

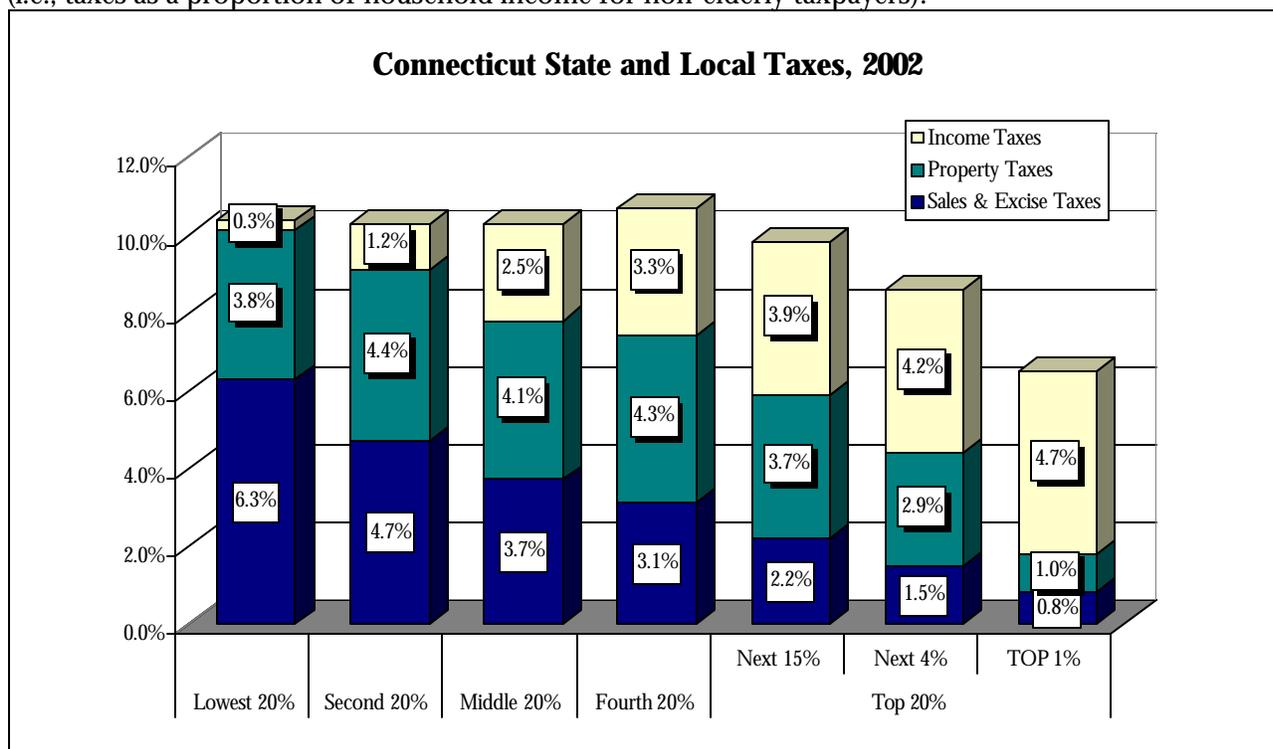
Budget CONNECTIONS

A Connecticut Voices for Children
Issue Brief

January 2003

Who Pays? A Distributional Analysis of Connecticut's Income, Property and Sales Taxes

The Institute for Taxation and Economic Policy released a report today showing that the share of income paid in state and local taxes by the wealthiest 1% of Connecticut's income earners is **less than half** the share of income paid in such taxes by 80% of Connecticut's income earners.¹ Specifically, the wealthiest 1% pay about 4.4% of their income in state and local taxes (after federal deductions²) compared to 10.2% for the poorest 20%, 10.1% for the second poorest 20%, 9.5% for the middle 20%, and 9.2% for the next to wealthiest 20%. The following chart compares how big a share of income is paid in various taxes by Connecticut income earners with differing incomes before federal deductions (i.e., taxes as a proportion of household income for non-elderly taxpayers).



Source: ITEP, *Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States*, 2nd Edition, 2003.

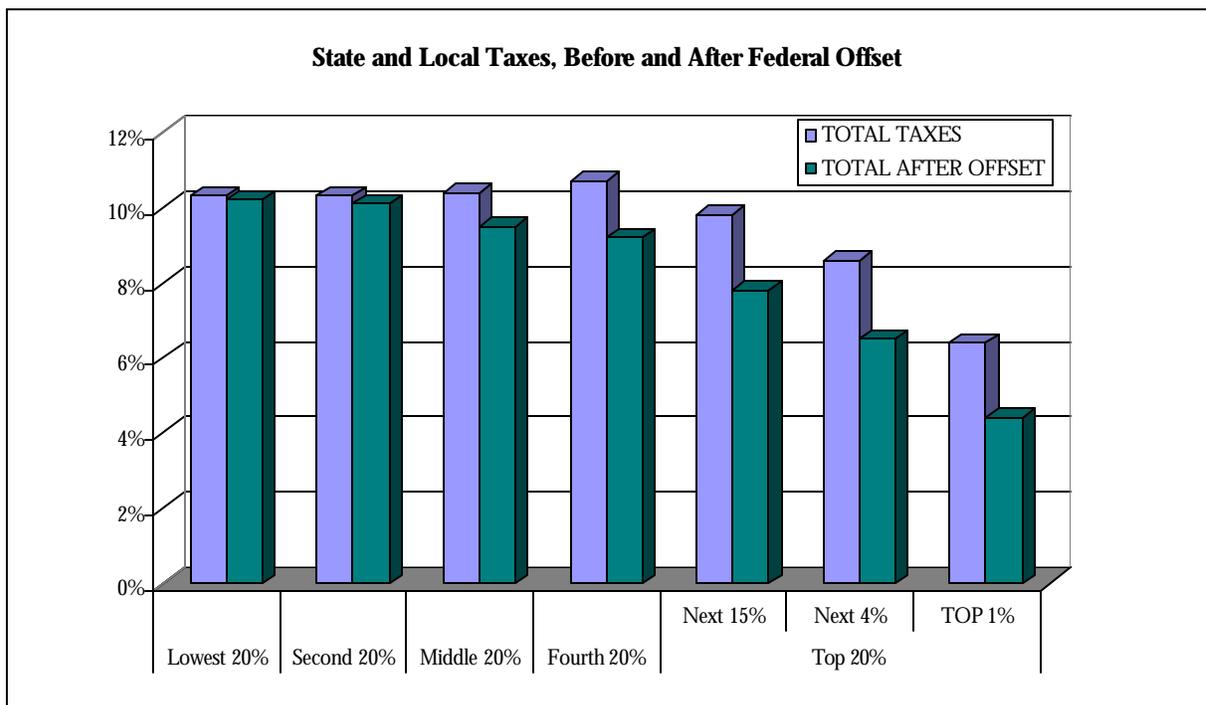
¹ The Institute on Taxation and Economic Policy, *Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States*, 2nd Edition, (ITEP, 2003). Note that although this study is an update of their groundbreaking original edition, published in 1996, the data cannot be directly compared, since the population studied is different (the 1996 study looked only at non-elderly married couples, while the 2003 edition includes all non-elderly taxpayers).

² Because state income and property taxes are deductible on federal income tax returns, the impacts of state taxes on the taxpayer are moderated. This is significant not only in terms of the current distribution of tax burdens in Connecticut, but also for any proposed revenue enhancements. For a taxpayer facing a federal tax rate of 38.6%, for example, each dollar of state income tax "costs" the taxpayer only \$.614. Essentially, revenue enhancements achieved through the state income tax are subsidized by the federal government.

CT Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
CT 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	\$131,500	\$285,800	\$2,405,500
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%

Source: ITEP, Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States, 2nd Edition, 2003. Note: Table shows 2002 tax law applied to 2000 income distributions.

The following table shows how the deductibility of state income and property taxes preferentially benefits Connecticut's wealthier households:



Source: ITEP, Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States, 2nd Edition, 2003.

Where Connecticut Stands: Uneven Tax Burden

Among the findings for Connecticut are the following:

- The highest 1% of income earners, with average incomes of \$2.4 million pay only 4.4% of their household income in combined state and local taxes. The four lowest income groups, representing 80% of income earners, pay more than double that rate.
- Prior to the federal offset, Connecticut's state and local tax burden is essentially "flat", meaning families pay approximately the same proportion of their family income in state and local taxes³, excepting the wealthiest 20% of income earners (who are most able to shoulder a higher tax burden). Prior to the federal offset, the **top 20%** of income earners **are not paying their fair share**, with the top 1% paying 6.4% of their household income in state and local taxes, the next 4% paying 8.6%, and the next 15% paying 9.8%.
- After application of the federal offset, Connecticut's state and local tax system becomes quite regressive⁴ even among the lowest 80% of income earners, and **extremely regressive** among the top 20% of income earners.
- Families with the highest incomes pay a far smaller proportion of their incomes in sales and property taxes than do families with lower incomes. Property taxes (as a share of income) fall most heavily on middle-income families (who are more likely to have as their *primary* financial assets homes and cars that are subject to property tax). The financial assets of wealthier families are more likely also to include stocks, bonds and other assets not subject to property tax
- While all Connecticut families are paying a higher proportion of their household income in taxes in 2002 than they paid in 1989, the change over that time fell most heavily on the middle class⁵ whose share of income going to state and local taxes increased by about 2.7%.
- Changes in different types of tax over the period have hit different families differently depending on their incomes:
 - Changes in the property tax burden have fallen more on the middle 60% of income earners.
 - Changes in the income tax (notably the introduction of the broad based income tax in 1991) have had a progressive impact among the lowest 95% of income earners, with increases of +0.2% for the lowest 20% of earners, rising to +3.1% for the fourth 20% of income earners, and +3.3% for the next 15%. Those in the next 4% and the top 1% of income earners have seen a smaller change, with changes of +2.9% and +2.3% respectively.

Connecticut Compared

- Connecticut's state and local tax burden as a percentage of family income is **below** national averages in most income categories: only the next-to-richest 20% of income earners (60% to 80%) and the next richest 15% (81% to 95%) pay slightly higher more than national averages (9.2% CT vs. 8.8% US, and 7.8% CT vs. 7.7% US respectively). The top 1% of income earners in CT pay *almost a full percentage point less* than the national average (4.4% vs. 5.2%, or 18% less)⁶.

³ Among the lower 80% of income earners, the state and local income tax burden, which prior to federal offset ranges from 10.3% to 10.7%, is very mildly progressive.

⁴ A "progressive" income tax system is one in which taxpayers pay a higher proportion of their income in taxes as their incomes rise. A "regressive" income tax system is one in which taxpayers pay a lower proportion of their incomes in taxes as their incomes rise.

⁵ I.e. the middle 60% of income earners.

⁶ These figures are all after the federal offset.

- Connecticut's 4.4% state and local tax burden on the top 1% of income earners in Connecticut falls *below* the national average of 5.2%. In only 11 states to the wealthiest 1% pay a *smaller* proportion of their incomes in state and local taxes.⁷
- Among the 8 states of the Northeast, Connecticut ranks in the middle of the pack through most of the income spectrum (4th of 8 for the lowest 60% of income earners, 5th of 8 for the next 35% of income earners), but drops to 6th and then 7th out of 8 for the next 4% and the top 1% of income earners.

Who Pays? In the Northeast⁸

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Connecticut	10.2%	10.1%	9.5%	9.2%	7.8%	6.5%	4.4%
Maine	10.0%	10.2%	9.9%	10.0%	9.5%	8.5%	6.8%
Massachusetts	9.3%	9.1%	8.6%	8.2%	7.3%	6.2%	4.6%
New Hampshire	8.1%	5.6%	5.4%	4.8%	4.1%	3.1%	1.9%
New Jersey	12.4%	10.0%	9.3%	8.5%	7.8%	7.0%	5.7%
New York	12.8%	11.5%	11.7%	11.2%	10.2%	8.4%	6.5%
Rhode Island	12.2%	10.2%	10.3%	9.5%	8.7%	7.3%	6.0%
Vermont	10.0%	8.6%	9.5%	9.5%	8.4%	7.6%	7.1%

The full *Who Pays?* report is available at: <http://www.itepnet.org/whopays.htm>.

⁷ These include Alabama (3.7%), Alaska (2.5%), Florida (2.7%), Nevada (1.8%), New Hampshire (1.9%), Pennsylvania (3.5%), South Dakota (2.1%), Tennessee (3.0%), Texas (3.2%), Washington (3.2%), and Wyoming (1.6%). In discussions over the possibility of raising the income tax on Connecticut's wealthiest citizens, the argument is often advanced that to do so would drive them out to lower tax states. Given the significant variation in tax rates faced by taxpayers in each state, one deduces that the equation must be more complex than that, otherwise presumably the highest income earners would all be flocking to Wyoming, the state with the lowest tax rate.

⁸ Combined State and Local Tax incidence as share of family income, after federal offset.