NEWS RELEASE

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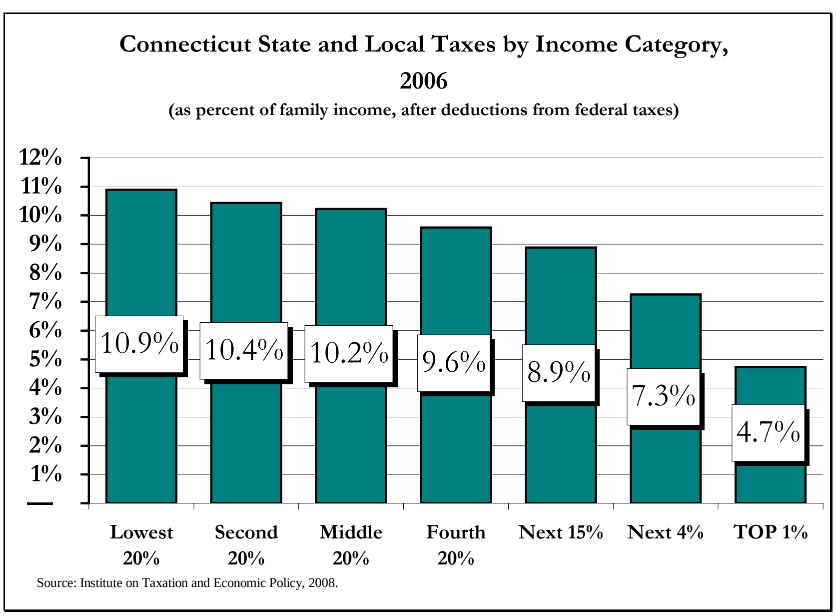
CT's Middle Class and Poor Families Pay More of Their Income in State and Local Taxes Than Wealthiest Families

On eve of tax filing deadline, CT group calls for more fairness in tax system

Connecticut's middle class and poor families pay much more of their income in state and local taxes than do the state's wealthiest families, according to a new report released by Connecticut Voices for Children on the eve of the tax filing deadline. The research-based advocacy organization called on the Governor and state legislature to enact progressive state and local tax reforms to help ensure that those who can best afford it contribute their fair share and to ensure that as the economy falters, the state has adequate revenues to fund programs that support middle- and low-income families.

The state report by Connecticut Voices was based on an analysis of state and local tax data by the national Institute on Taxation and Economic Policy. It found that after federal income tax deductions for state income and property taxes, the wealthiest 1% of Connecticut's families (with average income in 2006 of $3.3 million) paid 4.7% of their income in state and local taxes. This was *less than half* the share of income paid in these taxes by the state's middle-income families (9.6% of their average income of $55,100) or the poorest 20% of families (10.9% of their average income of $15,100).



Among the study's other findings:

- Low- and middle-income families pay a relatively larger share of their incomes in sales and property taxes, while higher income families pay a larger share of *their* incomes in income tax. *In total*, however, the state's wealthiest families pay a much smaller share of their income in state and local taxes than do its middle and lower income families. Why? Connecticut's income tax rates are not progressive enough to offset the regressivity of the sales and property taxes.
- Some assert that Connecticut's wealthiest families pay more than their fair share of income tax, citing the share of total state income tax revenues that come from wealthy families. While Connecticut's wealthiest residents *do* pay a large share of Connecticut's total income taxes, this reflects the fact that they report a large share of the total income in the state, *not* that they are taxed far more heavily on that income. For example, in 2006, the top 1% of taxpayers in Connecticut (those reporting income of $750,000 or more) paid 33% of the state's total income taxes, but also reported 31% of the state's total income. Thus, their income taxes were roughly proportional to their income.

The report is released as the economy is slowing, the state budget surplus for FY 08 continues to decline, and structural deficits are projected for the years ahead. To help in alleviating the unfairness of the state and local tax system and to ensure that the state has sufficient revenues to fund essential programs to support middle-class and low-income families and keep our state economically vibrant, Connecticut Voices for Children recommends that state lawmakers:

- **Provide additional state aid to Connecticut's cities and towns to reduce Connecticut's relatively high property taxes.** Providing full funding for the Payment in Lieu of Taxes program and increasing the state's share of K-12 education funding to close to 50% would reduce the pressure on our local property tax; reductions in local property tax would provide particular benefit to our middle-income families and to small, start-up businesses.
- **Adopt a state earned income tax credit (EITC) and increase Connecticut's personal income tax exemptions.** Both measures would make Connecticut's tax structure fairer at the lower end of the income scale and help to compensate for the fact that Connecticut's tax threshold – the income level at which families begin to pay the state personal income tax – has not changed since the tax was adopted in 1991. As a result, an increasing number of low-income families must pay income taxes. An increase in the personal exemptions to keep pace with inflation would reduce the tax burden on many families. A state EITC, now under consideration by the Connecticut General Assembly, would also help to reduce taxes for low-income families.
- **Increase the income tax rate for our wealthiest families.** Adopting a top income tax bracket of 6% for married couple families over $200,000 and single filers over $100,000 would generate an estimated **$470 million** in additional revenue, while **affecting only 7%** of Connecticut taxpayers. Notably, *even with* this rate increase, the share of income paid in state and local taxes by Connecticut's wealthiest 5% would *remain smaller* than what is paid by the "bottom" 95% of Connecticut families. That is, this change *would only begin* to close the gap in relative tax burden between Connecticut's low- and middle-income families and its wealthiest families.

The tax report is released a week after another report from Connecticut Voices, *Pulling Apart in Connecticut*, found that over the last two decades, inflation-adjusted (real) incomes for the poorest families in the state have declined since the late 1980s by 17%, the *largest drop of any state*. Over the same period, the wealthiest families have enjoyed a 45% increase in their incomes. Middle-income families have seen little change in their incomes, which increased by only 5.1%. This percentage trend for middle-income residents was *the worst among all states*. The gap in average real income between wealthy and poor Connecticut families as well as the gap in income between wealthy and middle-income families have grown more in Connecticut than in any other state in the country.

"Our state and local tax system is worsening, rather than alleviating the growing income gaps in our state," said Douglas Hall, Associate Director of Research at Connecticut Voices for Children and co-author of the report. "We need a tax structure that is more fair to families and we need the revenues to support programs that can help to close these economic gaps. Our proposed changes would help achieve both goals."

"The temptation, as the economy slows and state revenues begin to slump in an election year, will be to cut back on public investment rather than raise taxes. Yet our middle- and lower-income families enter this new recession in far worse shape than the last," said Shelley Geballe, President of Connecticut Voices for Children and co-author of the report. "Increasing the income tax on our wealthiest families so we can help maintain the programs and services all our *other* families need to weather this storm is not only the fair thing to do, but the wisest course of action."

The report, "Who Pays? How Our State and Local Tax System Burdens Connecticut's Poor and Middle Class," is available on the CT Voices Web site at www.ctkidslink.org.

Connecticut Voices for Children is a research-based policy and advocacy organization that works to advance strategic public investment and wise public policies to benefit our state's children, youth and families. The Institute on Taxation and Economic Policy (www.itepnet.org) is a non-profit, non-partisan research and education organization that works on government taxation and spending policy issues.

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