

Connecticut Taxes Hit Poor & Middle Class Harder than the Wealthy

Low- and middle-income families in Connecticut pay a considerably higher share of their income in state and local taxes than do the richest families in Connecticut, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Connecticut has an unfair tax system.”

Connecticut’s Tax Code: Tax the Poor & Middle Class More Than the Wealthy

When all Connecticut taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Connecticut families—with average incomes of \$2.4 million—is 6.4% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 4.4%.
- The average tax rate on families in the middle of the income distribution—those earning between \$37,000 and \$60,000—is 10.4% before the federal offset and 9.5% after, more than double the effective rate the richest pay.
- But the tax rate on the poorest Connecticut families—those earning less than \$21,000—is the highest of all. At 10.3% it is nearly two and a half times the effective rate on the very wealthy.

“Connecticut’s income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Connecticut.”

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Connecticut Taxes Broader-Based Than in 1989

The study also examined the impact of changes in the regressivity of Connecticut taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Despite a lower sales tax rate, a broader base and higher excise taxes caused consumption taxes to rise regressively.
- Connecticut replaced its interest, dividend and capital gains tax with a true income tax, greatly increasing the progressivity of its tax system.

"The middle class still pays a lot more for public services than those in the upper incomes," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their tax system still imposes a much greater share of the tax burden on low- and middle-income taxpayers than on the wealthy."

Two pages of tables detailing the Connecticut findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

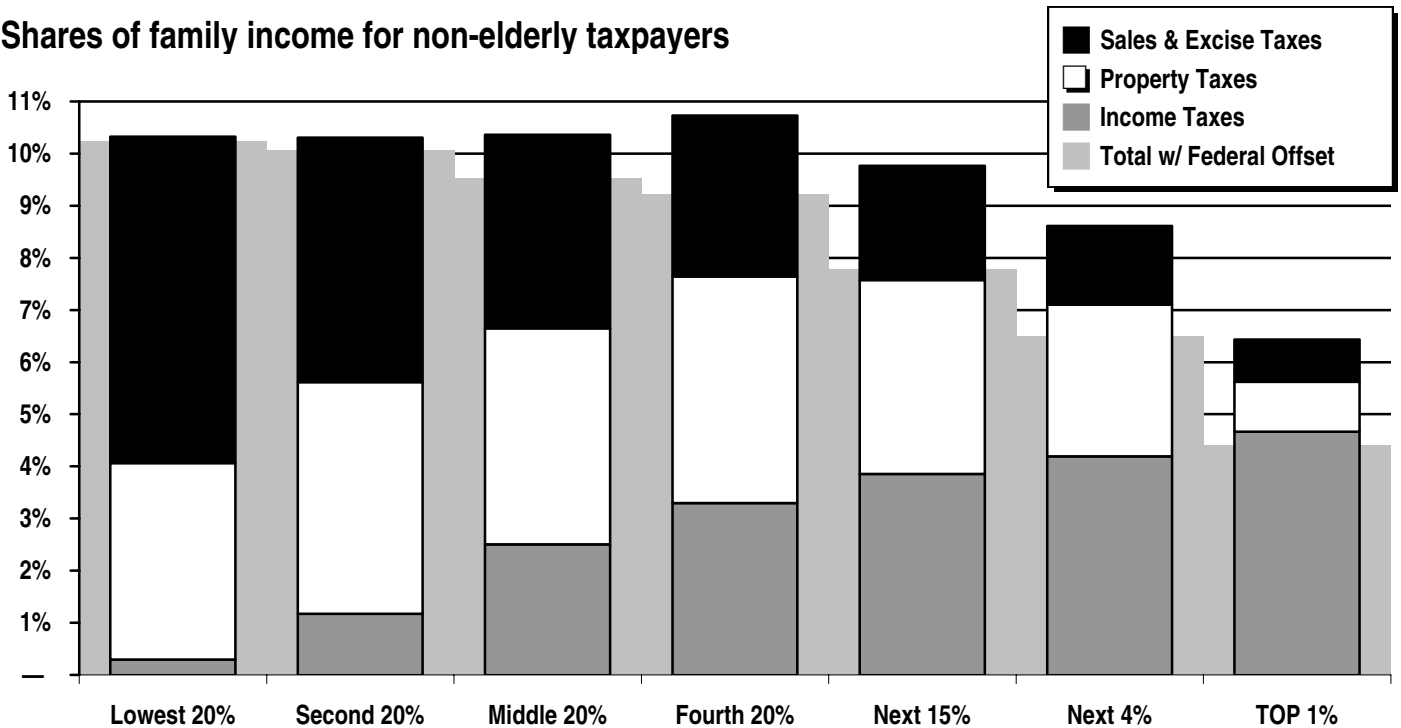
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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Connecticut

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



| Income Group | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Top 20% | | |
|---------------------------------|--------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|-------------------|
| | | | | | Next 15% | Next 4% | TOP 1% |
| Income Range | Less than \$21,000 | \$21,000 – \$37,000 | \$37,000 – \$60,000 | \$60,000 – \$97,000 | \$97,000 – \$220,000 | \$220,000 – \$471,000 | \$471,000 or more |
| Average Income in Group | \$13,800 | \$28,300 | \$47,800 | \$75,300 | \$132,000 | \$286,000 | \$2,406,000 |
| Sales & Excise Taxes | 6.3% | 4.7% | 3.7% | 3.1% | 2.2% | 1.5% | 0.8% |
| General Sales—Individuals | 2.7% | 2.2% | 1.9% | 1.6% | 1.2% | 0.9% | 0.5% |
| Other Sales & Excise—Ind. | 1.4% | 0.9% | 0.6% | 0.5% | 0.3% | 0.1% | 0.0% |
| Sales & Excise on Business | 2.2% | 1.6% | 1.2% | 1.0% | 0.7% | 0.5% | 0.3% |
| Property Taxes | 3.8% | 4.4% | 4.1% | 4.3% | 3.7% | 2.9% | 1.0% |
| Property Taxes on Families | 3.7% | 4.4% | 4.1% | 4.3% | 3.6% | 2.8% | 0.7% |
| Other Property Taxes | 0.0% | 0.0% | 0.0% | 0.1% | 0.1% | 0.2% | 0.3% |
| Income Taxes | 0.3% | 1.2% | 2.5% | 3.3% | 3.9% | 4.2% | 4.7% |
| Personal Income Tax | 0.3% | 1.2% | 2.5% | 3.3% | 3.8% | 4.1% | 4.5% |
| Corporate Income Tax | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.1% |
| TOTAL TAXES | 10.3% | 10.3% | 10.4% | 10.7% | 9.8% | 8.6% | 6.4% |
| Federal Deduction Offset | -0.1% | -0.3% | -0.8% | -1.5% | -2.0% | -2.1% | -2.0% |
| TOTAL AFTER OFFSET | 10.2% | 10.1% | 9.5% | 9.2% | 7.8% | 6.5% | 4.4% |

Note: Table shows 2002 tax law at 2000 income levels.

Connecticut Tax Trends

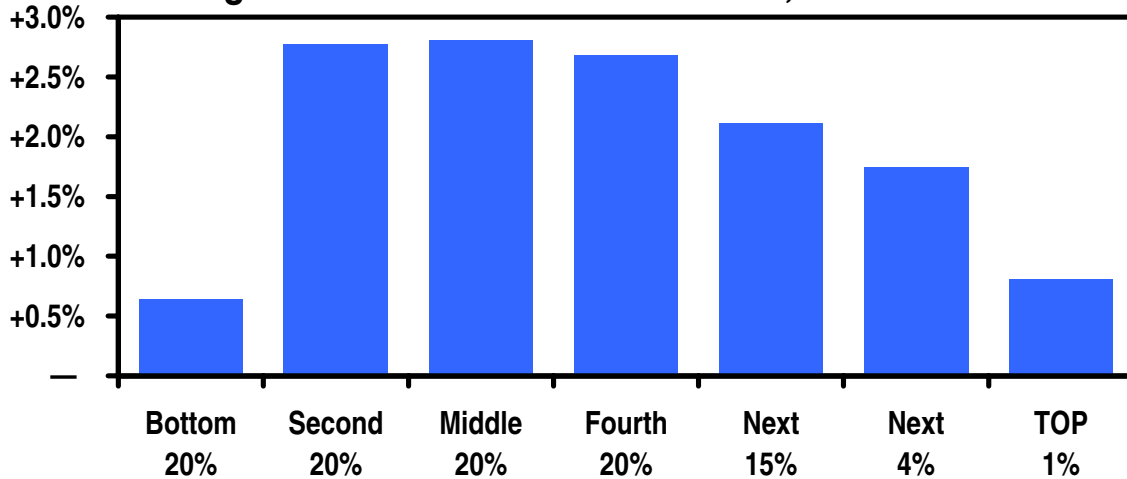
Progressive Features

- ✓ Broad based income tax
- ✓ Generous personal exemptions
- ✓ Groceries exempt from sales tax

Regressive Features

- ✗ State sales tax one of the highest in the nation

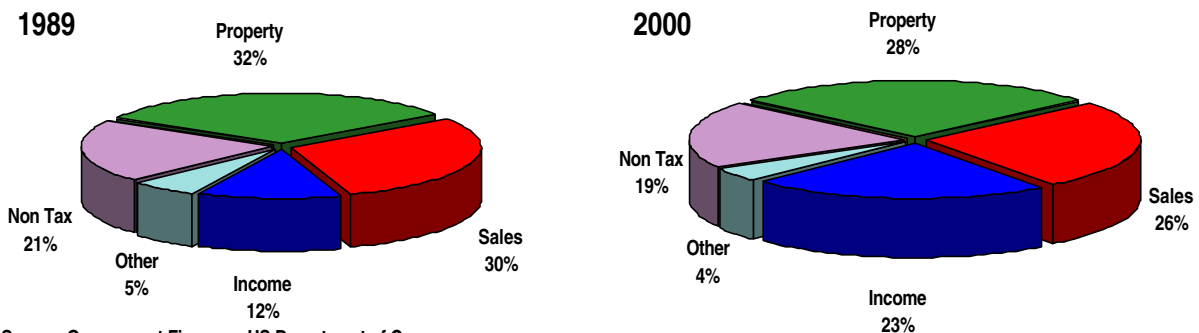
Changes in Taxes as Shares of Income, 1989 – 2002



| | Bottom 20% | Second 20% | Middle 20% | Fourth 20% | Top 20% | | |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | | | Next 15% | Next 4% | TOP 1% |
| Sales & Excise | +0.8% | +0.2% | +0.1% | -0.0% | -0.1% | -0.1% | -0.0% |
| Property | -0.2% | +1.6% | +0.9% | +0.5% | -0.0% | -0.0% | -0.3% |
| Income | +0.2% | +1.1% | +2.4% | +3.1% | +3.3% | +2.9% | +2.3% |
| Federal Offset | -0.1% | -0.2% | -0.6% | -1.0% | -1.1% | -1.1% | -1.2% |
| Overall Change | +0.6% | +2.8% | +2.8% | +2.7% | +2.1% | +1.7% | +0.8% |

In 1990 Connecticut abandoned both its dividend, interest and capital gains income tax and its narrow base, high rate sales tax. Connecticut replaced those taxes with a progressive, broad based income tax and a broader base, lower rate sales tax. Those progressive changes were partially offset by a regressive hike in the cigarette tax.

Composition of Revenues



Source: Government Finances, US Department of Census