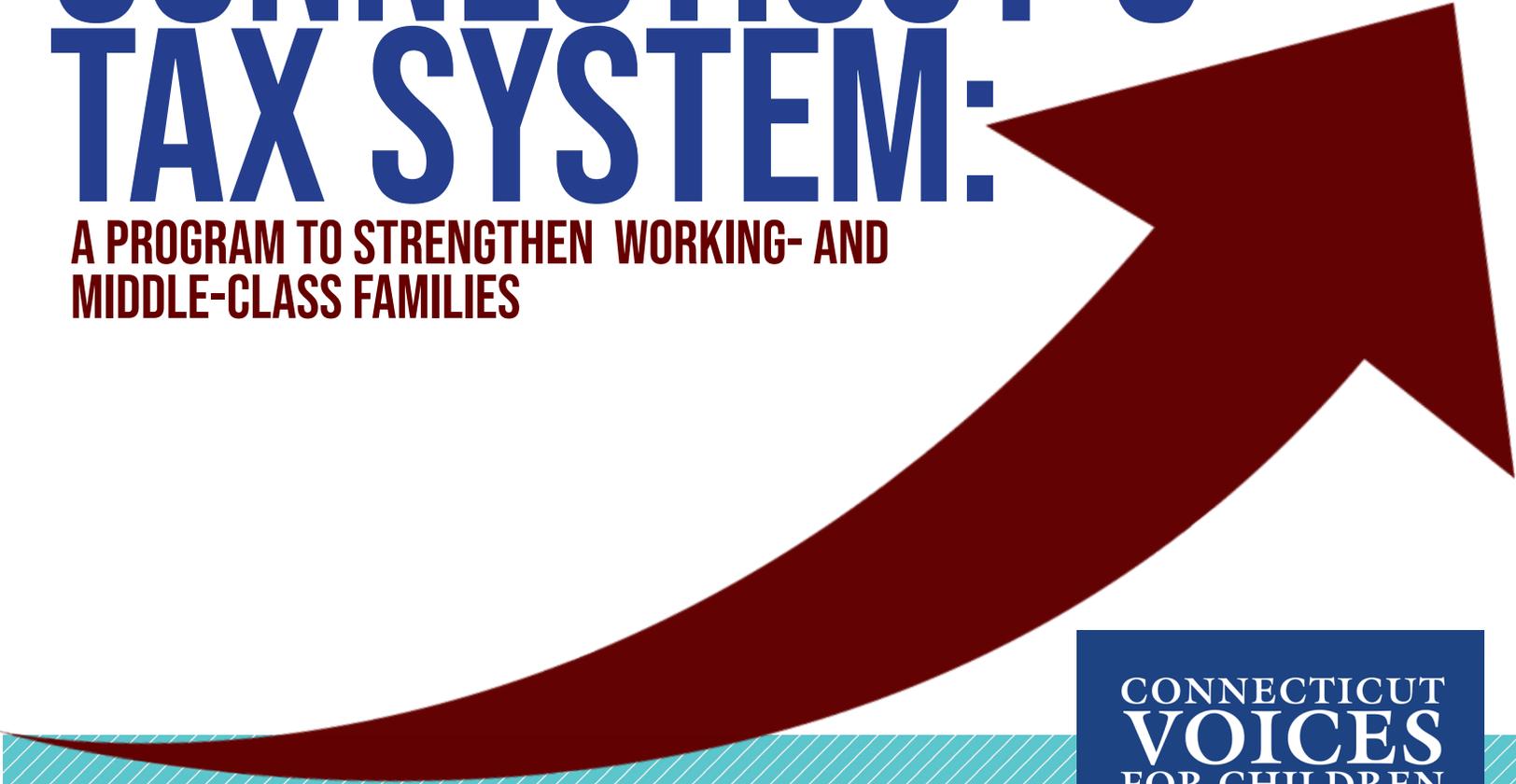


REFORMING CONNECTICUT'S TAX SYSTEM:

A PROGRAM TO STRENGTHEN WORKING- AND
MIDDLE-CLASS FAMILIES



CONNECTICUT
VOICES
FOR CHILDREN



JANUARY 2020

WHAT IS A REGRESSIVE TAX SYSTEM?

A regressive tax system requires members of the working and middle class to pay a higher share of their income in taxes compared to members of the upper class and the wealthiest.

HOW DO CONNECTICUT'S MOST VULNERABLE DEMOGRAPHICS STAND IN THIS PAPER?

It should come as no surprise that Connecticut's tax system, similar to the issues in education, healthcare, and housing, disproportionately impacts people of color. While this paper doesn't dive into the individualized issues experienced by specific demographics, we remain committed to putting forth just research for just action. As such, while we fully realize that commitment, these policy recommendations are a fundamental first step towards identifying our system's most inequitable policies while reversing the tax burden felt primarily by our state's middle- and working-class residents.

WHERE DOES CONNECTICUT STAND ON A NATIONAL STAGE? DO WE RISK BEING COMPETITIVE?

- Connecticut has the third-highest level of income inequality, behind only the District of Columbia and New York and well above the U.S. state average.
- Based on the close relationship between income and wealth, wealth inequality is also likely greater in Connecticut than the U.S. as a whole.
- For at least the last 75 years, Connecticut has violated the first principle of taxation by disproportionately taxing its working- and middle-class residents. Making that violation increasingly untenable, for the last 40 years, the pre-tax income and wealth shares for the working and middle class have declined substantially in the U.S. in general and in Connecticut in particular.

WHERE DOES CONNECTICUT STAND ON A REGIONAL STAGE? DO WE RISK BEING COMPETITIVE?

- Connecticut's tax system is more regressive than the tax systems of most states in the Northeast—including Massachusetts, Rhode Island, New York, Maine, New Jersey, and Vermont.
- A top tax rate of 8.49 percent on wage income above \$5 million would not make Connecticut an uncompetitive state. Nine states—including New York, New Jersey, and Vermont—have highertop tax rates. Moreover, in all but one of those nine states, the top tax rate goes into effect at a level well before \$5 million.
- Keeping the exemption for the estate tax at \$3.6 million, repealing the \$15 million payment cap, and keeping the top tax rate at 12 percent would not make Connecticut an uncompetitive state. Of the 13 states with an estate tax—most of which are in the Northeast—six have an exemption below \$3.6 million, only Connecticut has a payment cap, and all 13 have a top rate of 12 percent or higher.

WHAT DO THESE POLICY RECOMMENDATIONS MEAN FOR FAMILIES?

Connecticut's children and families deserve a fair tax system. That system, as is, cheats our state's most vulnerable families out of their hard-earned money and forces them to carry the majority of the tax burden.

The three fiscal components of the program recommended in our paper are designed to be 'revenue neutral,' meaning the aim is not to raise or cut taxes overall but rather to reduce the disproportionate tax burden on the working and middle class by shifting part of that burden to the wealthy—whose income and wealth shares have increased the most for several decades and whose effective tax rate has been the lowest. (The *effective tax rate* is the average rate at which an individual is taxed on earned income, or the average rate at which a corporation is taxed.)

This means middle- and working-class families will be able to experience a lightened load, keep more money in their pockets, and more actively participate in our state's economy.

WON'T THESE RECOMMENDATIONS FORCE MORE BUSINESSES OUT OF THE STATE?

The conversation on maintaining our state's competitive edge through a robust job market has focused on appealing to business interests more than it has on ensuring we are able to attract a talented work-force. If we're committed to doing that and ensuring all our residents are able to thrive for generations, we must work diligently to reverse our regressive tax system and shift the burden from the working and middle class to the state's wealthiest residents who can afford it.

AREN'T WE RISKING MORE OF OUR WEALTHIEST LEAVING THE STATE? WHAT DO WE STAND TO LOSE?

Our state stands to lose far more by our middle- and working-class families leaving the state. As a state that has recently been impacted by a dramatic increase of out-migration, Connecticut has an imperative to ensure our weakening middle class does not turn into a shrinking one. By leveling the tax burden and creating a more equitable system overall, our state is likely to see a growth in talent retention, which is likely to attract business, which is an overall gain for the state.

To ensure the well-being of Connecticut's children, especially in the areas of education, health, and economic opportunity—and, more specifically, to address both the near-unparalleled pre-tax income and wealth inequality and the regressive tax system that exacerbates income and wealth inequality—it is essential to strengthen the state's working- and middle-class families.

WHAT'S THE PROPOSED TIMELINE FOR IMPLEMENTATION?

Connecticut's tax issues have burdened and weakened the state's working- and middle-class families for generations. These recommendations offer a robust and comprehensive guide to correcting those inequities. As such, our state leaders must work with urgency to ensure the future success of our middle class isn't unjustly hindered by our regressive and inequitable tax system. Connecticut Voices for Children is committed to working relentlessly to see these recommendations prioritized and implemented.

KEY TAKEAWAYS:

- The findings of this paper offer a one-of-its-kind comprehensive view and a historical perspective of Connecticut's tax policy.
- This paper and the recommendations listed herein propose a proactive approach to addressing our state's regressive and inequitable tax system. It is situated in progressive policy which, if implemented with urgency, will ensure the health of our state economy for years to come.
- Rising income and wealth inequality make every day living for middle and working-class families harder every day. Our current tax system inequitably rests the tax burden on the shoulders of those families, making it worse. Our recommendations offer a route to relief that is 'revenue neutral'--meaning it will not raise or cut taxes overall. As such, Connecticut has nothing to lose in revenue and everything to gain in equality.
- Future research will focus on the impact our regressive tax system has on our state's most vulnerable demographic i.e., people of color and from low-income backgrounds.