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## **Report: CT's Rich Pay Much Smaller Share of Income in State and Local Taxes**

### **Calls on policymakers to avoid cuts to State Earned Income Tax Credit**

On the eve of the tax filing deadline, a new report finds that Connecticut's wealthiest residents pay a smaller share of their income in state and local taxes than middle-income and low-income residents. The report by the Fiscal Policy Center at Connecticut Voices for Children called on policymakers to preserve Connecticut's recently-enacted Earned Income Tax Credit, which is targeted at lower-income workers.

"Connecticut's state and local tax system is tilted against low-income workers," said Matthew Santacroce, Policy Analyst at the Fiscal Policy Center. "The Earned Income Tax Credit is an important step toward leveling the playing field."

The report, which is based on analysis of federal, state, and local tax data by the Institute for Economic and Tax Policy, finds:

- **While the federal tax system is progressive, meaning that higher-income people pay a greater share of their income in taxes, Connecticut system is the opposite, asking the most of those with the least.** In Connecticut's regressive system, the wealthiest 1% of taxpayers pay about half the share of their income on state and local taxes (5.5%) that middle-income (10.5%) and lower-income (11%) pay.
- **Connecticut's Earned Income Tax Credit, which went into effect in 2011, has helped to make Connecticut taxes less regressive and to offset the impact of recent sales tax increases, which hit lower-income residents harder.** The credit benefited 180,000 Connecticut households last year and can be claimed by low- and moderate-income people who earn income through work. Governor Malloy has proposed scaling back the credit in his budget plan.
- **While rich people in the U.S. pay a higher dollar amount in taxes, it is because their incomes are so much higher than everyone else's, not because they are taxed far more heavily.** Nationally, the top 1% of income earners pay 21.6% of all federal, state, and local taxes, and capture a similar share of income -- 21%. Middle-income people earn 11.4% of income and pay 10.3% of total taxes, while the poorest 20% earn 3.4% of

income and pay 2.1% of taxes. Therefore, each income group's share of taxes reflects its share of national income.

To help improve fairness in the tax system and to help close the state's budget deficit, the Fiscal Policy Center report recommends that Connecticut policymakers:

- Avoid cuts to the state Earned Income Tax Credit,
- Raise income tax rates on the state's wealthiest residents to align with those in New York State,
- Close corporate tax loopholes, and
- Report regularly on how much people at different income levels and businesses of different sizes pay in state and local taxes.

"Most wealthy nations and the U.S. federal government have progressive tax systems," said Wade Gibson, Senior Policy Fellow at the Fiscal Policy Center. "Connecticut falls behind most states and the federal government with its regressive system."

The report, "Reality Check: Who Pays Taxes in Connecticut?" is available at [www.ctvoices.org](http://www.ctvoices.org). The Fiscal Policy Center at Connecticut Voices for Children, launched in October 2012, provides research, analysis, and recommendations on state and federal budget and tax policies ([ctvoices.org/fiscal](http://ctvoices.org/fiscal)). The Institute on Taxation and Economic Policy is a national, non-profit, non-partisan research organization that works on federal, state, and local tax policy issues ([www.itepnet.org](http://www.itepnet.org)).

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