

CONNECTICUT'S ESTATE TAX:

ADDRESSING WEALTH AND INCOME INEQUALITY

CONNECTICUT
VOICES
FOR CHILDREN

What is Connecticut's Estate Tax?

- The estate tax is a tax imposed on wealth at the time of death. Beginning in 2020, Connecticut taxes only estates that exceed \$5.1 million. This exemption will increase each year until it reaches the federal \$11.4 million exemption in 2023. Current rates range from 7.8 percent to 12 percent based on the estate size and will be a flat 12 percent when the exemption reaches \$11.4 million. The total tax that any estate must pay is capped at \$15 million.
- The estate tax raises hundreds of millions of dollars in state revenue every year. The Office of Policy and Management (OPM) reports that the estate tax raised \$225.2 million in FY 2019. Moreover, even with this year's increase in the exemption level, OPM projects that the estate tax will raise \$180.8 million in FY 2020. These revenues are more than four times the Institute on Taxation and Economic Policy's estimate of the cost of restoring Connecticut's EITC to its 2011 level of 30% of the federal credit.

The estate tax is the only tax in Connecticut that directly addresses wealth inequality.

- The estate tax helps to address Connecticut's wealth and income disparity. Connecticut is the third most unequal state in the country in terms of income distribution, with 1% of families taking home 27.3% of all income, and with a dramatic increase in the share of income going to the top 1% of earners in recent decades. Connecticut also has the third highest concentration of millionaire households of any state (including DC). The wealth distribution in Connecticut is also consistent with national racial disparities.



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- The estate tax helps to limit the advantage that the heirs of wealthy people enjoy from unearned wealth transfers. When unrealized assets are transferred upon death, they get a “stepped-up” basis equal to their fair market value at the time of the decedent’s death. Then, when the heirs sell the asset, the cost basis for the calculation of capital gains tax is based on the value of the asset when the inheritor received it, not the original cost of the item when purchased years before. Without the estate tax that increase in value would never be taxed. Such unrealized capital gains account for 32 percent of estates worth between \$5 million and \$10 million and 55 percent of the value of estates worth more than \$100 million.

Connecticut’s estate tax is more generous to heirs inheriting wealth than our peer states.

- All of Connecticut’s peer states in the Northeast except New Hampshire have an estate or inheritance tax.
- If Connecticut’s estate tax exemption continues to increase as scheduled, Figure 1 shows that by 2023, when Connecticut’s estate tax exemption is scheduled to match the federal exemption of \$11.4 million, most of these states will have exemption levels that are significantly lower than the exemption level in Connecticut.
- Connecticut is the only state in the country that caps the total amount of estate taxes paid. As Figure 2 shows, estates larger than \$128 million paid no additional estate taxes due to this cap.

Figure 1. Projected Estate Tax Exemption Levels*

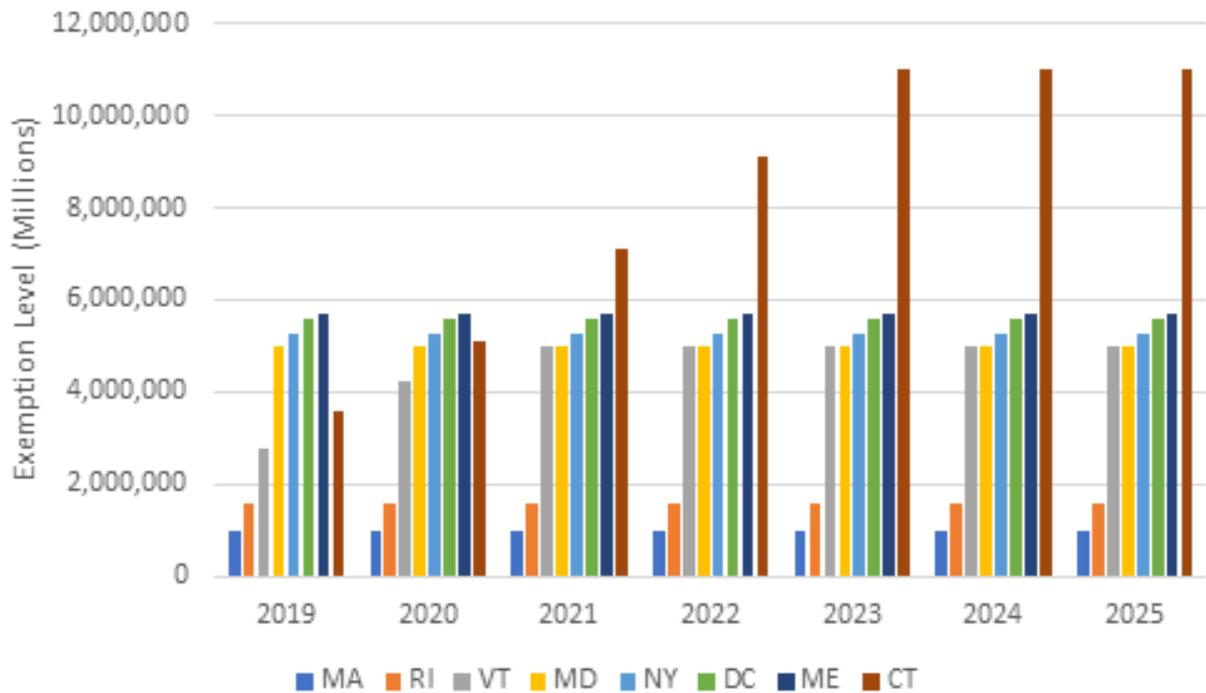
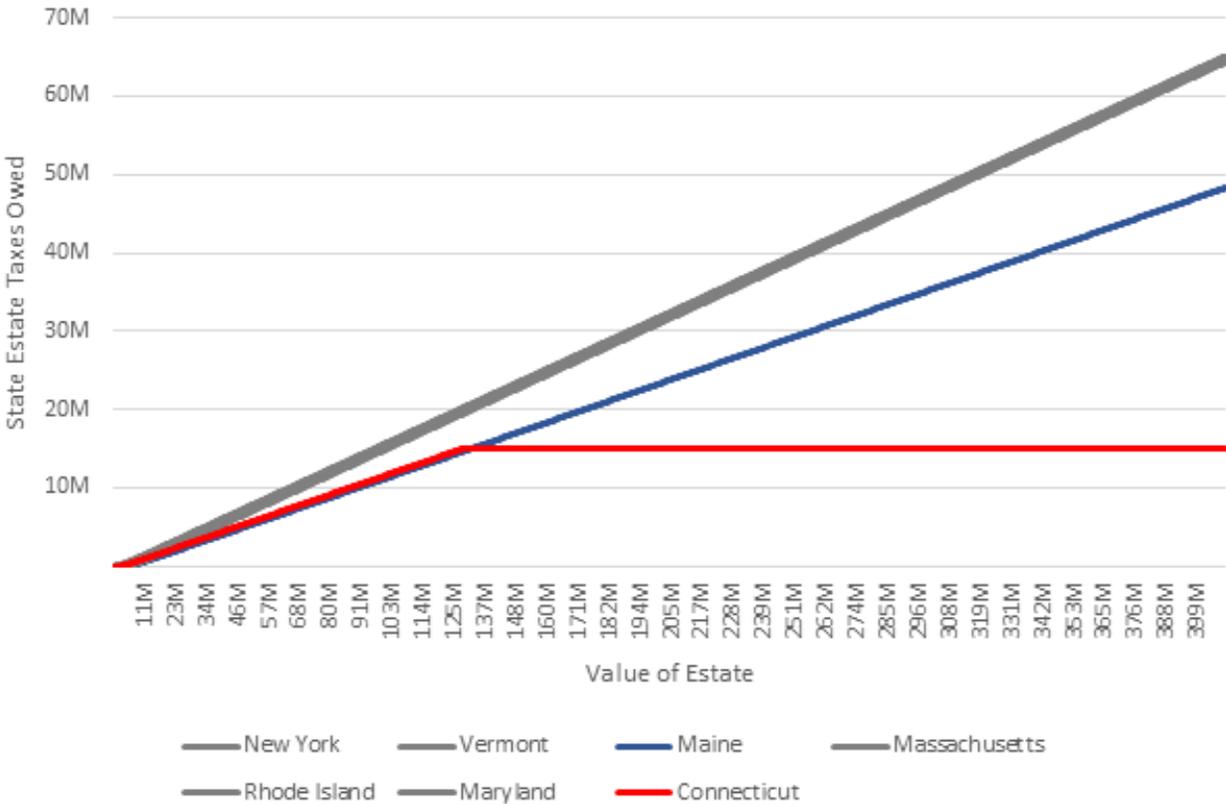


Figure 2. State Estate Taxes Owed Based on the Value of the Estate (2018)



Connecticut’s estate tax provides much needed revenue, and simple reforms could further increase these revenues

- Connecticut’s estate tax provides valuable revenue. Rolling back the exemption to \$3.6 million would raise an additional \$92 million a year relative to the 2023 scheduled exemption of \$11.4 million.
- If Connecticut repealed its \$15 million cap on the payment of the estate and gift tax, it would yield an estimated \$12.5 million a year.
- CT Voices recommends freezing the exemption and removing the cap, and using the revenue to support working- and middle-class families.
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