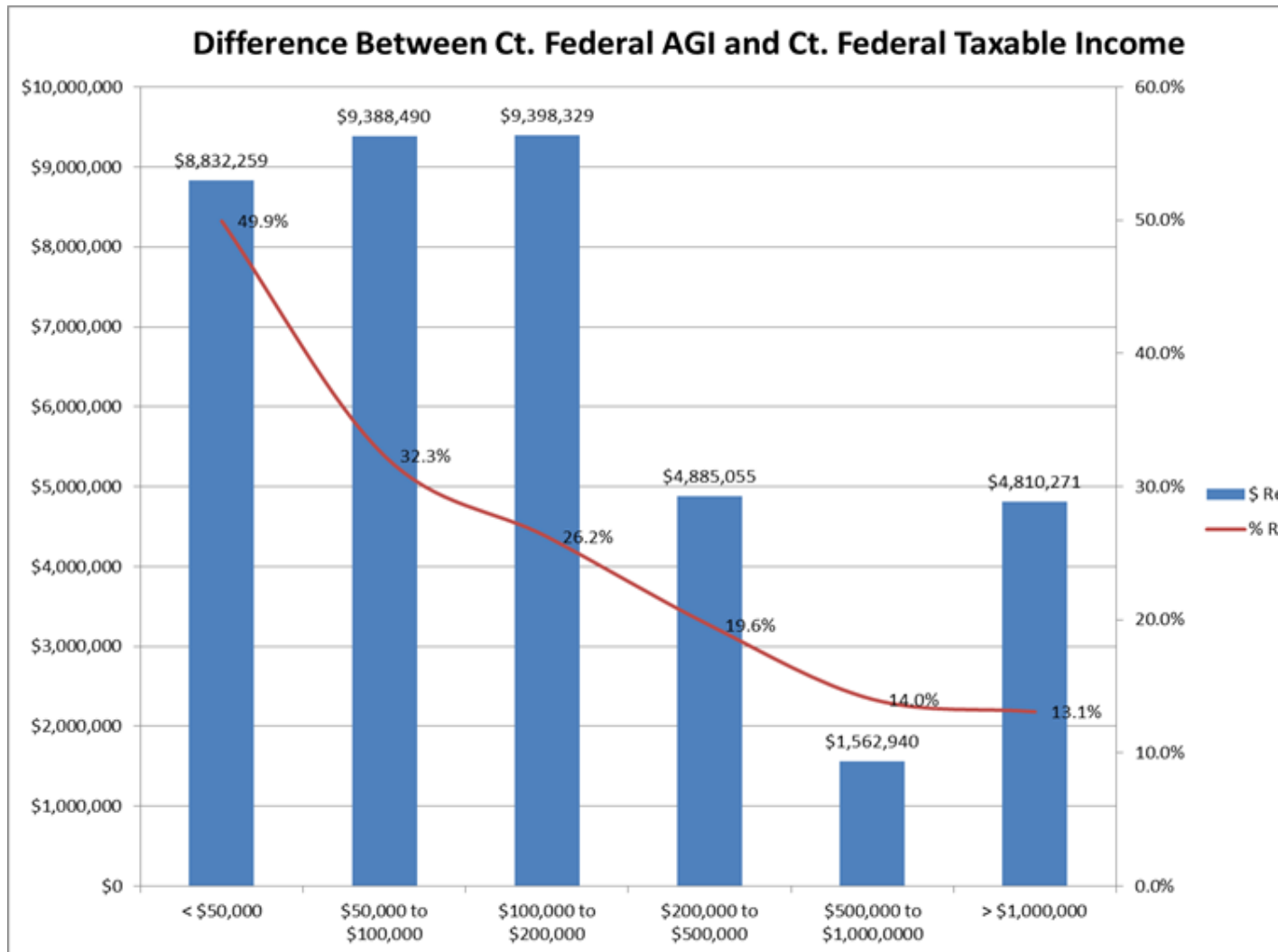
State	Progressivity Index 1	Rank	Progressivity Index 2	Rank	EITC Percent	Rank
Connecticut	4.85	8	1.7	15	27.5	3
Delaware	1.28	20	1.4	17	20.0	
Massachusetts	0.08	37	0.0	23	15.0	6
New Hampshire	0.05	39	0.0	23		
New Jersey	9.49	4	7.2	2	20.0	5
New York	19.00	1	2.4	9	30.0	2
Rhode Island	3.02	14	2.2	10	10.0	8
Vermont	9.42	5	5.4			

Progressivity Index 1 = multiple of average earnings at which the top income tax rate applies; Progressivity Index 2 = difference between the top income tax rate and the marginal rate on \$25,000 of taxable income.

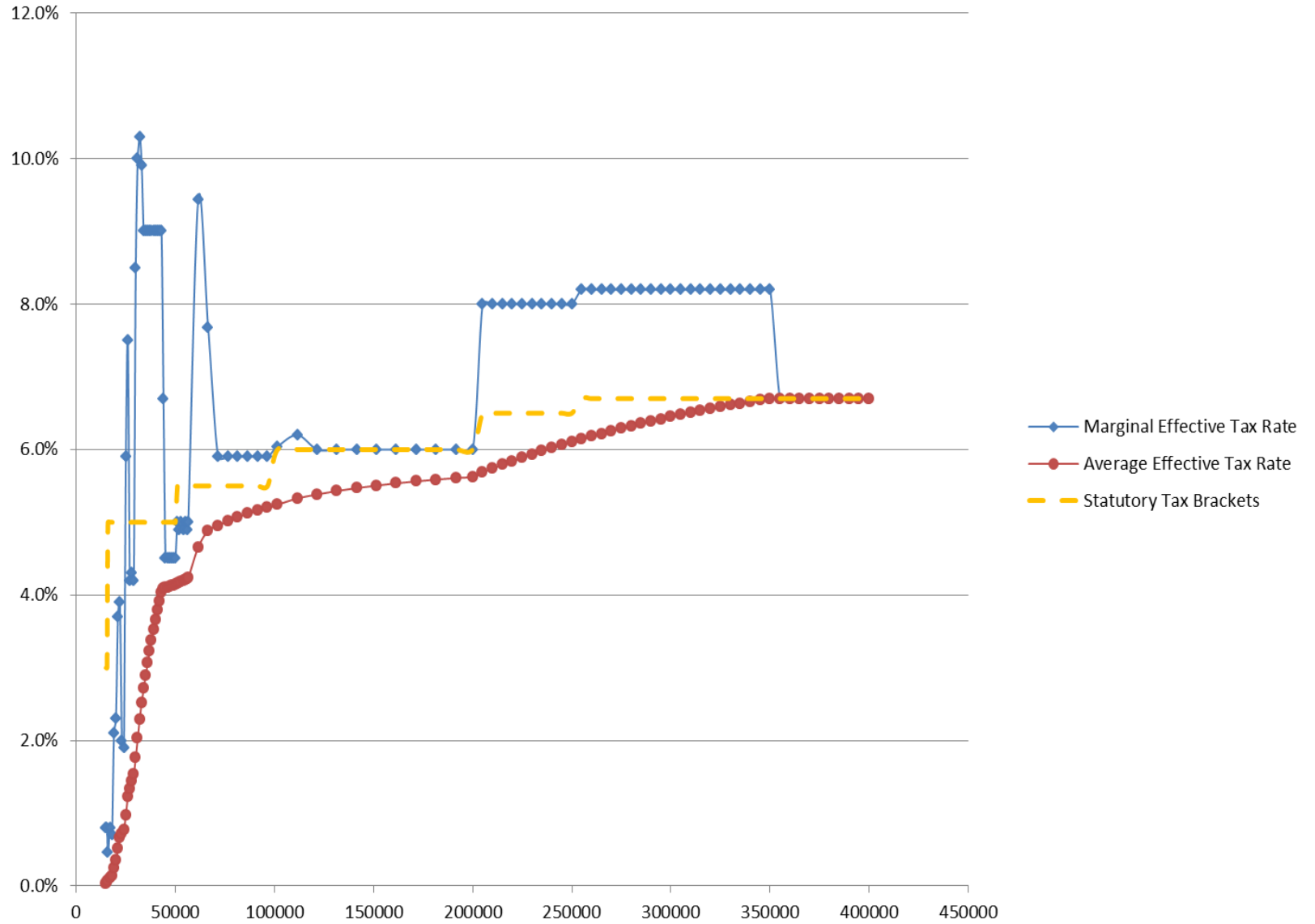
# Administration and Compliance Costs

- Conformity with Federal AGI economizes on both administration and compliance costs.
- No particular administrative/compliance advantage to adopting “full Federal conformity” (e.g. Federal taxable income instead of Federal AGI)
- Moving to a single flat-rate income tax would lower progressivity, with minimal gain in true simplicity
- Exemption phase-outs and low tax rate recapture reduce tax rate transparency

# Conforming to Federal Taxable Income Instead of Federal AGI



# Effect of Exemption Phase-Outs and Low Tax Rate Recapture



# Incentive Effects and Competitiveness”

- Connecticut PIT has same qualitative effects on work and saving incentives as any other personal income tax.
- Argument for taxing capital gains at preferential rates is weak.
- Among its neighbors, Connecticut PIT burden is broadly competitive

## STATE INDIVIDUAL INCOME TAXES

(Tax rates for tax year 2015 – as of January 1, 2015)

	TAX RATE RANGE		Number of Brackets	INCOME BRACKETS		PERSONAL EXEMPTIONS		
	Low	High		Lowest	Highest	Single	Married	Dependents
CONNECTICUT	3.0	- 6.99	6	10,000 (b)	- 250,000 (b)	14,500 (g)	24,000 (g)	0
DELAWARE	0.0	- 6.6	7	2,000	- 60,001	110 (c)	220 (c)	110 (c)
MASSACHUSETTS	5.15		1	—Flat rate—		4,400	8,800	1,000
NEW HAMPSHIRE	State Income Tax of 5% on Dividends and Interest Income Only							
NEW JERSEY	1.4	- 8.97	6	20,000 (o)	- 500,000 (o)	1,000	2,000	1,500
NEW YORK	4.0	- 8.82	8	8,200 (b)	- 1,029,250 (b)	0	0	1,000
RHODE ISLAND (a)	3.75	- 5.99	3	60,550	- 137,650	3,850	7,700	3,850
VERMONT (a)	3.55	- 8.95	5	37,450 (u)	- 411,500 (u)	4,000 (d)	8,000 (d)	4,000 (d)
DIST. OF COLUMBIA (a)	4.0	- 8.95	4	10,000	- 350,000	1,675	3,350	1,675

**Table 10: Comparing Relative Taxes Owed: Married Filing Jointly**

Taxable Income	\$1,000,000		\$510,000		120,000	
	Tax	Rank	Tax	Rank	Tax	Rank
Connecticut	100,500	2	31,318	3	5,859	3
New York	101,678	3	33,863	4	6,272	4
Massachusetts	77,542	1	26,042	1	5,906	1
New Jersey	117,328	4	28,525	2	3745	2

# Findings and Options

<b>Policy Options</b>	<b>Revenue Adequacy</b>	<b>Tax Fairness</b>	<b>Administration and Compliance Costs</b>	<b>Economic Efficiency and Competitiveness</b>
Strong Budget Stabilization Fund	<i>plus</i>			<i>plus</i>
Limit Tax Preferences for Retirement Income	<i>plus</i>	<i>plus</i>	<i>plus</i>	?
Substitute Federal Taxable Income for Federal AGI	<i>minus</i>	<i>uncertain</i>	<i>Little effect</i>	<i>plus</i>
Enact a Flat-Rate Income Tax		<i>minus</i>	<i>Little effect</i>	?
Retain and Enhance Connecticut EITC		<i>plus</i>	<i>Little effect</i>	<i>mixed</i>
Tax Capital Gains at Preferential Rates	<i>minus</i>	<i>minus</i>	<i>minus</i>	<i>mixed</i>
Tax Income Broadly at Low Tax Rates	<i>plus</i>	<i>plus</i>	<i>plus</i>	<i>plus</i>