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Contact: Wade Gibson, Director, Fiscal Policy Center, (203) 498-4240 x113,  
[wgibson@ctvoices.org](mailto:wgibson@ctvoices.org)

## Official State Report Confirms Connecticut's Rich Pay Smallest Share of Income in State and Local Taxes

As the next state legislative session nears, a new report by the Connecticut Department of Revenue Services confirms what independent policy experts had previously reported: Connecticut's richest taxpayers, those at the top of the income scale, pay a far smaller share of their income in state and local taxes than low- and middle-income families. Throughout the income scale, in fact, the greater one's income, the smaller the percentage of income one will typically pay in taxes.

"This study provides crucial information which can and should change the dialogue around tax reform," said Ellen Shemitz, Executive Director of Connecticut Voices. "We can improve opportunities for children by reducing the tax burden on low and moderate income families at the same time as we advance equity by investing in programs and services that remove barriers to success."

The report, which is based on analysis of state and local tax data, is the first of its kind by the Department of Revenue Services. It divides households into tenths (deciles) and ascertains effective tax rates. The study finds:

- Connecticut's lower-income families pay more than three times the share of their income in state and local taxes as the state's high-income households.
  - While households in the second-lowest decile pay 27% of their income in state and local taxes, households in the top decile (the state's wealthiest residents) pay 8% of their income. (Information on rates for the lowest-income decile of households is not available in the report.)
  - So too, middle-income households (the 5<sup>th</sup> decile) pay 15% of their income in state and local taxes, nearly double the rate of high-income residents (at 8%).
- Connecticut's overall tax system is regressive, hitting low-income families harder.
  - While the estate and income taxes are progressive, their impact is outweighed by the regressivity of the property, sales, and other taxes.
  - For example, the second-lowest tenth of households pays 15% of their income in property taxes and 7% in sales taxes, compared to 2% and 0.8%, respectively, for the highest-income decile.

To improve fairness and equity in the state and local tax system, Connecticut Voices for Children recommends that policymakers consider a range of family-friendly tax policy options, including:

- Restoring the state Earned Income Tax Credit, which is aimed at rewarding work among low-income parents, to its full level. The credit was temporarily reduced in 2013 to help close the state budget deficit.
- Creating a dependent exemption, which would allow parents and other caregivers to deduct \$2,000 of income for each dependent.

“Connecticut’s tax system is tilted against lower- and middle-class taxpayers, who are raising the overwhelming majority of our state’s future workers” said Wade Gibson, Director of the Fiscal Policy Center at Connecticut Voices for Children. “Policies such as the Earned Income Tax Credit and dependent exemption can start to level the playing field for working families and stop holding back Connecticut’s future workforce.”

The report, “Connecticut Tax Incidence,” is available at [http://www.ct.gov/drs/lib/drs/research/drs\\_tax\\_incidence\\_report\\_2014.pdf](http://www.ct.gov/drs/lib/drs/research/drs_tax_incidence_report_2014.pdf).

The Fiscal Policy Center at Connecticut Voices for Children provides research, analysis, and recommendations on state and federal tax and budget policies ([ctvoices.org/fiscal](http://ctvoices.org/fiscal)).

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