

CONNECTICUT ESTATE AND GIFT TAX

Karen Smith Conway

Professor, University of New Hampshire

Jonathan C. Rork

Professor, Reed College

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## Executive Summary

The passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (TRUIRJA), and the American Taxpayer Relief Act of 2012 (ATRA) fundamentally altered the structure of the federal estate tax. Gone was the state pick-up tax, which allowed for a federal tax credit for state Estate, Inheritance and Gift (EIG) taxes paid. The federal estate tax exemption has been raised from \$675,000 to \$5.43 million, and is now indexed to inflation. The federal estate tax and gift tax are now unified, so that any gifts given beyond the annual limit (currently \$14,000) count against the exemption. Portability, which allows a spouse to use any unclaimed exemption by his/her deceased spouse, is now a permanent feature of the tax code.

For the states, the immediate effect of the loss of the pick-up tax was a loss in revenues. Some states responded by decoupling their EIG tax from the federal code in order to maintain the tax; by not decoupling, other states effectively let their EIG tax fade away. Other states went one step further by officially eliminating their EIG tax altogether. Currently, 20 states, including Connecticut, impose some sort of EIG tax.

With the elimination of Minnesota's gift tax in 2014, Connecticut is the only state imposing a stand-alone gift tax. Similar to federal law, Connecticut's gift tax is a unified tax; all gifts that exceed the annual tax-free limit count against the amount that is exempt from eventual estate taxation. The current estate exemption level of 2 million dollars places Connecticut in the middle of all states nationally. Its highest tax rate of 12% is the second lowest in the nation.

Connecticut has one of the lowest tax impacts in the Northeast for large estates. Connecticut's EIG tax is the most progressive tax Connecticut maintains, which is a consideration for a state that we find ranks 4th in income equality, a measure that has worsened both absolutely and relatively through the years.

EIG tax revenue is notoriously volatile and hard to predict. Not only does the tax depend on people dying, but it also can be paid many years later than the year death occurs. This means that in a given year, EIG revenue is raised from both the estates of recently deceased, as well as those who deceased in years past, which can span numerous years. Since 2001, Connecticut's EIG tax revenue as a share of total tax revenues has exhibited a decreasing trend, from a high of 2.5% to currently below 1%. Only in 2013 is there a significant departure from this trend path.

We evaluate the impact of Connecticut's EIG tax on the state through a variety of means. In a migration context, we utilize data from the Census and the American Community Survey (ACS) to show that Connecticut has experienced a fairly steady net-outflow of elderly migrants since 1980. Moreover, the states Connecticut loses migrants to have also remained stable over this time. Given that EIG tax policies have changed a great deal during this period, the stability of these migration patterns suggest they are influenced little by EIG taxes. We also find that the behavior of high income elderly migrants (those most likely to face EIG taxes) have been similar to the general elderly migrant population. These stable patterns are verified in data from the Internal Revenue Service (IRS), and is consistent with the established literature that shows little

to no migration effects from EIG taxes. We also see no evidence of migration effects from data on federal estate tax returns or Connecticut personal income tax filings.

Connecticut's EIG tax also appears to have limited impact on annual economic growth in the state, regardless of how growth is measured. Connecticut growth falls in line with all its neighboring states and does not appear affected by changes in its EIG tax policy. Even in comparison to Southern states that have experienced large amounts of population growth over the last 30 years, Connecticut's per capita growth rate would not be considered an outlier. A similar pattern emerges when Connecticut is compared to Midwestern states without EIG taxes. Connecticut's growth appears to be more volatile than some states, but that pattern has been consistent since 1978, making it hard to blame EIG taxation for any growth pattern we witness.

The report ends with six policy recommendations for the panel to consider. They include:

*1) Retain the Current EIG Tax.* The EIG tax is only one of two progressive taxes in the Connecticut tax system and the total (federal + Connecticut) tax on estates is lower currently than it has been at any time in recent history. Connecticut has already enacted (in 2009) the critical reform of removing the 'cliff,' whereby estates just exceeding the exemption faced a disproportionately large tax burden. While only 20 states impose an EIG tax, nearly all of the states in the region do so and Connecticut's tax is near the bottom in terms of tax liability; however, this policy is in flux and so the landscape could change rapidly. Nearly all other options will reduce revenues that are unlikely to be made up via retaining rich residents or increased economic growth.

*2) Allow for a state-specific QTIP election.* Currently, Connecticut does not allow for a state specific QTIP election. For situations where the value of the estate is more than the Connecticut exemption but less than the federal exemption, the lack of a state specific QTIP election prevents married couples from deferring state taxes without forgoing the full federal exemption when the first spouse dies. Allowing a state specific QTIP will simplify estate planning for Connecticut residents.

*3) Conform to the Federal Estate Tax.* Connecticut already conforms with the federal unified gift tax. Two other ways to conform include:

- i) Increase the exemption level to the federal limit (currently \$5.43 million, indexed to inflation), and
- ii) Adopt the 'portability' feature in which one spouse may claim the unused exemption of a deceased spouse.

Conforming to the federal estate tax would simplify estate tax planning, fully exempt from taxation the large number of currently-taxable, smaller estates, and lower significantly the tax burden on all estates. These changes would also substantially reduce EIG tax revenues.

*4) Increase the Marginal Tax Rate on Federally Taxable Estates.* The deductibility of state EIG taxes from the federally taxable estate affords the state the opportunity to capture a portion of federal revenues, as it did under the 'pickup' tax. Estates below the federal threshold do not

enjoy this benefit and so, despite an increasing *statutory* marginal tax rate, Connecticut's *effective* marginal tax rate actually declines (and is sometime negative) for medium to large estates. This option is the only one considered that could increase revenues. It could therefore be considered in combination with other reforms in an effort to be revenue neutral on balance.

5) *Eliminate the Gift Tax.* The gift tax generates a relatively small amount of revenue (about 4% of all EIG tax revenues in 2013-14). Eliminating the gift tax increases the opportunity for 'deathbed' gift planning, in which large transfers are made in contemplation of death to avoid the estate tax, although the federal unified gift tax law would still apply to larger estates. Eliminating the gift tax will therefore likely significantly reduce EIG tax revenues, especially if no other 'gifts-in-contemplation-of-death' rules are enacted.

6) *Eliminate the Estate (and Gift) Tax.* Connecticut EIG taxes are a relatively small portion of total tax revenues (<2%), with revenues equaling \$207 million in 2013-14. Connecticut would join the majority of other states without EIG taxes and be the only state in the region besides New Hampshire without one.



## Introduction

State estate, inheritance and gift (EIG) taxes have a long and volatile history, one that is intricately linked to that of the federal estate tax law. The last fifteen years are a prime example. In response to a key change in federal estate tax law in 2001, many states effectively increased or brought back their EIG taxes, only to subsequently decrease or eliminate them. The 2010s have seen many additional changes to state EIG taxes; Illinois, Iowa and Oregon implemented an estate tax, 8 states have increased the exemption before an EIG is triggered, and 5 have eliminated them altogether<sup>1</sup>. To aid in determining the best course of action, if any, for Connecticut, we first provide a broad overview and brief history of EIG tax law at the federal and state level and then for Connecticut in particular. We then discuss the possible effects and issues of EIG taxes, following with an examination of the evidence regarding Connecticut's EIG tax law's effect on possible migration and economic growth. We close with a discussion of policy options to consider.

## General Background

State EIG (sometimes referred to as “death”) taxes are comprised of three types of taxes: Estate, Inheritance (or Succession), and Gift taxes. Both estate and inheritance taxes are levied upon the transfer of wealth upon death. Estate taxes apply to the decedent's estate, whereas inheritance taxes apply to the bequests made to beneficiaries. Both often exclude bequests given to spouses or charity. The key difference is that inheritance taxes are legally imposed on the heirs (though paid by the estate) and apply varying tax rates and exemptions according to the type of beneficiary; more distant relatives and unrelated individuals typically face higher rates. Gift taxes are imposed on wealth transfers prior to death and help prevent individuals from avoiding estate and inheritance taxes by transferring their wealth prior to death. Absent a gift tax, individuals can avoid paying estate or inheritance taxes by giving their assets away while alive. Currently, 13 states plus DC have an estate tax<sup>2</sup>, 4 have an inheritance tax and 2 have both; both Connecticut and the federal government currently impose a unified estate and gift tax.<sup>3</sup>

State and federal EIG taxes have a long and intertwined history. The federal estate tax became permanent in 1916, and the vast majority of states already had EIG taxes by that time. As early as the 1920s, however, states began to reduce and eliminate their EIG taxes in the hope of attracting or at least retaining their wealthiest residents (Cooper, 2006). Partially in response to this tax competition, Congress in 1924 provided a tax credit against the federal estate tax liability for state EIG taxes paid, up to a certain amount. This dollar-for-dollar tax credit allowed the states to impose an EIG tax without increasing the overall tax burden (federal + state) imposed; this so-called ‘pick-up’ or ‘soak-up’ tax allowed states to receive a share of federal revenues. All states took advantage of this provision. As early as the 1950s, a few states, most notably Florida,

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<sup>1</sup> Oregon replaced its pick-up tax for a standalone estate tax, and Tennessee repealed its inheritance tax effective January 1, 2016.

<sup>2</sup> This tally includes Nebraska, whose tax is imposed by local counties and not the state.

<sup>3</sup> A unified estate and gift tax is where the same exemption and tax rates apply to both, and lifetime taxable gifts count against both the gift and the estate tax exemptions. Gifts are only taxable once they exceed the annual, per-recipient federal exemption (\$14,000 in 2015; see Michael 2014, p. 11).

chose to impose *only* the pick-up tax. In practical terms, such states can be considered as not having a ‘true’ estate tax; they simply receive a portion of the federal tax liability. The mid-1970s saw the beginning of another wave of state tax competition as many more states began eliminating any *additional* EIG taxes beyond the pickup tax. By 2000, 33 states had only the ‘pickup’ tax, including all of Connecticut’s neighbors as well as Vermont and Maine (Conway and Rork 2004). Connecticut continued to have an additional tax (a succession tax).

Federal estate tax law has seen many changes since 2000, summarized in Table 1. Foremost is the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), which made many changes to the federal estate tax that affected the states. EGTRRA phased out the state tax credit and replaced it with a deduction, which is less valuable, in 2005.<sup>4</sup> It also steadily increased the exemption from \$675,000 to \$3.5 million and decreased the top tax rates from 55% to 45% by 2009. It eliminated the federal estate tax completely for deaths occurring in 2010, but then returned to the federal law in place in 2001 (pre-EGTRRA) for 2011.

As has been noted by many (e.g., Michael 2014, Francis 2012, Cooper et al 2004), the sudden loss of revenue combined with the uncertainty of whether the credit would return in 2011 led to a myriad of state EIG tax policy responses.<sup>5</sup> Many states did nothing and thus lost the revenues from the pickup tax; for states that had *only* a ‘pick-up’ tax, that meant that EGTRRA effectively eliminated or, perhaps more accurately, rendered dormant their entire EIG tax system. Florida, a popular destination for retirees including those from Connecticut, falls in this category.<sup>6</sup> Some states, including Arizona, went a step further and repealed all reference to the estate tax (Francis 2012). Still other states ‘decoupled’ from the federal system by referencing the estate tax at a certain date (prior to EGTRRA), thereby preserving the old revenue source but also now effectively imposing a new, additional tax burden on the estate.<sup>7</sup> Finally some states enacted new, ‘stand-alone’ estate taxes whereby the state set its own exemption level and tax rate.

With EGTRRA’s provisions expiring at the end of 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (TRUIRCA) was enacted in December 2010, which made temporary changes, followed by the American Taxpayer Relief Act of 2012 (ATRA) enacted in January 2013 and making permanent changes.<sup>8</sup> Several of the changes resulting from these federal laws have implications for state EIG taxes (Michael, 2014). First, the exemption amount increased to \$5 million and was indexed to inflation. Second, the

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<sup>4</sup> A tax credit reduces the tax liability dollar for dollar. A deduction reduces the tax base and thus reduces the tax liability by the marginal tax rate (MTR) x deduction amount. For example, at a MTR of 50% a deduction is worth only half as much as a credit of the same amount.

<sup>5</sup> Many of these studies also assert that the state tax credit was eliminated as a way for Congress to pay for the loss of revenues caused by the reduction in the federal estate tax. See Cooper et al (2004) for a thorough explanation of the different types of state responses.

<sup>6</sup> A recent report links Rhode Island’s increased out-migration after 2004 to Florida’s “elimination” of the estate tax, which reveals the lack of understanding and degree of misinformation about these taxes (Moody and Felkner, 2011). As noted above, Florida has not imposed a ‘real’ EIG tax for at least 50 years prior to 2004.

<sup>7</sup> The degree of decoupling can get complicated as some states referenced the state tax credit schedule of an earlier date but tied the exemption to the current federal law. As discussed shortly, Connecticut fell in that category during 2005-2009. It then enacted its own, stand-alone estate tax beginning in 2010.

<sup>8</sup> One such change was to retroactively apply a \$5 million exemption for estates in 2010, rather than being completely exempt from taxation as under EGTRRA.

tax rate decreased to 40%. These two changes further reduce the value of the federal deduction for state EIG taxes by having fewer estates subject to tax and by reducing the value of the deduction for those estates that are subject to the tax (because the mtr is lower; see footnote 2).

It also made the federal exemption ‘portable’ in that the deceased spouse’s unused exemption can be passed to a surviving spouse. For example, suppose John dies and leaves a \$6 million estate to his wife Mary. Mary will pay no federal (nor state, in the vast majority of states) estate tax, even though the \$6 million estate exceeds the \$5.43 million exemption, because of the spousal exemption. Portability means that when Mary dies, she will not only have the exemption in place in that year but she will also get John’s unused portion. Instead of having \$5.43 million (+ inflation) of her estate exempt from taxes, more than \$10 million will be exempt.<sup>9</sup> (Without portability, John would have an incentive to leave up to \$5 million to his other heirs, to take advantage of the exemption.) As discussed in the next section for Connecticut, this has tax implications for QTIPs in states with estate tax exemptions lower than the federal tax. A QTIP is a qualified terminable interest property, a trust in which John can designate who receives the assets upon Mary’s death, but Mary has the right to all income generated by the QTIP while alive. In essence, it allows John to transfer his assets to Mary while also specifying how the remaining assets are allocated after Mary’s death.

Finally, the federal exemption and the gift exemption are now unified. This means that any gifts made beyond the annual exemption amount (currently \$14,000 per recipient) count against the federal exemption amount (currently \$5.43M) upon death of the donor.

As a result of all of these federal rule changes and the belief since 2013 that the federal law is now permanent, state policies are currently being revised and debated in many states. Table 2 summarizes the EIG tax status of each state, as of this writing. Figure 1 reveals that states with EIG taxes are clustered geographically and that estate taxes are common in the region around Connecticut.

The federal estate and state EIG taxes have therefore been subject to many policy changes over the years and yet both are relatively small in terms of their importance to revenues. Figure 2 shows that state EIG taxes make up a very small (< 3%) and generally declining fraction of total state tax revenues. With the current wave of state EIG tax reductions, this fraction seems almost certain to decline further.

### **EIG Taxes in and around Connecticut**

At the time EGTRRA was enacted, Connecticut had a succession (inheritance) tax as well as an additional estate/‘pickup tax’ that was designed to ‘pick up’ any unused portion of the federal tax credit. Transfers to spouses and immediate family members were already exempt, and taxation on all other transfers were set to be phased out by 2006 (2001-2 Annual report). Thus, Connecticut was on track to become a ‘pickup tax only’ state. EIG tax collections equaled \$260,832,767 (or 2.7% of total state revenue sources) in FY2000, falling to \$173,040,623 (1.9%)

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<sup>9</sup> Only Hawaii currently allows for such portability in its estate tax law and Maryland will allow it starting in 2019.

in FY 2002.<sup>10</sup> By FY 2006, EIG collections were \$203,457,505 and accounted for only 1.6% of state revenue sources.

In 2005, Connecticut replaced the separate ('pickup') estate tax and separate gift tax with a unified gift and estate tax; it also repealed its succession tax. The unified estate and gift exemption was \$2 million and the tax rates ranged from 5.085% to 16% for estates over \$10.1 million. (Figure 3 shows the exemptions for Connecticut and the federal law since 2000.) Connecticut therefore became like several other states that enacted estate taxes based largely on the dormant federal tax credit and, as a result, had a 'cliff' or 'bubble' marginal tax rate on estates valued just over the exemption (Estate Tax Report 2008, Michael 2014). These cliffs arise because once the estate exceeds the exemption level, the entire estate is subject to the tax rather than only the amount that exceeds the threshold. This peculiarity seems to have arisen because states impose a tax liability based on the pre-EGTRRA state death tax credit laws on estates exceeding the exemption; as states increase the exemption level, the cliff becomes higher (see footnote 11 below).

Laws enacted in 2008 and 2009 significantly reduced the Connecticut tax on estates and created a 'stand-alone' estate tax not based on the old credit. These laws increased the exemption to \$3.5 million, lowered the tax rates on all estate levels (top rate was now 12%) and removed the cliff by making only the portion of the estate above the exemption level subject to tax.<sup>11</sup> For example, a \$3 million estate that would have paid \$182,000 in estate taxes in 2009 would pay nothing in 2010; a \$4 million estate would have paid \$280,400 in 2009 and only \$38,400 in 2010. In 2011, Connecticut changed its estate tax law again to where it stands today (reported in Table 3). The exemption returned to its prior level of \$2 million and estates in the \$2 – 3.5 million range face a tax rate of 7.2%, the rate that had been imposed on estates between 3.5M and 3.6M previously. Because the cliff has been removed, these smaller estates still face a lower tax liability than in 2009, despite the higher tax rate (7.2 vs. 5.085). For example, a \$2.1 million estate would have paid \$106,800 in 2009 but would only pay  $.072 \times \$100,000 = \$7200$  in 2011.

In sum, during this period Connecticut saw its EIG tax revenues decline (in real terms) as the state death tax credit ('pickup tax') was phased out. Conversely, Connecticut residents experienced an increase in the additional estate tax liability imposed by the state above that of the federal law, because they could no longer deduct their state EIG taxes dollar for dollar from their federal liability and instead could only claim a deduction. The removal of the cliff and the reduction in tax rates beginning in 2010 reduced significantly this tax liability (and revenues generated). However, at the same time, the dramatic increase in the federal exemption to its current level of \$5.43M means that estates below that amount face no federal tax and therefore lose the deduction. Nonetheless, one must note that the total estate tax liability (federal + Connecticut) is far lower today than it has been at any time in recent history.

<sup>10</sup> The numbers for FY2000 and FY 2002 are taken from the 2001-2 Annual reports, p. 18, and are the sum of the 'Connecticut Estate Tax,' the 'Gift Tax' and the 'Succession Tax'.

<sup>11</sup> Note that only changing the exemption level pushes the cliff further out and makes it even steeper. For instance, only increasing the \$2 million exemption to \$3.5 million would mean that estates just over \$3.5 would now pay tax on the entire amount of the estate whereas estates just under \$3.5 million would pay nothing.

### *Comparison to Other States*

Other states in the region have followed a similar path in the years since EGTRRA. Connecticut's three neighbors (NY, MA and RI) as well as Maine, Vermont and New Jersey all 'decoupled' and continued to base their EIG taxes on the dormant state tax credit.<sup>12</sup> As such, bubbles and cliffs were created in these states as well. Several states have also taken recent actions to change their laws, including:

- **New York** = in 2014, it began increasing its \$1 million exemption by \$1.0625M a year, such that it is currently \$3.125M and will reach \$5.25M by April 2017. From 2019 on, the exemption equals the federal exclusion. However, due to the way the tax is calculated, its tax rate bubble remains.<sup>13</sup> It follows the tax rate schedule from the old state tax credit and has a top rate of 16% on estates greater than \$10.1M.
- **Rhode Island** = in 2014, it has increased its exemption level and indexed it to inflation, such that it is \$1.5M in 2015. It also eliminated its cliff tax by taxing only the portion of the estate above the exemption level. It follows the tax rate schedule from the old state tax credit and has a top rate of 16% on estates greater than \$10.1M.
- **Vermont** = in 2011, it increased its exemption to \$2.75M. Its cliff tax remains. It follows the tax rate schedule from the old state tax credit and has a top rate of 16% on estates greater than \$10.1M.
- **Maine** = in 2012, it created a stand-alone estate tax with an exemption of \$2M and three tax brackets ranging from 8% (\$2M – 5M) to 12% (above \$8M). It no longer has a cliff tax.

**Massachusetts** and **New Jersey** have made no significant changes to their tax laws as of this writing. Figures 4a-c show the current exemption levels, the maximum tax rate, and the estimated amount paid on a \$20 million estate for all the states in the region. These figures reveal that Connecticut's exemption is among the higher in the region, and its top tax rate and amount paid on a \$20 million estate among the lowest. Thus, while the majority of states no longer impose EIG taxes, Connecticut's policies are similar to those of its neighbors, and its tax burdens fall in the lower range of those in the region. More generally, Connecticut is fairly similar to other states that continue to impose EIG taxes, as evident from Table 4, which shows the exemption levels and range of tax rates for all states with EIG taxes in 2015. However, that conclusion comes with the caveat that, as our brief review here shows, state EIG taxes are changing a great deal and are definitely in flux.

### *Current Features of Connecticut's EIG Tax*

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<sup>12</sup>New Hampshire did not decouple and so effectively eliminated its EIG tax with the 2005 phase out of the credit. Pennsylvania has a broad-based inheritance tax and New Jersey has both an inheritance and an estate tax.

<sup>13</sup>New York's tax is not a technically a cliff because the entire estate is not subject to tax once the estate exceeds the exemption level by 1 dollar; instead, the amount subject to tax is rapidly phased in, thus leading to a very steep hill but not a cliff *per se*.

Table 3 reports the current Connecticut estate & gift exemption and statutory tax rates, and Figure 5a and 5b show the estimated EIG tax liability and average tax rate in 2014, taking account of the federal deduction, by the size of the estate. Estates that exceed the federal exemption level (currently \$5.43M) can deduct the state EIG taxes paid, which has the effect of reducing the additional tax liability due because of the state law until all of the state EIG taxes are deductible. For every dollar the estate exceeds \$5.43M, it can deduct an additional dollar of state EIG taxes paid and thus reduce its federal tax bill by as much as \$.40; as a result, the net (or additional) state tax liability is actually negative (\$.09 in additional state EIG taxes minus \$.40 reduction in the federal liability =  $-.31$ ). This is the downward-sloping portion of the ‘after federal offset’ line in the figures. Once the estate exceeds the federal exemption by enough that all state EIG taxes can be deducted, the net state tax liability begins to increase again with the size of the estate, but at a slower rate – because each additional \$.09 paid in state taxes will reduce the federal tax bill by  $0.4 \times \$.09 = \$.036$  as it is deducted. For example, an \$11 million estate would be able to deduct the full amount of the state EIG taxes paid (\$856,200) from its federally taxable estate, thus reducing its federal tax liability by  $0.4 \times \$856,200 = \$342,480$ .<sup>14</sup> This example illustrates how states can still, in effect, gain a piece of the federal estate tax revenues as they did in the past with the ‘pickup tax.’ This piece is the gap in the two lines in Figure 5a. For this reason, it may make sense for the states to levy higher tax rates on estates that are subject to the federal tax, as they can obtain another dollar of revenue while only increasing the decedent’s total (state+ federal) tax liability by \$.60.

Estates that are large enough to pay a state EIG tax but fall below the federal level do not receive this tax benefit because they face no federal tax liability. These estates are also affected by the state’s QTIP laws, which can significantly complicate estate planning. Connecticut (along with New York, New Jersey, Vermont and DC) does not allow a separate state QTIP election, although Connecticut does allow a state QTIP election if no federal QTIP election is made. By choosing a QTIP equal to the amount for the federal exemption, one creates an estate tax burden at the state level. By choosing the lower state exclusion, however, one might end up wasting the federal exemption and pay more federal tax when the surviving spouse dies. 10 states allow a state QTIP to differ from the federal QTIP, which allows the creation of a QTIP equal to the federal exclusion without paying additional state tax at the time the first spouse dies. As stated in Michael (2014), the allowance of a state specific QTIP election allows married couples to defer the payment of state tax without forgoing the full federal exemption when the first spouse dies. It also prevents the executor from having to make guesses as to what state and federal estate taxes will look like in the future when choosing QTIP elections.

Connecticut also differs from all other EIG tax states in that it is the only state with a unified gift tax. Thus, all taxable gifts (defined as gifts exceeding the federal exclusion level of \$14,000 per recipient per year) are treated as part of the estate. While Connecticut is unique in this regard, many states with EIG taxes have laws to prevent EIG tax avoidance by transferring wealth while still alive. These laws often entail a ‘look back’ period in which taxable gifts made in the last

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<sup>14</sup> Note that because the federal tax liability cannot be negative, smaller estates will not gain the full mtr\*EIG tax paid value of this deduction. Rather, taking this deduction will render their estate exempt from federal taxation.

few years before death (three years is a common window) are included in the estate.<sup>15</sup> As a practical matter, then, Connecticut differs from other states by considering gifts made a longer period of time prior to death.

### **Issues to Consider in Evaluating an EIG tax**

An evaluation of any tax should include its distributional implications and its effects on incentives and behaviors – and by extension, the tax revenues generated and economic growth effects. Compliance and administrative costs of the tax should also be considered. Gale and Slemrod (2000) provide an excellent overview of the many issues involved in evaluating the estate and gift tax (primarily at the federal level).

#### *Distributional Considerations*

Almost by definition EIG taxes are desirable from an ‘ability to pay’ viewpoint, especially at the current high exemption levels. Clearly, current EIG taxes reach only the very top of the wealth distribution. In contrast, the top 24% of households would have paid state EIG taxes in the vast majority of states in 1962 (Conway and Rork, 2006). EIG taxes have long been justified as taxing according to ability to pay and as a way of reducing the concentration of wealth. We note that the reduction in EIG taxes at both the federal and state level has occurred while US income and especially wealth inequality have grown. Connecticut has followed this general pattern of declining wealth taxation. In 2000, 9.17% of Connecticut deaths faced a Connecticut EIG tax, whereas in 2013 only 1.75% did so.

However, concerns about ‘ability to pay’ have been raised in regards to small family businesses and farms. In these cases, the assets comprising the estate may not be very liquid, and beneficiaries may feel forced to sell the business/farm (liquidate the assets) to pay the EIG tax liability. As a result, several states with EIG taxes have special provisions for small businesses and farms (see Figure 1).

#### *Behavioral Effects*

The most common concerns raised about EIG taxes – and therefore arguments for their reduction and elimination – have to do with their effects on behaviors. As Gale and Slemrod (2000) point out, how EIG taxes affect the behavior of the one leaving the estate (the decedent or ‘donor’) depends upon the motive for leaving an estate. With an uncertain life span, one cannot rule out that bequests are ‘accidental’ – i.e., the donor is saving for precautionary reasons and will thus be likely to have assets leftover when he or she dies. In the case of such accidental bequests, the estate tax has no effect on donor behavior. However, it seems unlikely that very large estates – the only ones facing a tax now -- are purely accidental.

Rather, large estates seem likely to be a deliberate intergenerational transfer, and a rich literature has explored the various motives for giving such transfers. Explanations include altruism, whereby altruistic parents want to improve the well-being of their children, and exchange motives, in which the transfer is ‘payment’ for a good or service provided by the children. The

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<sup>15</sup> Michael (2014, table 6) reports these rules for each state.

behavioral implications of both types of motives have been tested empirically with mixed results. A further complication in predicting the behavioral effects of EIG taxes is that the heirs' behaviors may also be affected – both before and after the donor's death. Prior to the donor's death, heirs may behave in such a way as to maximize their likely inheritance, which in turn depends upon the donor's motive.<sup>16</sup> Receiving the inheritance may further affect the heirs' behavior, with larger inheritances perhaps leading them to work less and accumulate less of their own wealth through work and investment. These considerations reveal that it is possible for EIG taxes to have behavioral effects that are either beneficial or detrimental to economic growth.

### *Migration*

For state EIG taxes there is the additional behavioral effect that donors may reduce their EIG taxes by moving to a state with a lower tax burden. This effect is the one most heavily emphasized in state EIG tax policy debates, and it has been studied extensively. However, it too is not completely straightforward. As before an 'accidental' donor would have no incentive to move because they are not planning to leave an estate. Even for intentional donors, however, moving to a new state likely entails large psychic and pecuniary costs and the tax burden is only one of many state characteristics to consider. Besides the rest of the tax system and the public services provided with those revenues, individuals may consider natural and cultural amenities as well as the location of family and friends. Such behavior also presumes that individuals are rational in confronting their own death, an assumption that has been challenged by empirical research (Slemrod, 2003). Even if they are rational, one typically cannot predict the timing of one's death and so may delay moving until it is too late.

Empirical research on the migration effects of EIG taxes focuses on the migration decisions of the elderly since they are the group most likely to have accumulated substantial wealth and to be contemplating making a transfer of that wealth upon their death. The elderly are also much less likely to be making location decisions based on their jobs. Most of these studies use census-based data where migration is inferred by comparing their current residence to where they report having lived in the past.

Census data reveals that interstate elderly migration is a fairly rare occurrence; less than 1% move in a given year and that percentage has been declining in recent years, if anything. The geographic patterns have been very stable for decades as well (Conway and Rork, 2011). Thus, while EIG tax policy has changed a great deal since the 1970s, elderly migration patterns have not – which suggests that such policy is likely not the driving force in elderly migration behavior.

Recent research investigates this question more directly by estimating statistical models that identify the factors most strongly associated with changes in elderly migration over time. Such

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<sup>16</sup> For example, if the donor is purely altruistic, she will leave a larger inheritance to the child with the least resources because it will improve their well-being the most. This behavior may discourage wealth accumulation among the heirs (the so-called 'Samaritan's dilemma'). Conversely, the exchange motive encourages the heir to provide services to the donor to maximize their inheritance.



research consistently finds little or no effect of EIG taxes (Conway and Rork, 2006, 2012).<sup>17</sup> However, there are limitations to this research. One is that it is difficult to observe reliably the behavior of the very wealthy – given their small number – within census data designed to represent the entire population. Still, other types of research likewise suggest little or no response to such tax policies. One study examines the effect of state EIG tax policy changes on federal estate tax returns filed, a proxy for the number of wealthy people living (and dying) in the state (Bakija and Slemrod, 2004). While that study finds evidence that higher EIG taxes leads to lower federal estate tax filings, the effects are modest and do not substantially diminish the revenues yielded by an EIG tax. Another study considers the effects of EIG tax policy on revenues, using data from Switzerland (Brulhart and Parchet, 2014). Switzerland is an interesting case study because each canton – a small municipality within this small country – has its own EIG tax. Given the short distances Swiss taxpayers would have to move to lower the EIG taxes, one would expect to find evidence of tax-induced migration – and yet they do not.

Another type of evidence investigates the effect of targeted income taxes or tax breaks on migration. Income taxes are paid every year and by a much larger proportion of the population, so one would expect greater migration responses. And yet, two recent studies find little effect of ‘millionaire taxes’ on the migration of millionaires (Young and Varner, forthcoming, 2011). Similarly, Conway and Rork (2012) find that income tax breaks targeting the elderly (such as exempting pension income) has no effect on their migration behavior. The few studies that do find evidence of a migration response to income taxes focus on a narrow type of individual, such as inventors (Moretti and Wilson, 2015) and star athletes (Kleven et al, 2010). A final piece of evidence comes from the Health & Retirement Study, a longitudinal, national dataset that surveys individuals over the age 50 every two years. The survey contains a (followup) question asking those individuals who have moved their reason for doing so. The survey offers 62 possible responses and state taxes are not one of them; respondents are allowed to respond ‘other’ and give a different response. Calvo et al (2009) find that family reasons are the top reason for moving.

Overall, then, the empirical evidence for EIG taxes having a meaningful effect on the decision to move is weak at best. This is not altogether surprising, given the potentially large costs of moving and the many motives the elderly have for moving, including for assistance or to be close to family.

### *Economic Growth, Revenues and Other Issues*

The concern about these behavioral effects typically derive from the impact they may have on economic growth. To our knowledge, only one study investigates the effects of EIG taxes on economic growth, and it is preliminary (Brewer et al 2015b). This study follows the empirical

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<sup>17</sup>Older research often looked at migration patterns and policies at one point in time, such as from one US census. These studies sometimes find evidence that EIG taxes were associated with less in-migration. The more recent studies that investigate the effects of *changes in policy over time*, such as the recent ‘millionaire’ tax in New Jersey or the changes in EIG taxes since the 1970s, enable researchers to separate the effects of tax policy from other state amenities such as climate, cost of living and quality of life. (Low tax states have historically been in southern, low cost states.) They also answer more directly the question asked in policy debates – if EIG taxes are reduced, will migration patterns change?

approach of the broader literature that explores the effects of tax policies more generally on state economic growth. Its preliminary results suggest no effect of EIG taxes on the per capita growth rates of states. This result is not surprising given that 1) the behavioral effects of EIG taxes have been found to be either weak or mixed, and 2) the effects of the overall tax burden on economic growth have likewise been found inconclusive (e.g., Reed, 2008 finds it decreases growth whereas Gale et al, 2015 finds it does not).

Presumably taxes are imposed to obtain revenues. As shown in Figure 2, EIG taxes have historically contributed a very small proportion of states' overall tax revenues. EIG revenues are also notoriously volatile and difficult to connect with the tax policy in place. They are volatile because one very large estate can have a strong impact on EIG tax revenues in the year in which the liability is paid. It is difficult to connect EIG tax revenues received with the tax policy in place because it can take several years for an estate to be settled and all taxes to be paid. While estates must typically pay an estimated amount of taxes within a short time (6-9 months) of death, this payment can span two different calendar years. Furthermore, the estate may have to pay additional taxes – or receive a refund – when the estate is eventually settled. Both the volatility and the sometimes long period of time before estates get settled make it highly questionable to attribute short-term changes in EIG tax revenues to changes in policy.<sup>18</sup> For this reason, in the next section we do not try to use revenue numbers to investigate the revenue effects of past EIG tax policy changes nor do we try to project revenue estimates under different policy scenarios.

One last consideration is compliance and administration costs. These are costs that harm both the taxpayer and the state government. Thus, any policy reform should also consider the effects on these costs. In the case of Connecticut, two elements appear outside the norm for state EIG taxes. The first is the 6 month deadline for filing an estate tax return (most states have a 9 month deadline); the second is the substantial increase in probate costs enacted this year to finance the court system. Because the first is a matter of administrative policy and the second is a user fee and neither is directly related to the size and effects of the EIG tax liability, they are beyond the scope of our review.

### **The Effect of EIG taxes in Connecticut**

None of the aforementioned studies focus on Connecticut specifically. In this section, we examine data on distributional effects, migration, and economic growth for Connecticut, as well as other states for comparison, to see how each outcome appears to be related to EIG tax policy. This allows us to explore if the recent changes in state EIG tax policies appear to have had an effect on these different outcomes.

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<sup>18</sup> Our discussions with Susan Sherman and other members of Connecticut's DRS confirm that any attempt to link changes in EIG tax revenues to specific changes in EIG tax policies is unwise, that the revenues received in any one year are only weakly connected with the actual deaths occurring – and thus facing the tax – in that year.

### *Distributional Effects*

An often-cited advantage of EIG taxes is their progressive nature; they accrue most heavily to those with the most ‘ability to pay.’ A recent study by the Connecticut Department of Revenue Services (2014 Tax Incidence report) estimates the incidence of nine different elements of the Connecticut tax system as of 2011.<sup>19</sup> The study finds the EIG tax is by far the most progressive tax and is one of only two progressive taxes in the system.<sup>20</sup> The study reports that the tax is paid entirely by the top three deciles of the income distribution and that 98% of it is paid by the top two (p. 53).

Much has been written about growing income inequality in the United States. In preliminary work, Brewer et al (2015a) calculate Gini coefficients, a measure of inequality in which 0 is perfect equality and 1.0 is perfect inequality, using decennial census data for every state in 1990 and American Community Survey data in 2013. The authors find that the Gini has increased from an average of 0.48 to 0.56, confirming the observation of increased inequality. Connecticut experienced the largest increase in its Gini of all the states and D.C., from 0.482 in 1990 to 0.601 in 2013, and now has the fourth highest Gini coefficient in the country. Connecticut also does not appear to be losing its high income elderly during this time period. In 2013, it ranked 5<sup>th</sup> in the country in terms of the percent of the elderly population that is in the top 10% of the national income distribution. That percentage has grown slightly since 1990, even though its rank slipped one spot (it was 4<sup>th</sup> in the 1990).<sup>21</sup> The percentage of the elderly in the bottom 25% of the national income distribution has grown as well, which is consistent with the growing level of income inequality revealed by the Gini coefficient.

Reducing or removing the EIG tax would therefore almost certainly increase the regressivity of the overall Connecticut tax system, at a time when income inequality in Connecticut is high and growing, although its small size suggests the impact would be small.

### *Migration*

As noted above, a few different measures of migration exist. The 2008 Estate Tax Report, conducted by the Connecticut DRS, as well as a 2015 report from the Yankee Institute (Janowski and Bates, 2015), use migration data from the IRS over several years. To be comparable with that work, we investigate that data as well. However, we note that the IRS data has several important limitations that leads us to rely primarily on census-based data. The IRS data is constructed by looking at the state in which a return is filed; when the state changes, migration is inferred to have taken place. The publicly available IRS data, however, does not permit us to focus on one age group (e.g., the elderly) or income group (e.g., high income) and instead is reported for all taxpayers only. Another problem is that it only includes those individuals who

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<sup>19</sup> The 9 taxes considered are property, personal income, sales and use, excise, corporation business, gross earnings, insurance, gift and estate (EIG), and real estate conveyance.

<sup>20</sup> The report uses the Suits Index, which ranges from -1.0 (most regressive) to 1.0 (most progressive). The EIG tax is 0.76 and the personal income tax is 0.11. The rest of the taxes all have Suits Indices below 0 and the overall system has an index of -0.22, suggesting that the overall system is “slightly regressive” (p.14). See Table II-D on p. 15.

<sup>21</sup> These numbers are in Table 2 and Appendix Table 1 in Brewer et al (2015a).

file tax returns by late September; it therefore misses late returns, which tend to be the more complicated returns of high income, elderly taxpayers (Gross, 2011). Decennial census data and data from the American Community Survey contain individual characteristics, such that we can examine the migration behavior of the elderly in general and the high income elderly, in particular. For this reason, we emphasize that data in our analyses.

Table 5 reports the top 10 states to which Connecticut elderly have moved (out-migrants and their top destinations) over the last several decades.<sup>22</sup> We can see that Florida has been the top destination, by far, since the late 1970s. Other prominent destinations are Connecticut's neighbors, Massachusetts and New York. Among potential retirement destinations, California seems to have been replaced by the Carolinas and Georgia. However, such out-migration patterns can be misleading because it tells only half of the story; many of these same states also *send* elderly to Connecticut. The second panel in Table 5 reports the top 10 states *from* which new Connecticut elderly residents have moved (in-migrants), and many of the same states appear. It is difficult to argue that EIG taxes are causing people to move to Florida when a large number of people are moving *from* Florida.

The clearest measure of migration – and by extension, the desirability of a state to its residents – is net in-migration, which is the number of in-migrants (people moving in) minus out-migrants (people moving out) for each state. The bottom of Table 5 shows that Connecticut has been losing more elderly than it has been gaining since at least the late 1970s. Connecticut's net in-migration rate (in-migrants minus out-migrants divided by elderly population) has fluctuated from -1.20 in 1976-80 to -3.94 in 1986-90 (Conway and Rork, 2015, Table 2). As noted above, elderly migration patterns have been quite stable for the country as a whole, with the same states consistently losing or gaining the elderly since the 1970s. Connecticut follows the typical northern (and especially northeastern) state pattern of losing more than it gains. New Jersey, New York, and Massachusetts all display similar patterns.

The top panel of Table 6 reports the top 10 states that Connecticut loses its elderly to, on net, and the top 5 states that it gains them from. Not surprisingly, this panel reveals that far more Connecticut elderly move to Florida – and other temperate states (California, Arizona, the Carolinas) – than move into Connecticut. It also reveals, however, that this pattern has persisted for decades, even as state EIG taxes have changed a great deal. Connecticut also loses its elderly, on net, to Maine and Massachusetts, which have EIG taxes, as well as New Hampshire, which eliminated its inheritance tax in 2005. At the other extreme, we see that Connecticut gains the most elderly, on net, from New York, as well as New Jersey and, depending on the year, Massachusetts. These patterns, also, are fairly stable. At the bottom of the panel we report the total number of Connecticut elderly residents 'lost' to migration on net (the total number of net in-migrants). There appears to be no clear pattern over time.

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<sup>22</sup> The decennial census long form asks where the individual lived 5 years ago, so our measures capture migration during the 5 years leading up to the census. The census long form was replaced in the 2000s with the American Community Survey, which is conducted every year and asks where they lived 1 year ago. Given its much smaller size, its annual estimates are very unreliable. We therefore aggregate the annual data into a 5-year 'counterpart' to the older decennial data (2006-2010) for comparison. To get an idea of the most recent migration patterns, we also aggregate the most recent years that are available (2011-13).

Next, we compare these net-migration patterns to those for the high income elderly (which we define as being in the top 25% of national income), reported in the bottom panel of Table 6.<sup>23</sup> The migration measures will be more volatile for this group because the numbers get quite small; we have cut the sample by 3/4ths and recall that less than 1% of the elderly typically migrate in a given year. Even so, we see very similar patterns. This suggests that the high income elderly – who are more likely to face EIG taxes – behave in a similar way as the general elderly population.

Table 7 compares these patterns to the other extreme – all taxpayers (of all ages and incomes) via the IRS data used by other studies. Here again, we see very similar patterns. Moreover, given that the elderly typically migrate at much lower rates than the working population, these patterns must be driven by younger individuals – who seem less likely to be considering EIG taxes in their migration decisions.

We confirm the similarity between these disparate migration measures by finding very high correlations between the different data (census elderly, census high income elderly, census non-elderly, IRS data). If there is a group that is very different from the rest, it is the low income elderly (bottom 25%) who are least likely to be impacted by EIG taxation.

This evidence is therefore consistent with previous studies for the US as a whole. Connecticut elderly migration is very stable over time and does not seem to differ substantially for the high income elderly (most likely affected by EIG taxes) or taxpayers of all ages and incomes (least likely affected by EIG taxes). A final piece of evidence is that Connecticut's migration patterns are quite similar to other states in the region, as well as other cold weather states that do not have EIG taxes. These analyses and comparisons therefore suggest it is unlikely that EIG taxes are playing a significant role in the decision to move into or out of Connecticut.

These analyses are limited, however, in that EIG taxes affect primarily the very rich, a small number of individuals who may not be well captured by such broad data sources. We therefore also look at federal estate tax returns filed in Connecticut versus other states, a similar measure as used in Bakija and Slemrod (2004). This indirect measure of migration has serious drawbacks of its own, including that the individual must have moved to the state and died there before they will show up as a 'migrant.' Additionally, the number of federal estate tax returns filed is also changing because of the many changes in the federal law, especially EGTRRA in 2001. The number of estates subject to federal tax is going to decline and the size of the estates filed are going to increase as a result of the steadily increasing federal exemption (recall Figure 3). A state with a disproportionate number of extremely wealthy individuals (and very large estates) will therefore show a smaller decline, over time, than a state with more moderately wealthy individuals. And of course any economic event (such as the Great Recession) is going to affect the level of estates subject to tax.

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<sup>23</sup> While ideally we would narrow our sample to even a smaller slice of the income distribution (e.g., 10%), even at 25% the numbers of migrants becomes small, owing to the very low rate of interstate migration. The numbers are sometimes small enough that we do not report the full top 10 or bottom 5 for them in Table 6. Shrinking the sample even further would make detecting any geographic patterns questionable.

With these caveats in mind, Figures 6-8 report the trends over time in the federal estate tax returns filed in Connecticut versus other states from 1998 to 2011.<sup>24</sup> Figure 6a reports the total number of federal estate returns filed in each of the states in the region and 6b reports the percentage change from the year before. These figures show the steep decline that came after EGTRRA, as well as the declines due to the recession and the large increase in the federal exemption in 2009. These figures also make clear that Connecticut's federal estate tax returns behaved in a similar fashion as the rest of the states in the region, including New Hampshire (which eliminated its inheritance tax during this time period).

Figures 7a and 7b report the same statistics for Connecticut compared to the southern states. These other states include some of the top destinations reported in Table 5 and none have an EIG tax. Figures 8a and 8b perform the same exercise, this time including cold weather states that did not have EIG tax. These figures show that federal estate tax returns filed in these states all follow the same general pattern as those for Connecticut. This is true in spite of the fact that Connecticut created a stand-alone EIG tax in 2005, which it then reduced in 2010. And yet we see no evidence that Connecticut's federal tax returns behaved differently from these other states in the years following these changes.

Finally, we look at what has happened to the number of Connecticut income tax returns, by income level and a proxy for whether the household is elderly (whether they filed for an adjustment due to social security benefits).<sup>25</sup> This data is only available back to 2007, so we cannot see the possible effects of the new estate law in 2005. However, we can look for effects of the law that removed the 'cliff' or 'bubble' effective in 2010. It suffers a similar problem as the federal estate tax return, as it is an indirect measure. The number of returns in a certain income category can change because individuals moved, died, or had a change in their income. The latter effect is especially important for the very high income elderly who likely draw most of their income from investments, which are affected by the performance in the financial market.

To try to control for these confounders, we report the total number of Connecticut income tax returns that included a social security benefit adjustment from line 42 (referred as SS returns going forward) by income category in Figure 9a and the percentage of all returns that are SS returns, by income category in Figure 9b. Figure 9a shows the steep decline in high income SS returns in 2008 and 2009, rebounding strongly afterwards; this pattern could be suggestive of a response to the change in the EIG tax law but is likely also due to the Great Recession. Figure 9b controls for this somewhat by reporting the percentage of each income category that are SS filers (and thus are our measure of elderly and likely concerned with the EIG tax). Even so, we would expect the elderly, especially those retired from the work force and drawing social security, to have suffered bigger declines in their incomes as a result of the financial crisis than other households whose incomes more likely come from earnings. Indeed that is what we see;

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<sup>24</sup> The federal estate tax return by state and *year of death* is only available in select years and the last year available in 2011. Identifying the return by year of death, rather than year filed, is critical due to the delay in filing estate tax returns we noted above.

<sup>25</sup> We recognize that filing for an adjustment due to the receipt of social security benefits is a very imperfect measure of the age of the household, but no other measure of age is available. We thank Connecticut's Department of Revenue Services for performing this special tabulation for us.

the percentage of high income filers who are ‘elderly’ declined steadily through 2008 and 2009 and has rebounded since, with the unexplained exception of 2013. While both the number and percentage of high income SS filers have increased strongly since 2009, which might suggest a response to the change in laws, it is still below where it was in 2007 when Connecticut’s EIG tax was substantially higher. In our judgment the decline and subsequent rebound is far more likely due to the effects of the Great Recession.

In sum, no measure of migration is perfect, and the very high income households who may face the EIG tax are especially difficult to observe. We therefore present numerous pieces of evidence, each with its strengths and weaknesses, to investigate if Connecticut’s migration appears to be influenced by EIG tax laws. None of these analyses provide convincing evidence that it is. Connecticut’s migration patterns have been fairly stable for decades, at the same time that EIG tax policy has changed a great deal. One indirect measure of migration, federal estate tax returns, show patterns that are consistent with other states with very different EIG policies, including many of the states that attract Connecticut residents, and reveal no marked change during periods when Connecticut changed its policies. The other indirect measure of migration, the income tax returns filed by high income households likely to be elderly, show mixed results that are likely due to the strong effects of the Great Recession.

### *Economic Growth*

Concerns about behavioral effects such as migration ultimately come down to a concern about the effects EIG taxes may have on economic growth. The two standard measures of economic growth are the annual percentage changes in per capita personal income (PI) and gross state product per capita (GSP), adjusted for inflation.<sup>26</sup> Using per capita measures captures the well-being of the average Connecticut resident; it also makes the measures more comparable across states of different sizes. As many factors may affect economic growth, we examine the trends in Connecticut’s growth over time, especially during periods when EIG tax policy has changed (2005, 2009-10), and as compared with other states.

Figures 10a and 10b report the growth in income and GSP per capita, respectively, for each state in the Northeast region including Connecticut. Connecticut’s growth follows very closely that of these other states throughout the period, even in the late 1990s and early 2000s when it was the only state with an EIG tax beyond the pickup tax. Likewise, Connecticut’s growth was higher, if anything, in 2005 when it enacted its new EIG tax and lower in 2009 when it decreased its EIG tax, which is the opposite of what one would expect if higher EIG taxes suppressed growth. More generally, Connecticut’s growth pattern seems to make it more volatile than other states in the region, but it seems to follow the same overall time trend.

Next we compare Connecticut’s growth patterns over time to those of the southern states, many of which are popular destinations for CT residents and most of which have not had EIG taxes for decades (see Figures 11a and 11b). Connecticut’s growth patterns seem to once again follow

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<sup>26</sup>For example, see Reed (2008) and Gale et al (2015). The 2008 DRS report on estate taxation also used these measures, although it is not clear whether total or per capita measures were used. The report also focused on a narrow period (2004-7), and examined measures of employment and population growth as well.

roughly the patterns of these states. There also does not appear to be any special pattern occurring around the time of EIG policy changes; Connecticut's growth is again higher than most southern states in 2005 and immediately afterwards and is in the lower middle around the 2009 policy change.

These figures report the growth rates for each individual state and so may sometimes be difficult to read. Figures 12a and 12b simplify the comparison by reporting the average for three types of states – other states in the Northeast, the South and northern states without EIG taxes during the time period (primarily in the Midwest). These figures reinforce the conclusions drawn from the others. Connecticut follows the patterns of these other types of states although tends to experience more volatility; recent EIG policy changes do not seem to be affecting economic growth in a manner consistent with EIG taxes having a negative effect.

### **Policy Options to Consider**

Both the evidence presented here for Connecticut and the general literature on the economic effects of EIG taxes suggest that EIG taxes have little effect on migration or economic growth. Reports by the Connecticut DRS reveal that the EIG tax is the most progressive tax in the Connecticut tax system and that it makes up a very small portion of total tax revenues. As such, it appears unlikely that changing the EIG tax would have significant effects on the Connecticut economy or the state budget. We nonetheless discuss here several policy options.

#### *1. Retain the Current EIG tax*

Connecticut has already made significant reductions and reforms to its EIG tax when it eliminated the “cliff” in 2009. As Figures 4a-4c revealed, Connecticut has among the lowest estate tax burdens in the Northeast region, with a higher exemption, lower maximum rate and lower overall tax burden on large estates (\$20 million) than almost all of the other states. Several of these states continue to have ‘cliff’s or ‘steep hills’ as well. With the lack of evidence that EIG taxes have a meaningful impact on either migration or economic growth, maintaining – or possibly even increasing – the current EIG tax seems a viable option. It is also worth noting that the vast majority of estates pay far less in estate taxes (federal + Connecticut) currently than at any time in recent history.

One caveat is that Connecticut's position of having one of the lowest EIG taxes in the region may be diminished as Rhode Island and especially New York continue to reduce their EIG taxes by increasing their exemptions. Nationally, some states that currently have EIG taxes have enacted laws to phase them out or are considering doing so. The landscape for state EIG taxes has the potential to change rapidly.

#### *2. Conform with Federal Estate Tax Law*

Federal law has three key features that distinguish it from most state with EIG taxes: 1) a higher exemption level (currently \$5.43 million), which increases each year, 2) portability (such that a



married couple effectively faces an exemption twice as large), and 3) a unified gift tax. Currently, Connecticut has only the third feature and it is the only state that does. Changing Connecticut law to conform to the federal law would simplify estate tax planning and therefore likely reduce compliance costs.

Matching the federal exemption level would put Connecticut in line with New York, Delaware and Hawaii; the rest of the states with EIG taxes currently have lower exemption levels. Increasing the exemption would almost certainly reduce estate tax revenues by a substantive amount. The only revenue data available is for estate tax returns *received* in a given year (rather than for year of death, which allows identification of the specific policy in place), which means we can only offer illustrative calculations.<sup>27</sup> According to 2013-14 information provided in the 2013-14 DRS report, 395 of the 520 returns had a taxable estate below \$5 million; these returns made up \$27,240,460 of the \$206,115,002 taxes received or about 13.2%. These estates would therefore not be subject to tax if the current federal exemption were in place the year of death. Estates above the increased exemption level would also have their estate tax liabilities reduced. Specifically, in 2015, increasing the exemption to \$5.43M would reduce the tax liabilities of estates above the exemption by \$267,900 each.<sup>28</sup> The 2013-14 estate tax revenue data lists 520-395=125 returns above \$5 million, such that total revenues would be further reduced by approximately  $125 \times \$267,900 = \$33,487,500$ . These illustrative calculations therefore suggest reduced revenues of  $(27,240,460 + 33,487,500 =) \$60,727,960$  or 29.46% of the revenues received if the Connecticut exemption were raised to the 2015 federal exemption. The decreased revenues will grow over time as the federal exemption level continues to increase and a larger number of estates are pushed over the \$2 million exemption level by inflation as well as real growth in wealth.

Adopting portability would further increase the effective exemption level faced by the estates of married couples; only Hawaii currently allows portability and Maryland has plans to do so beginning in 2019. Recall that portability allows the surviving spouse to use any part of the exemption not used by the deceased spouse. The specific effect of this policy varies depending on the year in which the deceased spouse died, whether or not he or she made bequests to other heirs (and thus used up a portion of the exemption), and whether or not a QTIP was set up; these complexities make it difficult, if not impossible, to predict its effects on tax liabilities and revenues. One simple calculation would be to assume that both spouses die in the same year, the first leaves everything to the surviving spouse and there is no QTIP. In that event, portability would double the size of the exemption; if done in combination with matching the federal exemption, only estates over  $\$5.43\text{M} \times 2 = \$10.86\text{M}$  would be subject to tax in 2015. Using the same 2013-14 information on estates filed, this higher exemption would exclude at least 477 of

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<sup>27</sup> See p. 41 of the 2013-14 report. As noted earlier, these revenue numbers refer to when the estate tax payments are actually received, and so reflect deaths – and the EIG tax policy in place – from several years preceding the current year. These calculations are therefore only illustrative of the possible revenue effects of such a change.

<sup>28</sup> This number comes from p. 40, showing that estates over 5.1M pay \$238,200 plus 9.0% of the excess over \$5.1M; thus, the tax liability will be reduced by  $\$238,200 + .09 \times (\$5.43\text{M} - \$5.1\text{M}) = 267,900$ .

the 520 returns, which account for \$68,802,570 (or 33.38%) of the taxes due.<sup>29</sup> The remaining 43 estates would see a reduction in their tax liabilities of \$839,400 each.<sup>30</sup> Using this simplified example therefore results in a total revenue loss of  $(839,400 \times 43 =) \$36,094,200 + 68,802,570 = \$104,896,770$  or 50.89% of EIG revenues.

We caution that these calculations are merely illustrative; estate tax revenue is quite volatile and is not measured in a way that allows us to link revenues with the policies in place at the time of death. Portability is even more difficult to predict as its effects depend on several events and choices. Nonetheless, we conclude that conforming to the federal law with respect to the exemption and/or portability will result in a significant proportionate reduction in EIG tax revenues and that the reduction will grow over time. Given the apparent distribution of Connecticut estates, where the majority of estates are below \$5 million and the vast majority below \$10 million, either change will exempt a large portion of the estates currently paying taxes. They will also significantly reduce the estate taxes paid by all estates.

### *3. Allow for a Different QTIP Election*

Currently, Connecticut is one of 5 states that does not allow a separate state QTIP election. As stated earlier this creates additional tax liability for estates that fall in between the federal and Connecticut exemption amounts. By allowing for differing QTIP elections at the state level, Connecticut will allow for married couples to defer the payment of Connecticut tax without forgoing the full federal exemption. The advent of federal portability, however, has lessened the need for a state-specific QTIP election, since the state exemption amount could be put in the QTIP and portability could transfer the remaining unused federal exemption to the surviving spouse. That said, the allowance for a state-specific QTIP would align Connecticut with most states that impose an estate tax, while sparing the executor from making assumptions about the future state of taxation when making election decisions upon the death of the first spouse, thereby making estate planning easier in the state. Revenues will be lower as a result, but given the rise of portability, the loss seems minimal as QTIP's fall out of favor.

### *4. Increase the Marginal Tax Rate on those Paying Federal Estate Taxes*

The deductibility of state EIG taxes from the federally taxable estate allows states to capture a portion of federal revenue, as they used to under the old 'pickup' tax. Once the estate exceeds the federal limit, state EIG taxes reduce the federal liability and in effect receives a subsidy. The exact 'subsidy' from this provision depends on the state EIG tax in place. Obviously, residents in states without EIG taxes cannot claim this deduction and will pay the full, federal marginal tax rate on every dollar of the estate above the federal threshold. For states with EIG taxes, however, it depends upon whether the state exemption is less than or equal to the federal one.

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<sup>29</sup>The table classifies estates into different categories according to the state EIG tax brackets, which do not align perfectly with the federal exemptions. Since it only classifies returns as being above or below \$10.1M, we assume all returns above 10.1M are also above 10.86M.

<sup>30</sup>This number comes from p. 40, showing that estates over 10.1M pay \$748,200 plus 12% of any excess above 10.1M.

Under the current Connecticut EIG tax, the additional state EIG tax liability net of federal taxes actually declines once estates become federally taxable (recall Figures 5A and 5C.) This decline is due to the fact that the estate has already paid a sizable amount of state EIG taxes once it reaches the federally taxable threshold. Thus, each dollar of the estate beyond the threshold is offset with a dollar paid in Connecticut EIG taxes, which effectively saves the taxpayer up to \$.40 in federal estate taxes.<sup>31</sup> By avoiding federal estate taxation and because the Connecticut marginal tax rate is well below the federal one, the estates just above the federal threshold actually face a *negative* (federal + state) marginal tax rate.

If the state exemption instead matched the federal one, then both state and federal EIG taxation would begin once the threshold was passed. Each dollar paid in state EIG taxes would reduce the federal tax liability by the federal marginal tax rate. Using the top federal rate of 40% (which sets in once the taxable estate exceeds the threshold by \$1 million), the effective marginal tax rate of the state EIG tax is actually  $(1-0.40)*mtr$  or only 60% of the statutory rate. For Connecticut, that means its top rate of 12% is actually only  $0.6*12 = 7.2\%$ .

These two scenarios reveal that having an estate large enough to face federal taxation changes considerably the true additional costs of paying a state EIG tax. They also reveal how states can effectively receive a portion of federal estate tax revenues, as they did under the old ‘pickup tax,’ albeit no longer dollar for dollar. Increasing the marginal tax rate on estates facing the federal estate could generate additional state revenues while having more minimal impacts on the total (federal + state) tax liability owed on the estate and retaining low effective marginal tax rates that increase with estate tax size, rather than the decline experienced by medium to large estates in the current system.

### 5. *Eliminate the Gift Tax*

Connecticut is the only state with a stand-alone gift tax, meaning that the gift is potentially taxable regardless of when it is made. It is also a unified gift tax, meaning that all gifts in excess of the annual limit (currently \$14,000) count against the \$2 million exemption for the estate. The federal gift tax is also a unified tax, so in this way Connecticut is conforming to the federal system, albeit at a lower exemption level.

Gift taxes are typically imposed to avoid ‘deathbed transfers,’ in which assets are transferred just before or in contemplation of death in order to avoid estate or inheritance taxation. The few states that imposed stand-alone gift taxes have eliminated them in recent years (Michael 2014). However, nine states have ‘gift-in-contemplation-of-death’ rules that make a portion of gifts made within some time period before death (typically two or three years) subject to tax (Michael 2014, Table 6). Additionally, in some states that base their estate taxes on the old ‘pickup’ tax lifetime taxable gifts may reduce the available exemption (Massachusetts is one; see Michael 2014). The bottom line is that while Connecticut is the only state with a stand-alone gift tax, many other states with EIG taxes have some provision to tax gifts to prevent deathbed transfers.

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<sup>31</sup>The top marginal tax rate of 40% sets in fairly quickly. While the first \$10,000 of taxable estates are taxed at only 18%, rate quickly rises such that once over \$100,000 the rate is 28% and it reaches the top rate at \$1 million. For simplification, we therefore use the 40% rate in these calculations and our general discussion.

If Connecticut eliminated its gift tax without making any other changes, it would lose its gift tax revenues, which equaled \$8,764,162 in 2013-14. It would also open the door to deathbed gift-planning strategies, which could substantially reduce the estate taxes it collects as well. To prevent such tax-avoidance strategies, the state may want to consider enacting gifts-in-contemplation-of-death rules like other states have done.

#### *6. Eliminate the Estate and Gift Tax*

Eliminating the Estate and Gift Tax renders the rest of these changes moot. It will eliminate both the gift and estate tax revenues collected, which in 2013-14 equaled \$206,115,002. Connecticut would join the majority of states without EIG taxes and be the only state in the region besides New Hampshire without one.

#### *Summary of Effects and Interactions of Different Policy Changes*

Several of these policy options are not mutually exclusive and the effect of one often depends on another. As already noted, the effect of both portability and increasing the marginal tax rate on federally taxable estates depend on the exemption level Connecticut chooses. Likewise, the effects of the current unified Gift tax (and thus the effects of eliminating it) depend on the exemption level as well as the marginal tax rate. Finally, a higher exemption lessens the impact of the QTIP modification and adopting portability mostly eliminates its effect.

All of these proposed changes to the existing system will likely result in a significant loss of revenues, with the exception of increasing the marginal tax rate on federally taxable estates. Past research and the evidence presented here for Connecticut suggests it is highly unlikely that such reduced revenues would be made up for with increased tax revenues elsewhere (through greater retention of rich residents or stronger economic growth, for example). These foregone revenues would therefore necessitate increased taxes or reduced expenditures elsewhere in the Connecticut state budget.

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## **Glossary of terms**

**Cliff (or bubble)** – If a range of estates faces zero estate taxation, a cliff occurs if a slightly larger taxable estate is taxed on the full amount of the estate, including the amount that would not be taxed if it were slightly smaller. Results in significantly large marginal tax rates.

**Estate Tax** – a tax calculated based on the net value of property owned by a deceased person on the date of death

**Gift Tax** – a tax calculated based on the transfer of assets from one person (the donor) to another (the donee) while the donor is alive. Currently, a donor may gift a donee \$14,000 annually under the federal annual gift tax exclusion amount. Any amount above that counts toward the federal estate tax exemption.

**Gini coefficient (or Gini index)**—a statistical measure used to represent the income distribution of a state (or nation), thereby capturing income inequality. Ranges from 0 (completely equal) to 1 (completely unequal)

**Inheritance Tax** – a tax calculated based on who receives a deceased person’s property.

**Pick-Up Tax (or soak-up tax)** – a tax imposed by states based on the federal estate tax credit for estate/inheritance taxes paid at the state level. It was a mechanism for states to share in estate tax revenues with the federal government, and hence added no additional tax burden to the deceased’s estate. The passage of EGTTRA phased this out in 2005.

**Portability** – Allows a surviving spouse to use a deceased spouse’s unused estate tax exclusion. First introduced as part of TRURJCA 2010, made permanent feature of federal estate taxation after the enactment of the American Taxpayer Relief Act of 2012.

**Progressivity/Regressivity**—describes a tax system in which as a person has more income, they pay a higher (lower) percent of their total income in taxes.

**QTIP** -- also known as a qualified terminable interest property. A trust in which spouse A designates who receives the assets upon Spouse B’s death, but Spouse B has the right to all income generated by the trust while alive. QTIP’s qualify for the marital exclusion, and are commonly used by blended families.

**Suits Index** – a measure of tax progressiveness, similar in nature to the Gini index. Ranges from -1 (the poorest person pays all taxes) to 1 (the richest person pays all taxes), so that positive (negative) numbers indicate progressivity (regressivity).

**Unified estate and gift tax** – when the gift tax exclusion and estate tax exclusion are one in the same.

TABLE 1: MAJOR CHANGES TO FEDERAL ESTATE TAXES SINCE 2000

Year	Federal Exemption Level	Top Tax Rate	Notes
2000	\$675,000	60%	
2001	\$675,000	55%	EGTRRA enacted. Phases out state tax credit and replaces with a deduction by 2005. Gradually lowers top estate tax rate to 45% and raises exemption from \$675K to \$3.5M.
2002	\$1,000,000	50%	
2003	\$1,000,000	49%	
2004	\$1,500,000	48%	
2005	\$1,500,000	47%	Federal state death tax credit fully expires. State estate taxes are effectively repealed in many states.
2006	\$2,000,000	46%	
2007	\$2,000,000	45%	
2008	\$2,000,000	45%	
2009	\$3,500,000	45%	
2010	\$5,000,000	35%	Estate tax temporarily allowed to expire. TRUIRJCA temporarily re-instates tax, which is retroactively applied to all deaths in 2010.
2011	\$5,000,000	35%	
2012	\$5,120,000	40%	ATRA 2012 enacted. Exemption now \$5M, indexed to inflation. Gift tax exemption raised to that of the estate tax. Decreases tax rate to 40%. Introduces portability.
2013	\$5,250,000	40%	
2014	\$5,340,000	40%	
2015	\$5,430,000	40%	



TABLE 2: CHANGES TO EIG TAXES AT THE STATE LEVEL SINCE 2000

Before EGTTTRA is enacted in 2001, these 17 states had a separate EIG tax				
<b>CT</b>	IN	MT	OK	VT
DC	KY	NE	PA	
HI	LA	NJ	SD	
IA	MD	OH	TN	
Currently, these 15 States Have Decoupled or Created a Stand Alone Estate Tax post-EGTRRA				
<b>CT</b>	HI	MD	NJ	RI
DC	IL	ME	NY	VT
DE	MA	MN	OR	WA
Currently, these 30 States have not decoupled and collect no EIG tax revenue				
WI	WY	IN*	LA	MT
OH*	OK*	SD	AL	AK
AR	AZ*	CA	CO	FL
GA	ID	KS	MI	MS
MO	NH	NM	NC*	ND
SC	TX	UT	VA	WV
*indicates state has repealed their state EIG tax				
These 6 States did not Decouple but Collect a State Inheritance Tax				
IA	KY	MD	NE	NJ
PA	TN			
Tennessee's state inheritance tax expires Jan 2016				
Maryland and New Jersey have both an inheritance and an estate tax				
Nebraska collects no state inheritance tax but has a county inheritance tax				

TABLE 3: SUMMARY OF CONNECTICUT ESTATE TAX CHANGES SINCE 2005

<u>Year</u>	<u>Exemption Amount</u>	<u>Cliff Apply?</u>	<u>Range of Tax Rates</u>	<u>Estate Tax Due on Estate Worth</u>		
				<u>\$2.1 million</u>	<u>\$4.1 million</u>	<u>\$8.1 million</u>
2005-2009	\$2 million	yes	5.085%-16%	\$106,800	\$290,800	\$786,800
2010	\$3.5 million	no	7.2%-12%	\$0	\$46,200	\$418,200
2011-present	\$2 million	no	7.2%-12%	\$7,200	\$154,200	\$526,200

TABLE 4: SUMMARY OF CURRENT STATE EIG TAX PARAMETERS

State	Exemption Amount	Maximum Tax Rate
CT	2 M	12%
DE	5.43 M [a]	16%
DC	1 M [b]	16%
HI	5.43 M [a]	16%
IL	4 M	16%
IA	25000 [c]	15%
KY	1000 [c]	16%
ME	2 M	12%
MD	1.5 M [d]	16% estate, 10% inheritance
MA	1 M	16%
MN	1.4 M	16%
NE	40000 [e]	18%
NJ	675,000	16% estate and inheritance
NY	3.125 M [d]	16%
OR	1 M	16%
PA	3500 [c]	15%
RI	1.5 M	16%
TN	5 M	9.50%
VT	2.75 M	16%
WA	2.054 M	20%

[a] indexed to inflation going forward

[b] as of 2015, DC allows for increase to estate tax exemption, dependent on revenue targets

[c] for those inheritors who face the inheritance tax

[d] exemption increases annually until matches the federal exemption in 2019

[e] imposed by counties, not the state

TABLE 5: TOP INFLOWS AND OUTFLOWS FOR CONNECTICUT in the ACS, by YEAR

**TOP DESTINATIONS FOR CONNECTICUT RESIDENTS**

	<u>1976-1980</u>	<u>1986-1990</u>	<u>1996-2000</u>	<u>2006-2010</u>	<u>2011-2013</u>
1 FL	8680	FL 13591	FL 9476	FL 12205	FL 8480
2 CA	1680	NY 2055	MA 2010	NY 3760	MA 1527
3 NY	1520	MA 1700	NY 1624	SC 1975	NY 1491
4 MA	1520	CA 1240	NC 1239	MA 1730	NC 1083
5 PA	760	SC 1035	CA 1201	NC 1625	SC 795
6 ME	680	NC 984	ME 1168	GA 1520	NV 771
7 NC	640	ME 818	SC 817	NH 1250	RI 664
8 RI	640	VA 690	VA 787	PA 1085	MI 509
9 NJ	600	RI 647	AZ 765	ME 785	MD 489
10 AZ	600	PA 645	PA 740	CA 775	NJ 442
TOTAL:	22040	29250	25980	34230	18850

**TOP ORIGINS OF NEW CONNECTICUT RESIDENTS**

	<u>1976-1980</u>	<u>1986-1990</u>	<u>1996-2000</u>	<u>2006-2010</u>	<u>2011-2013</u>
1 NY	5880	NY 4249	NY 6235	NY 7815	NY 3739
2 MA	1680	MA 1887	FL 2985	FL 6635	FL 2661
3 FL	1560	FL 1462	NJ 1276	MA 2380	NJ 1135
4 NJ	1160	NJ 1191	MA 1023	RI 1195	MA 1055
5 CA	560	CA 565	PA 732	NJ 825	CA 591
6 PA	560	PA 417	CA 553	TN 570	MD 560
7 RI	320	IL 372	RI 430	CA 470	PA 410
8 ME	320	RI 365	NC 250	VA 430	SC 408
9 VT	280	ME 323	VA 230	NJ 430	AZ 364
10 MD/VA	200	VA 216	ME 230	PA 395	TN 313
TOTAL:	14280	13321	16744	23575	14295
NET CHANGE:	-7760	-15929	-9236	-10655	-4555

TABLE 6: NET INFLOWS TO CONNECTICUT in the ACS, BY STATE AND YEAR

		ALL ELDERLY									
Net Rank		1976-1980		1986-1990		1996-2000		2006-2010		2011-2013	
1	FL	-7120	FL	-12129	FL	-6491	FL	-5570	FL	-5819	
2	CA	-1120	SC	-962	NC	-989	SC	-1945	NV	-719	
3	NC	-520	NC	-783	MA	-987	GA	-1410	CA	-515	
4	AZ	-520	CA	-675	ME	-938	NH	-1175	MA	-472	
5	GA	-440	ME	-495	SC	-668	NC	-800	SC	-387	
6	NH	-360	VA	-474	CA	-648	MI	-750	RI	-356	
7	ME	-320	NH	-392	AZ	-575	ME	-705	MI	-223	
8	RI	-320	MD	-377	WA	-557	PA	-690	AZ	-130	
9	SC	-280	AZ	-333	NH	-438	AZ	-460	NH	-122	
10	TX	-240	RI	-282	TN	-374	MD	-405			
44	MO	120					MN	320			
45	IA	120	IL	123	MI	102	TN	380	WV	193	
46	MA	160	MA	187	MO	134	RI	635	PA	257	
47	NJ	560	NJ	634	NJ	860	MA	650	NJ	693	
48	NY	4360	NY	2194	NY	4611	NY	4055	NY	2248	
Net Change:		-7760		-15929		-9236		-10655		-4555	

## RICH ELDERLY (TOP 25% of NATIONAL INCOME)

Net Rank		1976-1980		1986-1990		1996-2000		2006-2010		2011-2013	
1	FL	-2800	FL	-8224	FL	-2885	FL	-3235	FL	-1876	
2	CA	-480	NC	-701	MA	-544	SC	-915	NV	-296	
3	AZ	-240	SC	-677	NC	-431	CA	-425	MI	-258	
4	MA	-200	CA	-636	CA	-358	NC	-390	AZ	-241	
5	ME	-160	ME	-316	ME	-293	MI	-380	NH	-173	
6	GA	-160	NH	-315	AZ	-254	GA	-340	SC	-140	
7	VT	-160	MD	-226	NH	-239	TX	-315			
8	NC	-120	AZ	-215	SC	-171	AZ	-205			
9	SC	-120	RI	-178	TN	-159	NV	-200			
10			PA	-171	VA	-147	NH	-150			
44							AL	150	NY	62	
45							OH	235	WV	89	
46	NJ	120	MA	351			MN	245	MA	198	
47	PA	160	NJ	524	NJ	130	NJ	260	MD	255	
48	NY	1360	NY	1132	NY	1346	NY	1565	NJ	274	
Net Change:		-2880		-10761		-5132		-4335		-2236	

Blanks occur when the number of observations become too small to report

TABLE 7: NUMBER OF MIGRANTS TO/FROM CONNECTICUT, BASED ON IRS FILINGS

	RETURNS												
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
IN	36282	37081	36639	34583	35446	35435	33929	35116	33501	31207	32680	37511	38055
OUT	41607	39934	38954	41849	42600	43591	42742	42274	39347	36489	39062	44180	46496
NET	-5325	-2853	-2315	-7266	-7154	-8156	-8813	-7158	-5846	-5282	-6382	-6669	-8441

	EXEMPTIONS												
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
IN	65889	66536	66349	62973	64680	63819	60398	61862	58211	53751	56971	64832	66985
OUT	71714	69149	67495	73808	75942	77171	74838	72974	66701	61070	65076	75623	81493
NET	-5825	-2613	-1146	-10835	-11262	-13352	-14440	-11112	-8490	-7319	-8105	-10791	-14508

## NET MIGRATION FROM/TO CT, BY TOP STATES, ACCORDING TO IRS FILINGS ON EXEMPTIONS

	2001-2005			2006-2010			2011-2013		
1	FL	-33690		FL	-23173		FL	-13929	
2	NC	-6880		NC	-11038		NC	-4866	
3	VA	-5227		TX	-5873		TX	-3829	
4	GA	-4751		GA	-5574		MA	-3809	
5	ME	-3310		SC	-4908		CA	-2955	
6	AZ	-2769		VA	-4344		SC	-2939	
7	SC	-2719		CA	-3804		GA	-2226	
8	VT	-2261		MA	-3573		VA	-1920	
9	PA	-2108		PA	-3188		ME	-1372	
10	CA	-1884		AZ	-2453		PA	-1249	
44	IL	917							
45	MA	974		NJ	1094		MO	35	
46	RI	1825		RI	1086		KS	165	
47	NJ	2766		MI	2452		NJ	700	
48	NY	38207		NY	27435		NY	16498	
	NET								
	CHANGE:	-31681			-54713			-33404	

FIGURE 1: CURRENT STATUS OF STATE EIG TAXATION

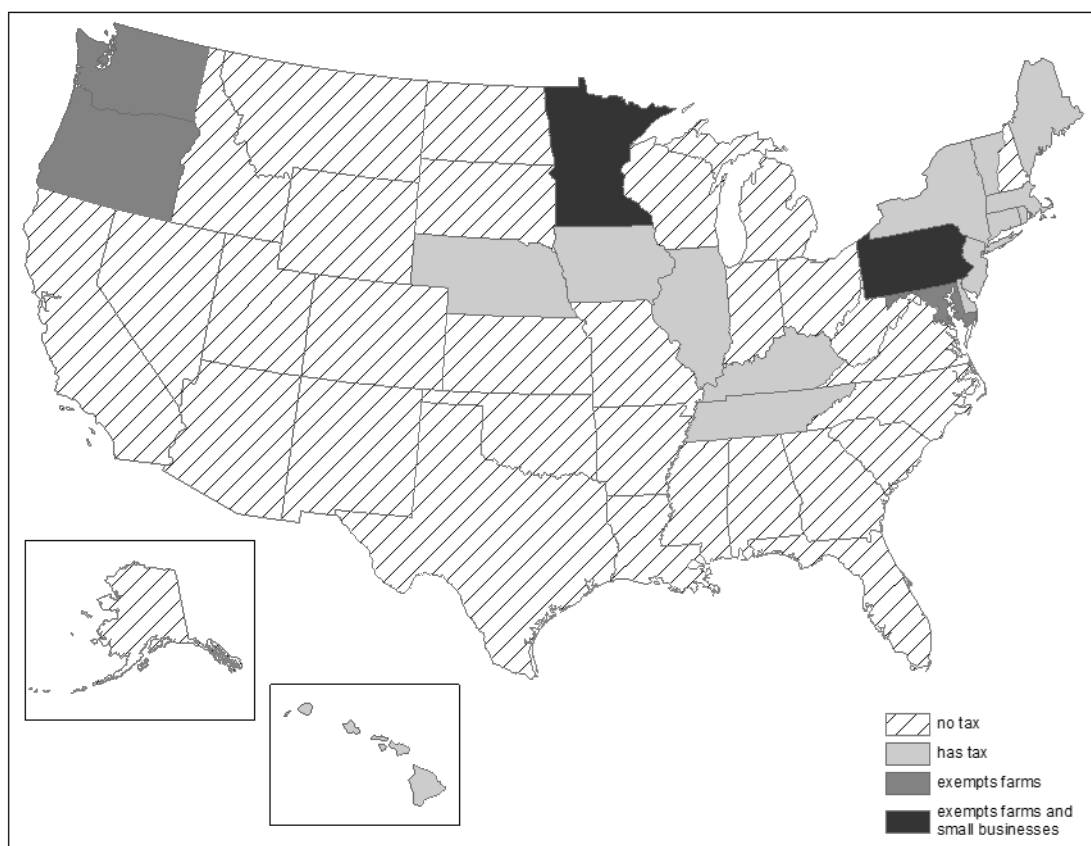


FIGURE 2: EIG REVENUES AS A PERCENTAGE OF TOTAL TAX RECEIPTS, BY SELECTED STATES AND YEARS

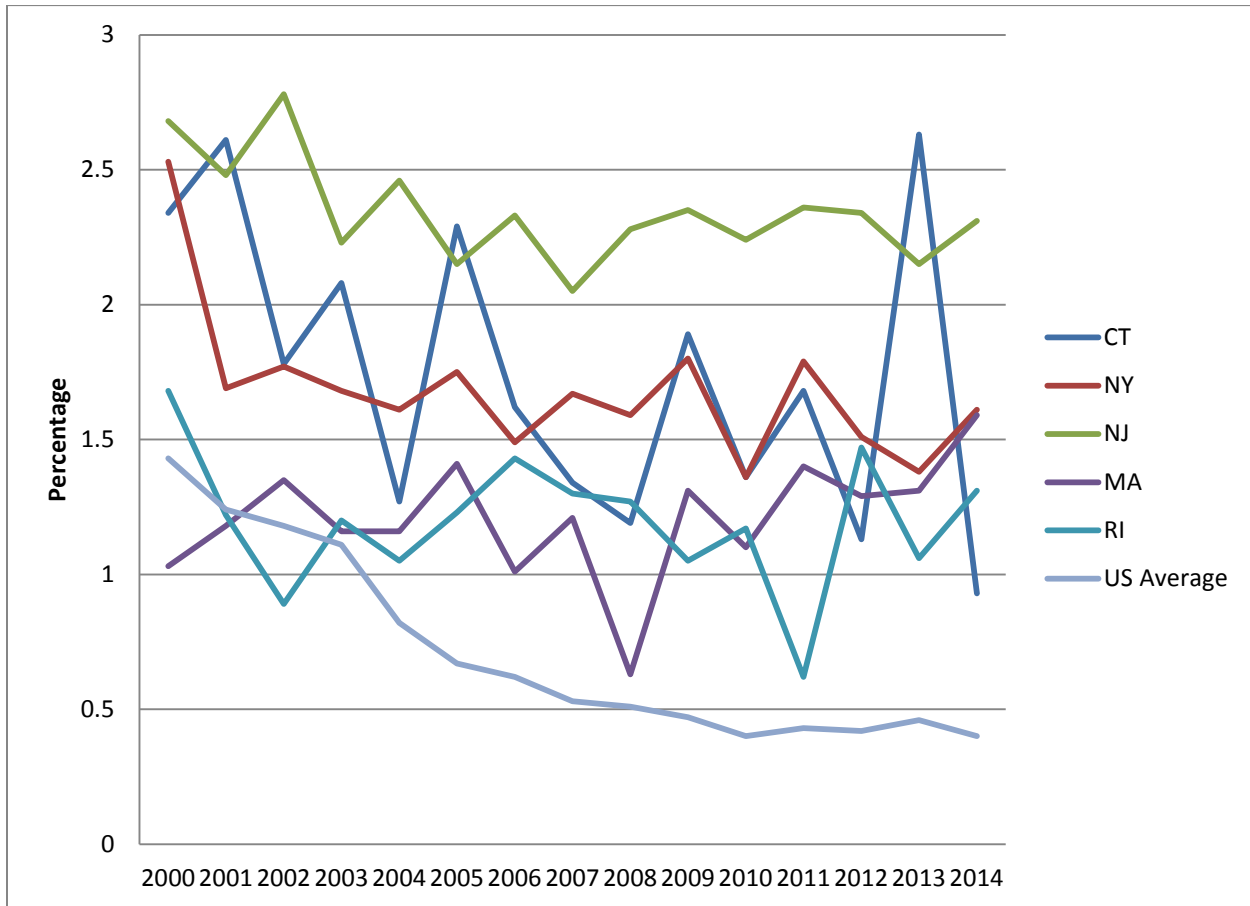




FIGURE 3: FEDERAL AND CONNECTICUT ESTATE TAX EXEMPTION AMOUNTS, BY YEAR

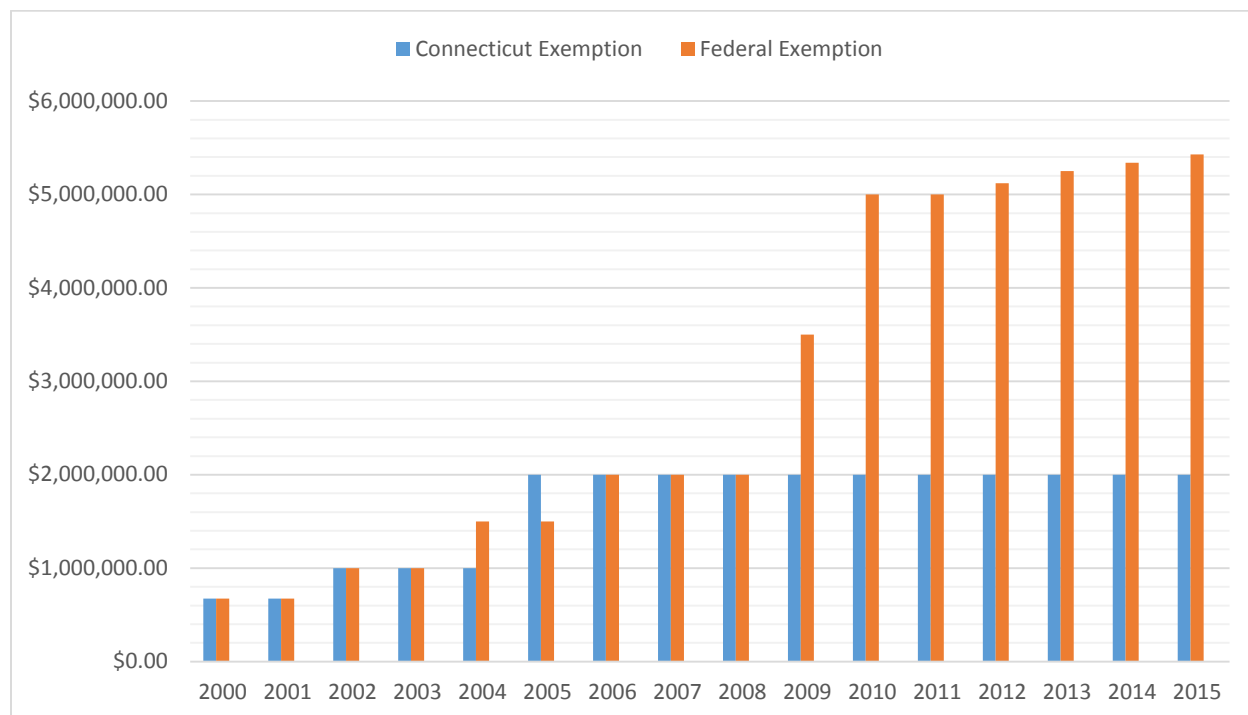


FIGURE 4A: CURRENT ESTATE/INHERITANCE TAX EXEMPTIONS, BY STATE

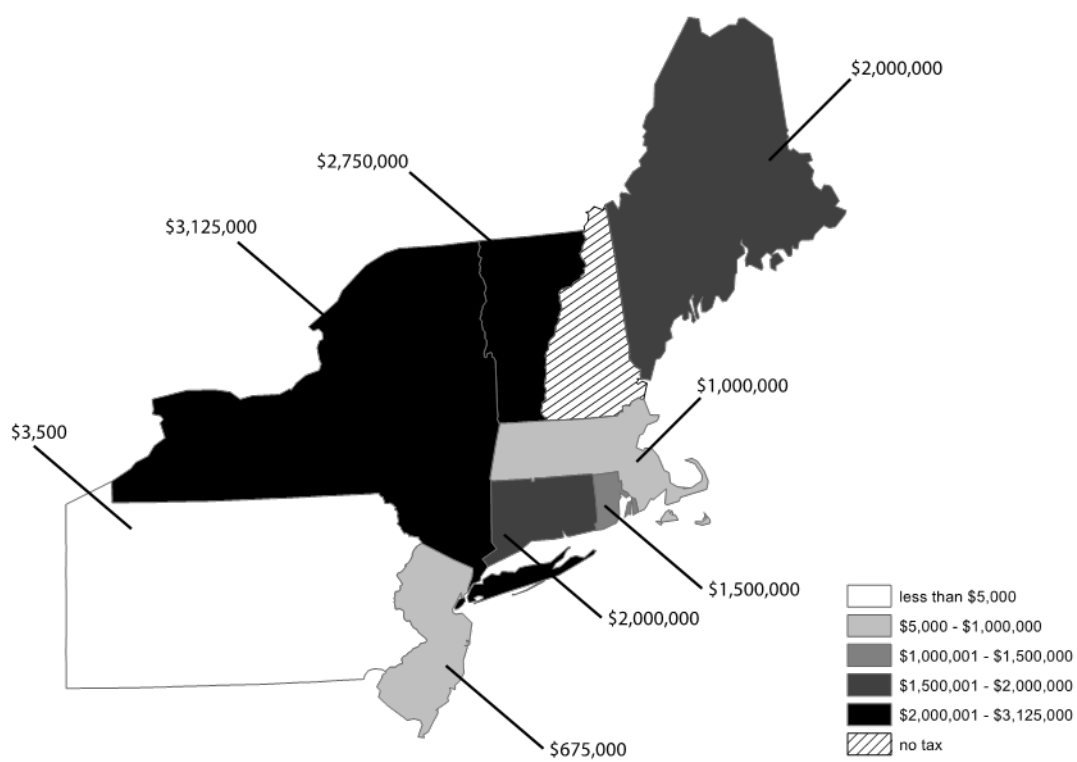


FIGURE 4B: HIGHEST ESTATE/INHERITANCE TAX RATE ONE CAN FACE, BY STATE

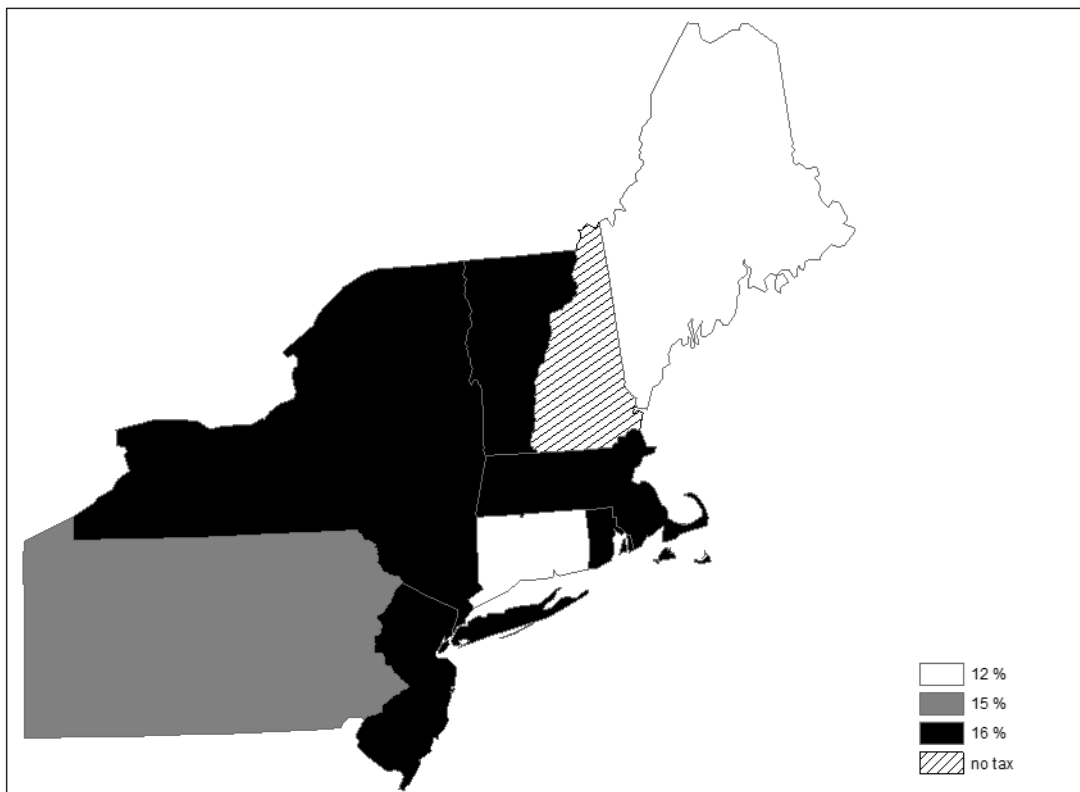


FIGURE 4C: TAX BILL ON 20 MILLION DOLLAR ESTATE, BY STATE

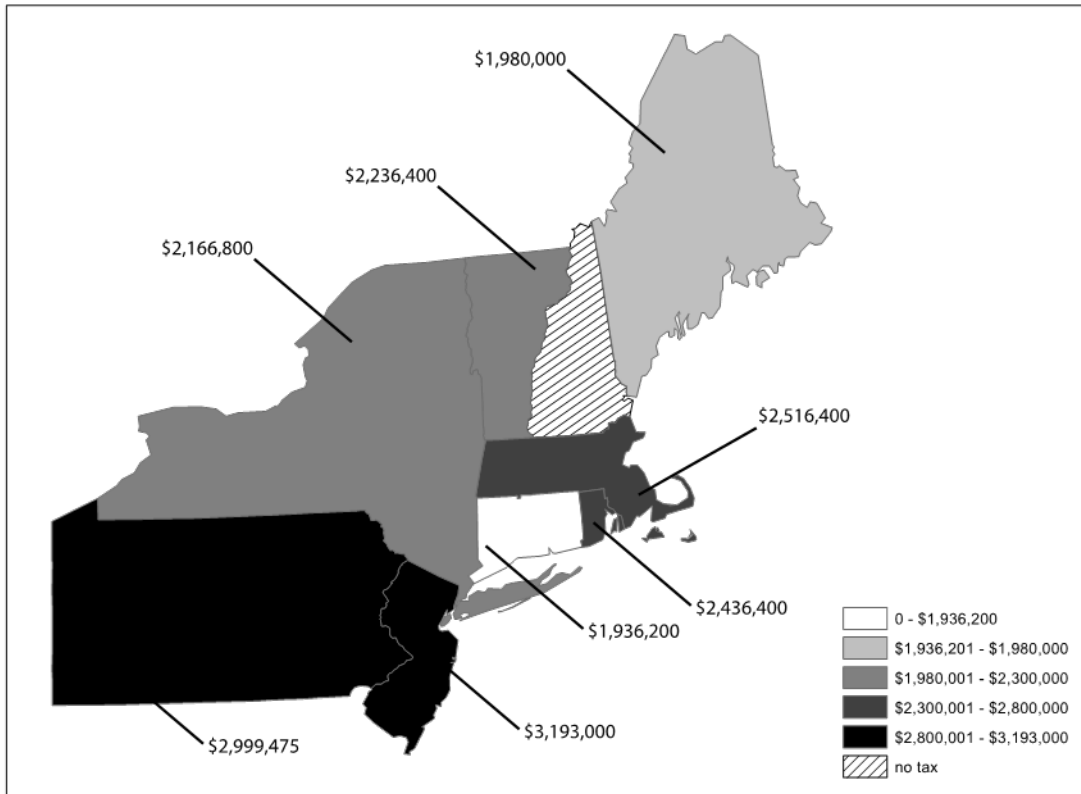


FIGURE 5A: NET CONNECTICUT ESTATE TAX BURDEN AFTER FEDERAL DEDUCTION OF CONNECTICUT'S ESTATE TAX

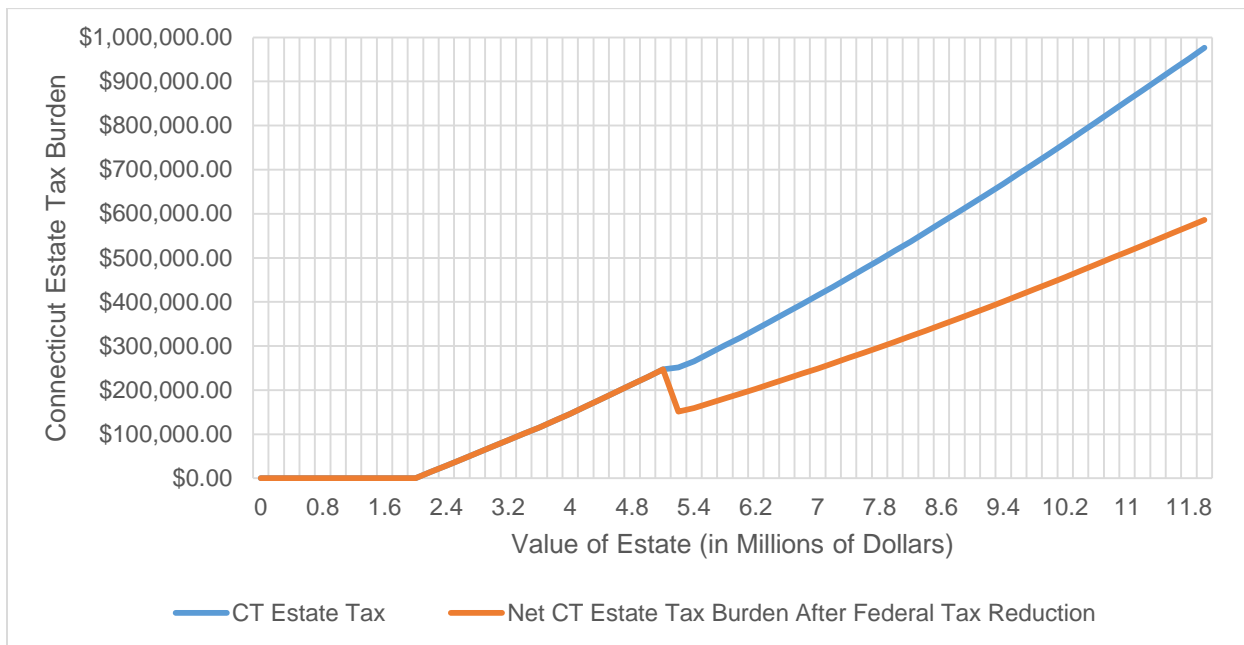


FIGURE 5B: AVERAGE TAX PER DOLLAR OF CONNECTICUT ESTATE in 2014



FIGURE 6A: TOTAL NUMBER OF FEDERAL ESTATE TAX RETURNS, BY NORTHEAST STATES

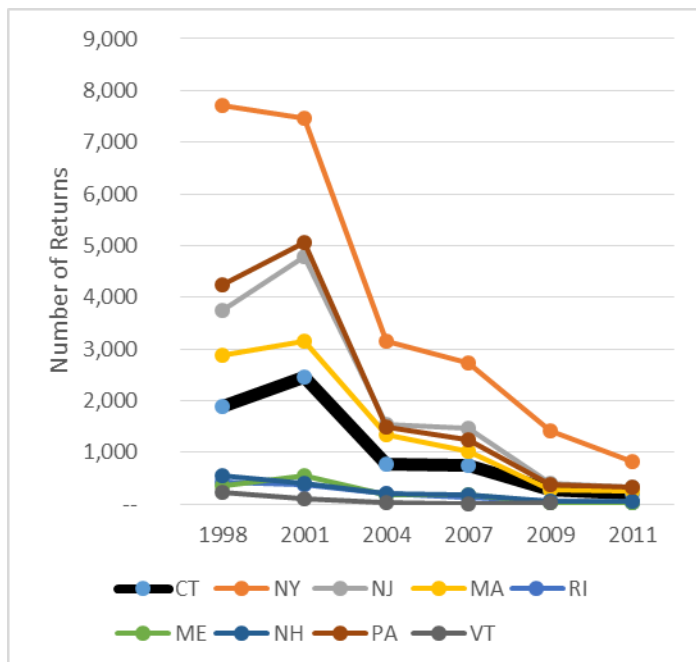


FIGURE 6B: TOTAL FEDERAL ESTATE RETURNS AS PERCENTAGE OF PREVIOUS YEAR OF DATA, NORTHEAST STATES

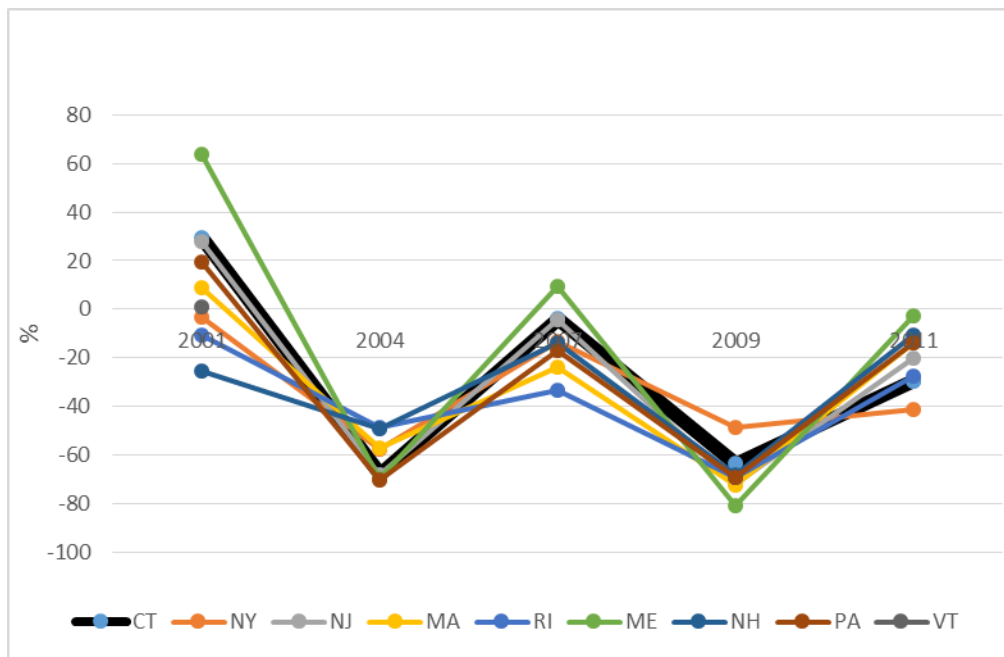


FIGURE 7A: TOTAL FEDERAL ESTATE TAX RETURNS, FOR SOUTHERN STATES AND CONNECTICUT

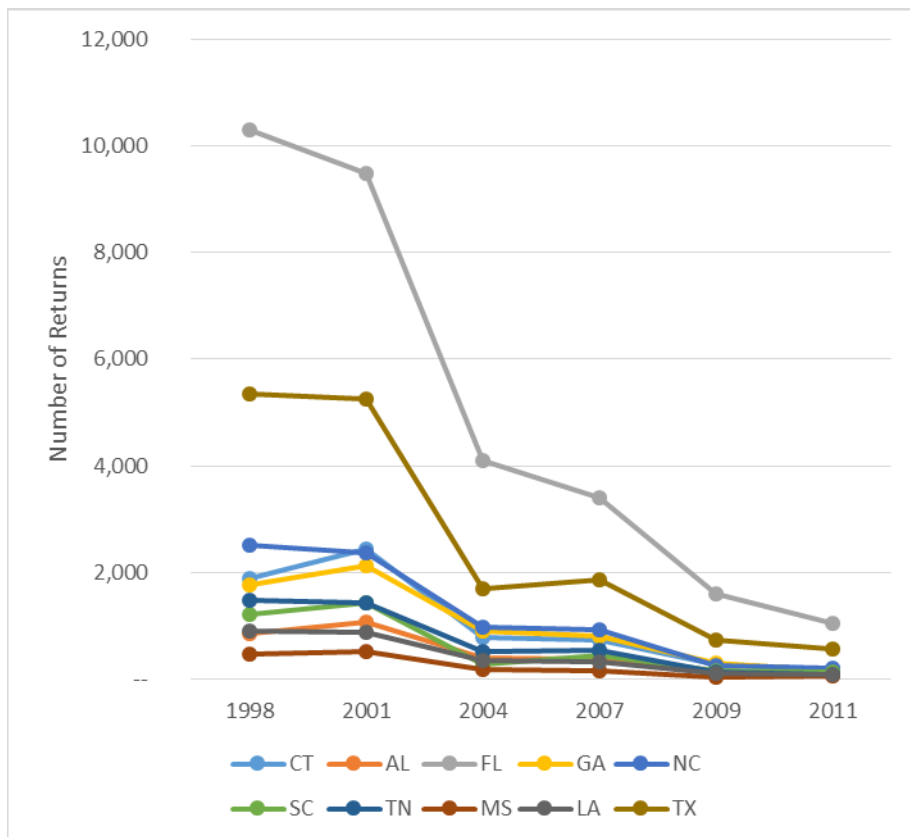


FIGURE 7B: TOTAL FEDERAL ESTATE RETURNS AS PERCENTAGE OF PREVIOUS YEAR OF DATA, FOR SOUTHERN STATES AND CONNECTICUT

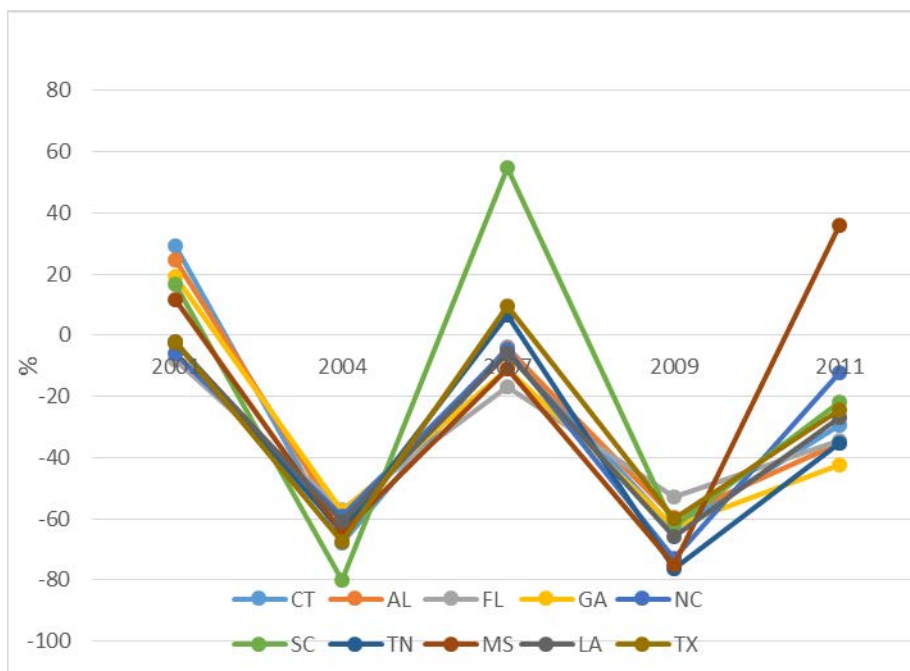


FIGURE 8A: TOTAL FEDERAL ESTATE RETURNS FOR NON-EIG MIDWESTERN STATES AND CONNECTICUT

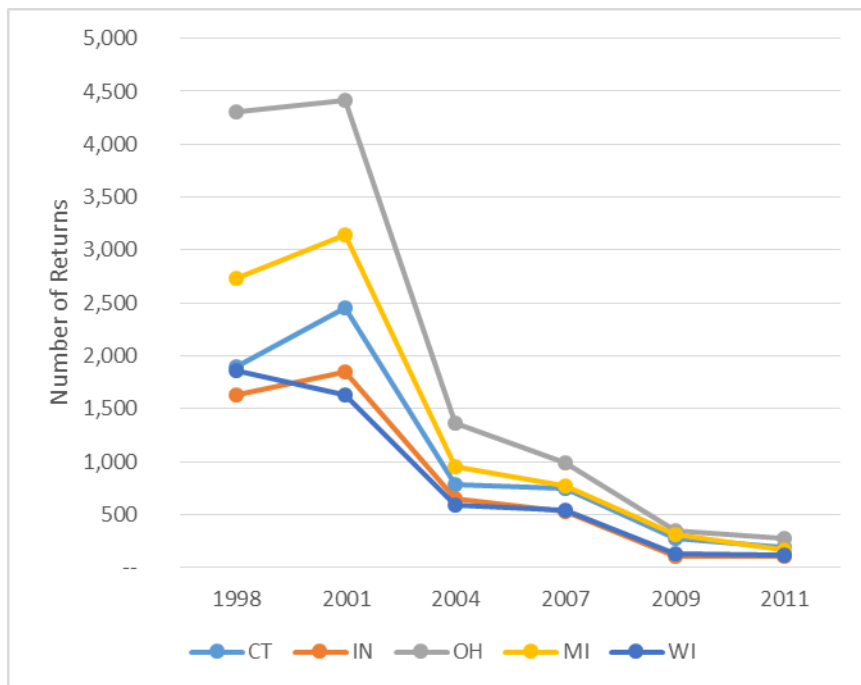


FIGURE 8B: TOTAL FEDERAL ESTATE RETURNS AS PERCENTGE OF PREVIOUS YEAR OF DATA, NON-EIG MIDWESTERN STATES AND CONNECTICUT

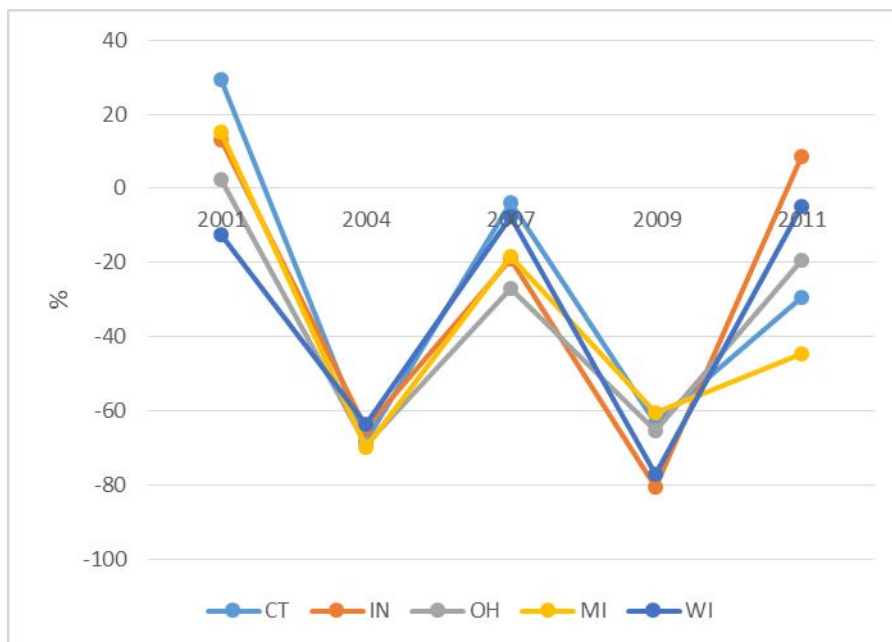




FIGURE 9A: TOTAL NUMBER OF CONNECTICUT INCOME TAX FILERS CLAIMING SOCIAL SECURITY BENEFIT ADJUSTMENT (LINE 42), BY AGI

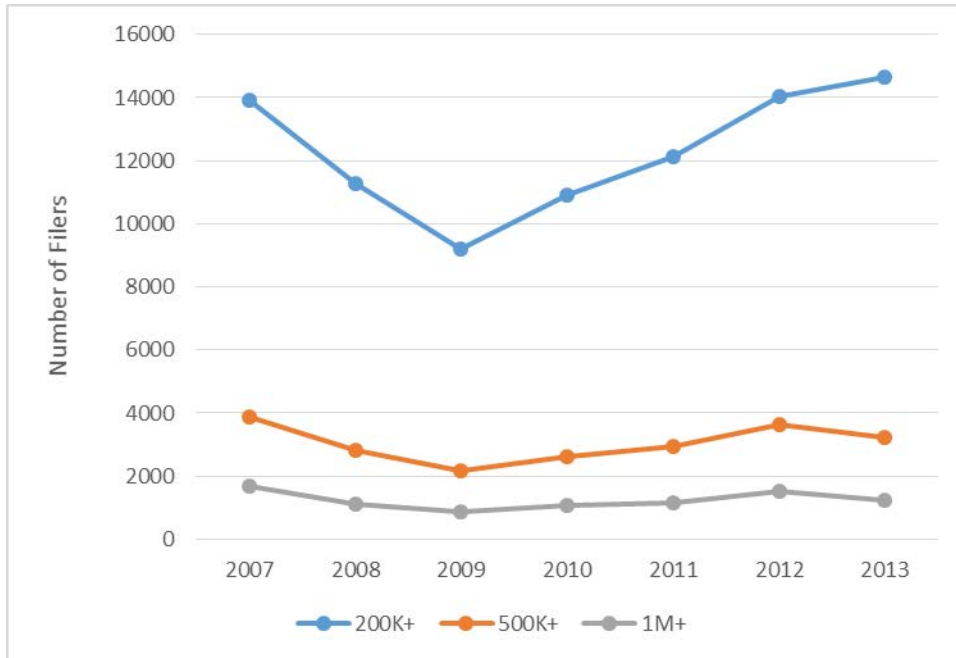


FIGURE 9B: PERCENT OF ALL CONNECTICUT INCOME TAX FILERS CLAIMING SOCIAL SECURITY BENEFIT ADJUSTMENT (LINE 42), BY AGI







FIGURE 11A: ANNUALIZED GROWTH IN PER CAPITA INCOME, CONNECTICUT AND SOUTHERN STATES

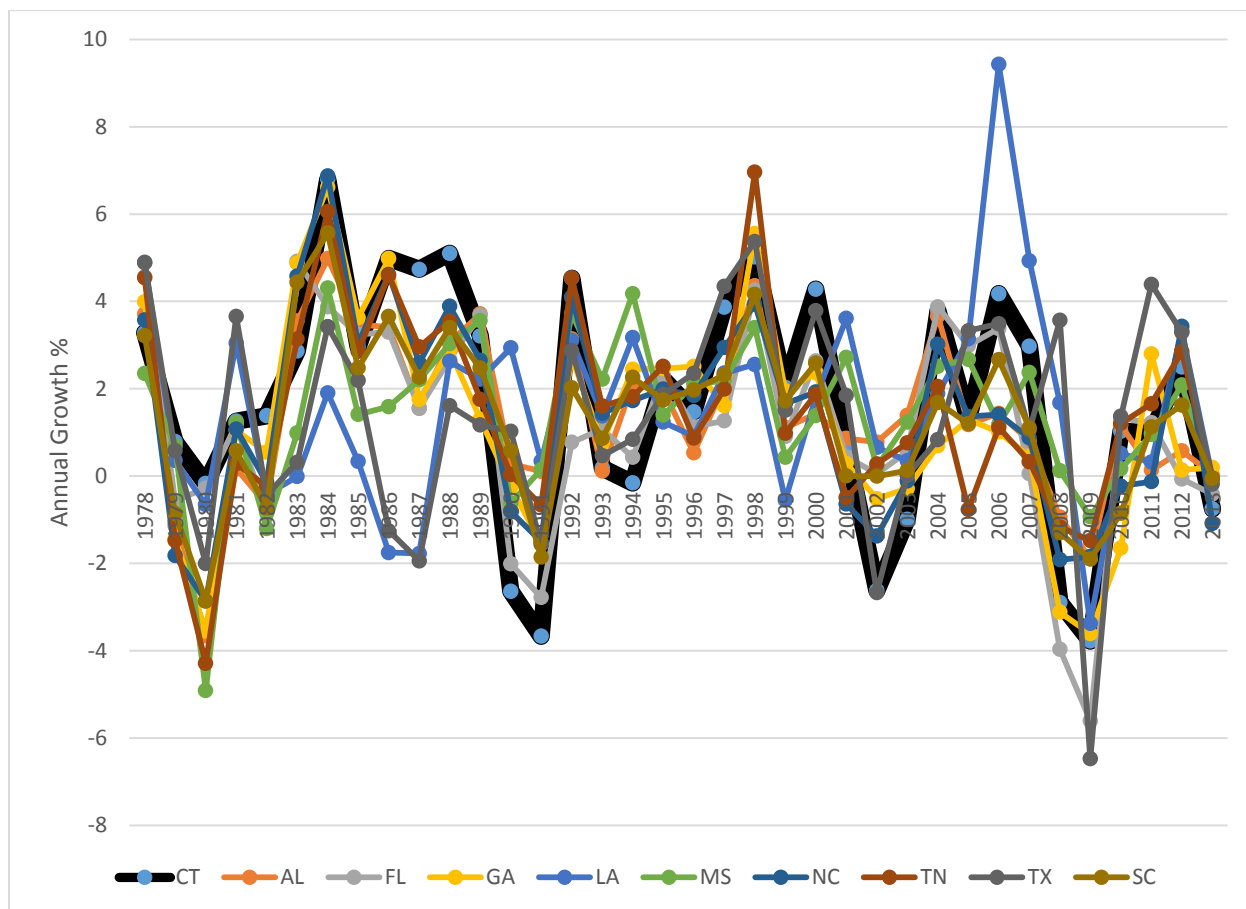




FIGURE 12A: ANNUALIZED GROWTH IN PER CAPITA INCOME, CONNECTICUT VERSUS SELECTED REGIONAL AVERAGES

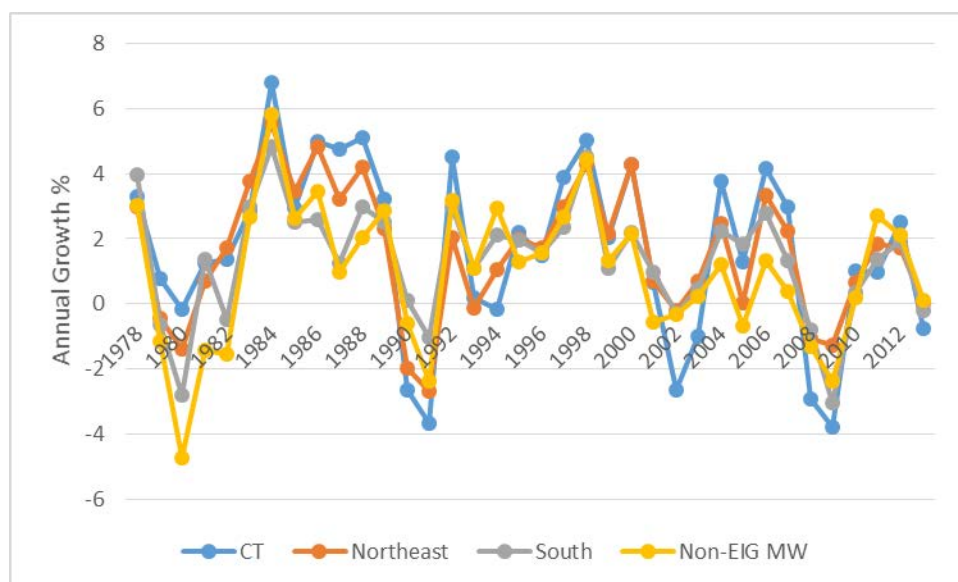


FIGURE 12B: ANNUALIZED GROWTH IN GROSS STATE PRODUCT PER CAPITA, CONNECTICUT VERSUS SELECTED REGIONAL AVERAGES

