

1. The Connecticut Individual Income Tax

Discussion Draft

12.12.15

Recommendation 1. Taxation of Retirement Income

NOTE: At its December 8 meeting the Panel did not reach a consensus on the tax treatment of retirement income. Accordingly, staff was directed to write up two options. Note that under Option I the Panel remains silent on the issue. It is Option 2 that the Panel either accepts or rejects. If Option 2 is accepted, then the language as written (or revised in some manner by the Panel) becomes a Final Recommendation

- ***Option 1:*** [No change in the state taxation of retirement income –neither a narrowing nor a broadening of the base. If this Option is agreed --that is there is a “no” to taxing retirement income-- there will be no need for Panel comment this topic in the transmittal of the final set of recommendations to be are transmitted to the General Assembly]
- ***Option 2:*** Treat all retirement income other than federally mandated ERISA exclusions as ordinary income in the base of the Connecticut Individual Income Tax.
 - Revenue Implications/Option2: Long run capture of the trend of a growing segment of the Connecticut population that is of retirement age (Age 65 and older increasing from 18.6% in 2015, to 20.7% in 2020, to 23.5% in 2025)

The following three draft options do not have a significant revenue impact that differs from the current set of revenue estimations:

Recommendation 2. Connecticut Definition of the Adjustable Gross Income

- Retain the practice of Connecticut determination of the definition of Adjustable Gross Income as the starting point for calculating the Connecticut Individual Income Tax

Recommendation 3. The Earned Income Tax Credit (EITC)

- Retain the Earned Income Tax Credit in its present form and return, as now provided in Connecticut tax law to an amount equal to 30% of the credit allowed against federal tax liability in the same year.

Recommendation 4. Net Capital Gains Income

- Retain the treatment of taxing net capital gains income at the same rate as all other income in the Connecticut income tax