CONNECTICUT’S ESTATE TAX:
ADDRESSING WEALTH & INCOME INEQUALITY

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Executive Summary

Connecticut’s estate tax should be one of the most popular taxes in the state. It is a highly progressive tax that falls solely on the ultra-wealthy and raises millions of dollars for the general budget each year. Despite research that shows the estate tax has no real impact on millionaire outmigration, the myth that it does persists. This report argues that the estate tax is good for Connecticut and refutes common arguments in favor of its repeal. In particular, this report shows that the estate tax helps to reduce economic inequality, it helps to limit a major tax loophole that disproportionately benefits the wealthy, and it provides substantial revenue for the general budget.
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Introduction

This report was prepared in response to proposals by the Governor and members of the Connecticut General Assembly to repeal or amend Connecticut’s gift and estate taxes.\textsuperscript{2} Much of the policy debate about these taxes, and especially about estate tax repeal, has involved anecdotal evidence and speculation over costs and benefits. This report investigates the evidence around the efficacy and fairness of the estate tax in Connecticut, with particular attention paid to the claim that the estate tax has been depleting state tax revenues due to millionaire tax flight. As this report demonstrates, there is little evidence for this claim. The estate tax raises valuable revenues for the state of Connecticut and should be preserved as part of a broader solution to Connecticut’s budget problems and overall regressive tax system.

The report proceeds in five parts. Part I gives a brief history of the estate tax and explains how it is currently structured. Part II lays out three reasons to maintain and strengthen the estate tax: (1) the estate tax helps to address Connecticut’s inequality problem as one of only two progressive taxes in the state; (2) it helps to mitigate the inequality-enhancing “stepped-up basis” benefit that allows appreciated assets to be bequeathed income tax free, a benefit that disproportionately accrues to the wealthy and their heirs; and (3) it provides valuable revenue for the general budget. Part III responds to fears that Connecticut’s estate tax makes it uncompetitive with its peer states by showing that most of its peer states have comparable estate or inheritance tax regimes. Part IV responds to the myth that claims the estate tax will drive millionaires out of the state by presenting evidence to the contrary. Part V rebuts two other common arguments against the estate tax by showing that it is progressive and does not fall on small farms and businesses.
1. Overview of State Estate, Inheritance and Gift Taxation

The first part of this report offers background information on the history and development of state-level estate, inheritance, and gift (EIG) taxation in the United States and Connecticut. It also provides a detailed overview of Connecticut’s current estate and gift tax regime.

**Brief History of Connecticut’s Estate Taxes**

While some form of a tax at the time of death on acquired wealth has existed since 1889 in Connecticut, the type and structure of this tax has evolved over the past century. Indeed, until January 1, 2005, Connecticut had three separate taxes on transferred wealth: the gift, estate, and succession (inheritance) taxes. The 2005 repeal of the succession tax (that was imposed on wealth acquired through bequest and paid by the recipient of the bequest) and the combination of the gift and estate tax into a single unified tax (paid by the estate) reduced the total taxes owed by the state’s wealthiest taxpayers and resulted in a substantial loss of state revenue.

The modern form of Connecticut’s estate tax is largely the product of two major pieces of federal legislation passed in 2001 and 2017. Prior to 2001 the federal estate tax system provided a credit up to a certain amount for state estate taxes paid. States responded by passing “sponge” estate taxes that were designed to soak up the entirety of this credit. But in 2001 the federal government adopted the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), which replaced the original state-level EIG credit with a deduction for individual taxpayers. In response to this change, in 2005 Connecticut decoupled its EIG tax system from federal law by adopting a stand-alone tax.

The Tax Cuts and Jobs Act of 2017 (TCJA) again made significant changes to the federal estate tax regime, gradually raising the exemption level for decedents dying in 2018 through 2025 from $5 million ($5.6 million adjusted for inflation) to $10 million ($11.4 million adjusted for inflation). The TCJA further allows surviving spouses to take advantage of the “deceased spousal unused exclusion amount,” effectively doubling the exemption for married couples to $22.8 million. Unlike the federal estate tax, Connecticut’s estate tax does not have a portable spousal estate tax exemption.

In line with the weakening of the estate tax, Figure 3 shows that its role as a revenue source has declined substantially. In particular, from the 1940s through the 1970s Connecticut’s estate tax provided more revenue than the personal income tax. However, since the 1980s, the estate tax has operated as the lowest major tax revenue source at both the state level and the combined state and local level.
**Connecticut’s Current Estate and Gift Tax Regime**

Connecticut’s estate tax regime, like the federal system, uses a unified gift and estate tax. Under this “unified” transfer tax system, gifts given while alive that exceed the federal gift tax’s annual exclusion of $15,000 are counted against one’s estate tax exemption. This mechanism is intended, in part, to prevent large transfers of wealth prior to death to circumvent the estate tax.

As Table 1 shows, estates of decedents dying in 2019 that are worth more than $3.6 million dollars are subject to Connecticut’s estate tax, but the tax is only levied on amounts above this $3.6 million threshold. Moreover, the current tax structure imposes rates ranging from 7.8% to 12% and recent legislation has capped the total amount of tax that any estate can be required to pay at $15 million.

<table>
<thead>
<tr>
<th>Value of Taxable Estate or Gift</th>
<th>Marginal Rate by Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Not over $3,600,000</td>
<td>None</td>
</tr>
<tr>
<td>$3,600,001 to $4,100,000</td>
<td>7.8%</td>
</tr>
<tr>
<td>$4,100,001 to $5,100,000</td>
<td>8.4%</td>
</tr>
<tr>
<td>$5,100,001 to $6,100,000</td>
<td>10%</td>
</tr>
<tr>
<td>$6,100,001 to $7,100,000</td>
<td>10.4%</td>
</tr>
<tr>
<td>$7,100,001 to $8,100,000</td>
<td>10.8%</td>
</tr>
<tr>
<td>$8,100,001 to $9,100,000</td>
<td>11.2%</td>
</tr>
<tr>
<td>$9,100,001 to $10,100,000</td>
<td>11.6%</td>
</tr>
<tr>
<td>Over $10,100,000*</td>
<td>12%</td>
</tr>
</tbody>
</table>

*In 2023 the 12% tax will only apply to taxable estates above the federal basic exclusion amount. The federal basic exclusion amount for 2019 is $11.4 million, and is adjusted for inflation on an annual basis.
The current form of Connecticut’s estate tax regime was passed in response to the change in the federal exemption level under the TCJA. In 2017 the Connecticut state exemption was shifted to $2.6 million for decedents dying in 2018, $3.6 million for decedents dying in 2019, and matching the federal basic exclusion amount for decedents dying in 2020 and beyond. In 2018 the phase-in of the estate and gift tax threshold to the federal threshold was extended by three years, so that the exemption would be $5.1 million for decedents dying in 2020, $7.1 million for decedents dying in 2021, $9.1 million for decedents dying in 2022, and matching the federal basic exclusion amount for decedents dying in 2023 and beyond.

Additionally, Connecticut is the only state in the country to impose a cap on the total estate tax that can be imposed. This cap is set at $15 million which, as Figure 4 shows, leads Connecticut to raise less revenue from large estates compared to its peers. The estate tax burden in Connecticut stops growing when an estate reaches $128 million. Further, the cap results in the largest estates paying a lower effective tax rate than those subject to the tax that are smaller, exacerbating the inequality in taxation of wealth even among the wealthiest in the state.

**Figure 2. State Estate Taxes Owed Based on the Value of the Estate (2018)**
2. Three Reasons to Maintain and Strengthen the Estate Tax

The second part of this report reviews three key reasons to maintain and strengthen the estate tax: (1) the estate tax helps to address Connecticut’s income and wealth disparity; (2) the estate tax helps to limit a major tax loophole employed by wealthy estates; and (3) the estate tax raises substantial revenue for the state—revenue that could be used to increase tax credits for working- and middle-class families.

The Estate Tax Helps to Address Connecticut’s Income and Wealth Disparity

The United States has a vast wealth disparity problem. Many scholars believe that inequality in the United States currently exceeds the nationwide inequality at the peak of the gilded age. According to the Institute for Policy Studies, in 2018 the three wealthiest Americans held combined fortunes worth more than the total wealth of the bottom half of all Americans. America’s wealth disparity problem is also divided along racial lines, with low levels of wealth disproportionately prevalent among Black and Latino households. These trends are the product of decades of federal and state policy designed to impede wealth accumulation among minority households alongside a national economic environment hostile to the economic mobility of minorities.

Connecticut has been at the forefront of the national trend of increasing wealth inequality. According to one study, 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 over time. Moreover, as Figure 1 shows, Connecticut has the third highest concentration of millionaire households of any state (including DC). Also notable, the wealth distribution in Connecticut follows national disparities along racial lines.

The estate tax is especially well tailored to address Connecticut’s unequal wealth distribution as only its wealthiest residents pay the tax. Conversely, eliminating the estate tax would help to perpetuate wealth disparities by allowing unlimited inter-generational transfers of untaxed wealth.
Including DC, Connecticut has the third highest concentration of millionaire households in the United States.

The Estate Tax Helps to Limit a Major Tax Benefit Wealthy Families Enjoy in Transferring Wealth Intergenerationally

The estate tax helps to limit the advantage that wealthy people enjoy from the “stepped-up basis” benefit. Understanding the stepped-up basis benefit requires following an asset from the time it is purchased to the time it is transferred at death to an heir. Capital gains taxes are only collected through the personal income tax on appreciated assets when they are sold. If an asset is held onto until its owner’s death, capital gains tax is never collected on any appreciation in the value of that asset. Rather, the appreciated assets 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 (e.g. a stock, real estate, artwork, etc.), 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.

As an example, say Grandpa Joe was an early investor in Apple, owning 1,000 shares that he purchased in 1989 at a cost of $2/share, a $2000 investment. He held on to these shares until his death, and leaves them to his only son. On the date of his death at the end of August in 2008, the shares were each worth $227; his original $2000 investment had grown to $227,000, an increase of $225,000. Yet, no capital gains tax is imposed on the $225/share increase in value when the shares transfer to his son. In fact, if his son chooses to sell the shares immediately when the price is still $227/share, he will pay no capital gains tax as the cost basis and sales price are the same. Should the son wait to sell shares and the stock increase to $237/share, the son will have to pay capital gains only on the additional $10/share. In other words, the son would only pay taxes on the
$10,000 increase in value since he received the stock, and avoid paying *any* tax on the $225,000 increase in the stock’s value over Grandpa Joe’s life.

The stepped-up basis benefit disproportionately benefits wealthy Americans because they tend to have a significant proportion of their wealth in property and financial assets that have enjoyed “unrealized” capital gains; unlike working- and middle-class families, they do not need much of their income and assets to meet family needs so can accumulate this wealth. In fact, 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.24

Importantly, the estate tax helps to reduce *some* of this inequity by imposing a tax on some share of the assets passed on from Grandpa Joe to his son; in 2019 the first $3.6 million of Grandpa Joe’s estate would not be subject to Connecticut’s estate tax at all, and the total estate tax due would be capped.

*The Estate Tax Raises Substantial Revenue for the State*

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 2019.25 Moreover, even with the increase in the exemption level OPM projects that the estate tax will raise $180.8 million in FY 2020.26

Some critics of the estate tax suggest that the tax is not worthwhile because it does not raise significant revenue.27 One way to appreciate the impact of estate tax revenue is to compare it to the funding necessary to support tax programs that benefit thousands of working-and middle-class families. In particular, Figure 2 shows that revenue raised by the estate tax could be used to cover a substantial portion of two programs: the current state Earned Income Tax Credit (EITC) and a proposed new Child Tax Credit (CTC).

Studies have shown that the EITC is a powerful tool for combatting poverty, accruing substantial benefits to working-class families.28 Since 2015, the state EITC has cost on average $123 million annually.29 The Institute on Taxation and Economic Policy estimates that restoring Connecticut’s EITC to its 2011 statutory level of 30 percent of the federal credit would cost only an additional $34.7 million annually.30 Estate tax revenues could be used to pay for increasing this tax credit.

Additionally, Connecticut Voices for Children has recently advocated that Connecticut create a state-level Child Tax Credit (CTC).31 The federal CTC provides taxpayers up to $2,000 for each child under 17, $1,400 of which is refundable.32 Analysis by Connecticut Voices for Children shows that a state-level CTC would provide particular support to state working- and middle-class families. The Institute on Taxation and Economic Policy estimates that creating a Connecticut CTC equal to 30 percent of the federal credit would cost $376 million per year.33 Estate tax revenues also could be used to pay for creating this tax credit in part.

With Connecticut experiencing substantial income and wealth inequality, the state should not forgo vital revenue to provide a tax break for its wealthiest residents. Instead, the state should maintain
and strengthen the estate tax and direct those revenues to lowering the tax burden for working- and middle-class families.  

**Figure 4.** A Comparison of Revenue Raised by the Estate Tax to Costs associated with the EITC and Proposed CTC

*Sources for data correspond to endnotes 13, 17, and 20.*
3. Trends in Peer States

Almost every one of Connecticut’s peer states in the Northeast has an estate or inheritance tax. As Figure 5 shows, these states include New York, New Jersey, Rhode Island, Massachusetts, Vermont, Maine, Pennsylvania, and the District of Columbia.35 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. Additionally, Connecticut is the only state in the country that caps the total amount of estate taxes paid.

**Figure 5.** Type of EIG Tax by State: New England

Table 2 surveys the EIG tax regimes of Connecticut and its peer states. Six fundamental characteristics are presented for each state. The first four are self-explanatory: (1) the type of EIG tax, (2) the exemption level in 2019, (3) whether the exemption level is adjusted for inflation, (4) the marginal rates of the tax. The fifth characteristic refers to whether the tax has “spousal portability,” i.e. whether the deceased can pass on their unused exemption to their spouse, effectively doubling the exemption for the couple’s estate. The sixth characteristic, known as a “tax cliff,” signals whether the tax applies to the entire value of an estate whose value exceeds the exemption level, or only to that portion of the estate that exceeds the exemption level.36
## Table 2: EIG Tax Regimes by State: New England*

<table>
<thead>
<tr>
<th>State</th>
<th>Type of EIG Tax</th>
<th>2019 Exemption</th>
<th>Marginal Rates</th>
<th>Portableb</th>
<th>Tax Cliff</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>CT</td>
<td>Estate and Gift</td>
<td>$3.6 million&lt;sup&gt;c&lt;/sup&gt;</td>
<td>7.8% - 12%</td>
<td>No</td>
<td>No</td>
<td>See Section 2.</td>
</tr>
<tr>
<td>DC</td>
<td>Estate</td>
<td>$5.6 million&lt;sup&gt;d&lt;/sup&gt;</td>
<td>6.4%-16%</td>
<td>No</td>
<td>No</td>
<td>The D.C. exemption was originally scheduled to match the federal exemption in 2018. In response to the TCJA’s federal exemption increase, the D.C. Council passed the “Estate Tax Clarification Amendment Act of 2018” as part of the 2019 Fiscal Year Budget Support Act of 2018. This subtitle made the $5.6 million exemption permanent, with annual adjustments for inflation.</td>
</tr>
<tr>
<td>MA</td>
<td>Estate</td>
<td>$1 million</td>
<td>0.8%-16%</td>
<td>No</td>
<td>Yes</td>
<td>In 2014, Maryland modified its estate tax to phase in the federal exemption level in 2019, when they expected it to be approximately $5.9 million. The estate tax exemption increased from $1.5 million to $4 million between 2015 and 2018, and was scheduled to match the federal exemption for deaths on or after January 1, 2019. With the Tax Cuts and Jobs Act approximately doubling the federal exemption rate, new legislation passed in 2018 set Maryland’s estate tax exemption at $5 million but allowed for spousal portability.</td>
</tr>
<tr>
<td>MD</td>
<td>Estate &amp; Inheritance</td>
<td>$5 million</td>
<td>0.8%-16%</td>
<td>Yes</td>
<td>No</td>
<td>In 2014, Maryland modified its estate tax to phase in the federal exemption level in 2019, when they expected it to be approximately $5.9 million. The estate tax exemption increased from $1.5 million to $4 million between 2015 and 2018, and was scheduled to match the federal exemption for deaths on or after January 1, 2019. With the Tax Cuts and Jobs Act approximately doubling the federal exemption rate, new legislation passed in 2018 set Maryland’s estate tax exemption at $5 million but allowed for spousal portability.</td>
</tr>
<tr>
<td>ME</td>
<td>Estate</td>
<td>$5.7 million&lt;sup&gt;e&lt;/sup&gt;</td>
<td>8%-12%</td>
<td>No</td>
<td>No</td>
<td>In 2015 Maine raised its basic estate tax exemption from $2 million to $5.45 million adjusted for inflation.</td>
</tr>
<tr>
<td>NJ</td>
<td>Inheritance</td>
<td>11%-16%</td>
<td></td>
<td></td>
<td></td>
<td>In 2016, Governor Chris Christie signed into law “Adjustments to Specified State Taxes” that eliminated the estate tax for decedents dying on or after January 1, 2018. New Jersey also does not impose an inheritance tax on transfers to parents, grandparents, or children of decedents. It continues to impose an inheritance tax on other inheritors.</td>
</tr>
<tr>
<td>State</td>
<td>Type</td>
<td>Estate/Inheritance</td>
<td>Rate</td>
<td>Exempt?</td>
<td>Equity Exempt?</td>
<td>Details</td>
</tr>
<tr>
<td>-------</td>
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<td>--------------------</td>
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</tr>
<tr>
<td>NY</td>
<td>Estate</td>
<td>$5.25 million</td>
<td>3.06%-16%</td>
<td>No</td>
<td>Yes - at 105% of the exemption level</td>
<td>In 2014 New York decoupled its estate tax from the federal tax. The federal exemption threshold was gradually phased in over the subsequent five years, so that those dying in or after 2019 would have an exemption equal to the (old) federal threshold of $5 million adjusted annually for inflation. However, the New York statute also included a “fiscal cliff” under which “[t]he applicable credit is reduced for New York taxable estates exceeding the basic threshold amount and equals zero for those exceeding one hundred five percent of such amount.” New York also has a “gift in contemplation of death” tax under which gifts made during the three years preceding death while the decedent was a resident of New York are added to the New York gross estate. This addition to the estate tax includes only gifts made between April 1, 2014 and January 1, 2019, and does not apply to the estates of decedents dying on or after January 1, 2026.</td>
</tr>
<tr>
<td>RI</td>
<td>Estate</td>
<td>$1,561,719</td>
<td>0.8-16%</td>
<td>No</td>
<td>No</td>
<td>In 2014 Rhode Island increased its exemption to $1,500,000 indexed for inflation and eliminated their fiscal cliff.</td>
</tr>
<tr>
<td>PA</td>
<td>Inheritance</td>
<td></td>
<td>4.5%-15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VT</td>
<td>Estate</td>
<td>$2.75 million</td>
<td>Flat rate of 16%</td>
<td>No</td>
<td>No</td>
<td>In June of 2019 the Governor of Vermont approved H.541 (Act 71) that increased the estate tax exemption to $4.25 million for the estates of those dying in 2020, and $5 million for those dying in or after 2021.</td>
</tr>
</tbody>
</table>

a This table is up to date as of December 2019.
c Connecticut’s exemption is to be adjusted for inflation alongside the federal exemption starting in 2023 under current law.
d DC’s exemption is adjusted for inflation based on the Consumer Price Index for All Urban Consumers (CPI-U). 
e Adjusted for inflation.
How have other states reacted to the Tax Cuts and Jobs Act? New Jersey eliminated its estate tax, but retained a limited inheritance tax. Every other state with an inheritance or estate tax either retained its tax, or allowed its exemption to increase, but only up to $5.6 million adjusted for inflation. Figure 6 shows that Connecticut is scheduled to have an exemption that is double the size of its most generous peer states by 2023. Connecticut’s high projected estate tax exemption alongside its $15 million cap makes its estate tax the most generous to the ultra-wealthy among all its peer states with regard to estate taxes.

**Figure 6. Projected Estate Tax Exemption Levels**

*Exemption levels in this graph are not adjusted for inflation.*
4. The Myth of Millionaire Tax Flight

Perhaps the most prevalent objection to Connecticut’s estate tax is the argument that it causes wealthy Connecticut residents to migrate out of the state. Contrary to this assertion, there is no credible evidence that the estate tax increases outmigration in Connecticut. Studies from across the United States have found that increases in the estate tax have had negligible effects on outmigration. The available empirical and anecdotal evidence from Connecticut is consistent with these findings.

The most comprehensive study on Connecticut’s estate tax was conducted by two economics professors in 2015. Karen Smith Conway of The University of New Hampshire, and Jonathan C. Rork of Reed College looked at data pertaining to migration and the estate tax between 1976 and 2013 and found that in Connecticut “[migration patterns] are little influenced by EIG taxes.” Conway and Rork’s conclusion was supported by a variety of independent sources of data, including U.S. Census Data, the American Community Survey, federal estate tax returns, and Connecticut income tax returns. Their study found that Connecticut’s pattern of net elderly outmigration was both typical among northeastern states, and had persisted for decades and through major changes to state EIG taxes, suggesting little correlation between EIG taxes and migration.

Conway and Rork’s study also found that the destination of Connecticut’s elderly migrants did not appear to depend on the EIG regime in their target states. For example, Connecticut experiences net elderly outmigration to Maine and Massachusetts, two states with EIG taxes, and also New Hampshire, which does not have an EIG tax. Although the recurring story against Connecticut’s estate tax is that wealthy Nutmeggers are seeking refuge from EIG taxes in Florida, Conway and Rork conclude, “It is difficult to argue that EIG taxes are causing people to move to Florida when a large number of people are moving from Florida” to Connecticut. Parsing their data further by income, Conway and Rork find that the high income elderly of Connecticut have similar migration patterns to Connecticut’s elderly population as a whole, further suggesting that state EIG taxes themselves do not effect elderly outmigration. As Section 1 shows, since Conway and Rork’s study was published in 2015 the estate tax regime in Connecticut has become even more friendly to the wealthy.

A group of Connecticut millionaires have added support to the Conway and Rork findings. Calling themselves Fair Share Connecticut, they have asked for higher taxes on themselves and other wealthy residents of the state. These millionaires wrote an open letter to Governor Lamont and the state legislature in which they debunked the notion that higher taxes would cause outmigration:

National research shows quite clearly that, after adjusting for migration to Florida’s sunny winters, there is no net migration to lower tax states. Instead, wealthy individuals tend to remain in the locations where they have become wealthy. This is where their jobs, connections, and friends reside, so losing a small percentage of their substantial income is not an important driving factor. Raise the taxes. We aren’t going anywhere.
5. Other Facts about the Estate Tax

This part of the report examines two other facts in support of the estate tax: the estate tax is one of only two progressive taxes in Connecticut, and the estate tax does not hurt small family farms and businesses.

The Estate Tax is One of Only Two Progressive Taxes in Connecticut

The Connecticut’s Department of Revenue Services (DRS) tax incidence study indicates that the incidence of the estate tax, like the income tax, is highly progressive as compared to other taxes. In fact, the DRS noted that the personal income tax and the gift and estate tax were the only two Connecticut taxes classified as progressive.69

Some critics argue that the estate tax is not sufficiently progressive because the amount of estate taxes payable is capped at $15 million, meaning that the largest estates are not paying as high a percentage of their estate in taxes compared to smaller estates.70 The argument goes that an estate of $140 million that pays the $15 million maximum tax should not be paying the same tax as an estate worth $240 million. The fact that the cap reduces the progressivity of the tax among the wealthiest estates is not an argument for repeal of the tax; rather it is an argument for repeal of the cap.

Connecticut’s Estate Tax Falls on Wealthy Estates, Not on Small Family Farms and Businesses

Connecticut’s estate tax falls only on the wealthiest residents of the state. Some critics argue that the estate tax will be levied on small family farms and businesses that are land-rich or asset-rich but cash poor.71 But the Tax Policy Center estimates that in 2013, while 2,596,993 people died in the U.S., fewer than 4,000 estates paid the federal tax and only 20 of these estates contained family farms or small businesses.72 And as Figure 7 shows, the U.S. Department of Agriculture’s estimates that in 2017 less than 0.8 percent of farm-estates nationwide had to pay an estate tax.73 In fact, the Tax Policy Center estimates that only 1,700 estates of any kind nationwide each year would owe the estate tax under the increased exemption.74 The increased federal exemption will further reduce the already negligible percentage of farms needing to pay estate taxes.

In Connecticut, only 656 filers paid the estate tax in 2018 when the exemption was $2.6 million.75 Connecticut also allows a fiduciary to use “special use valuation” under IRC § 2032A to calculate the value of farm estates for Connecticut estate tax purposes.76 The special use valuation allows farmland to be valued at its productive value rather than its fair market value, significantly reducing the estate tax owed.77 Thus it is exceedingly unlikely that small farm estates are put under financial stress by the estate tax.
Figure 7: Share of farm operator estates with federal estate-tax returns and estate taxes (2017)

- Not required to file estate-tax return (98%)
- Must file estate-tax return, but no estate taxes owed (1.2%)
- Owes estate taxes (0.8%)
Conclusion

The estate tax as currently configured is levied only on very wealthy estates and provides substantial benefits for Connecticut. In particular, the estate tax helps to reduce economic inequality, it helps to limit a major tax loophole that disproportionately benefits the wealthy, and it provides substantial revenue that could be used to support tax credits for Connecticut’s working- and middle-class families. Moreover, in response to one of the most common critiques, this report shows that there is no evidence that the estate tax causes millionaire tax flight. Based on these findings, Connecticut should maintain and strengthen the estate tax.
Glossary

**EIG Tax** – Estate, Inheritance, and Gift Tax. These are the three categories of taxes imposed on inherited assets.

- **Estate Tax**: The IRS defines the estate tax as “a tax on your right to transfer property at your death.” The tax is levied on the estate before it is divided among recipients.

- **Inheritance Tax**: The Pennsylvania Department of Revenue defines the inheritance tax as a tax “imposed as a percentage of the value of a decedent's estate transferred to beneficiaries by will, heirs by intestacy and transferees by operation of law.” The tax is calculated separately for each recipient rather than being based on the estate as a whole.

- **Gift Tax**: The IRS defines the gift tax as “a tax on the transfer of property by one individual to another while receiving nothing, or less than full value, in return.”

**Stepped-up basis** – This phrase combines two financial terms: “step-up” and “basis.” The word “basis” refers to “the amount of your capital investment in property for tax purposes.” The government considers the basis of an asset to be the amount of money that you paid to purchase an asset. When you sell an asset, capital gains taxes are only assessed on the value that exceeds this basis. A “step-up” in basis refers to an increase in the government’s valuation of this basis; for estate taxes, the “basis” becomes the value at the time of death. Because taxes are only levied on amounts above the basis of the asset, a “step-up” in basis of an asset decreases the capital gains tax that will be due when the asset is sold.

**Tax Cliff** – The phrase tax cliff refers to estate tax regimes for which the tax is applied to the entire estate, including the portion below the estate tax exemption. Connecticut does not have an estate tax cliff, meaning the estate tax is only applied to the portion of an estate above this $3.6 million threshold. By comparison, Massachusetts does have an estate tax cliff. Though Massachusetts’s estate tax threshold is $1 million, estates exceeding this threshold have the estate tax applied to the entirety of the estate, including the portion under $1 million.
Endnotes

1 Michael Enseki-Frank is in his second year at Yale Law School and is a member of its Legislative Advocacy Clinic.


4 CONNECTICUT VOICES FOR CHILDREN, CONNECTICUT’S UNIFIED GIFT AND ESTATE TAX: A KEY SOURCE OF REVENUE THAT MAKES CONNECTICUT’S TAX SYSTEM MORE FAIR (2009).


6 Beck, supra note 22, at § 2:1.


8 Id.


10 Id. at 42.


14 Data for estate tax burdens was compiled from SmartAsset. See, Geier, infra note 37; Geier, infra note 38; Geier, infra note 41; Geier, infra note 46; Geier, infra note 52; Geier, infra note 55; Ben Geier, Connecticut Estate Tax, SMARTASSET (Dec. 18, 2018), https://smartasset.com/estate-planning/connecticut-estate-tax.


See the glossary for a further explanation of the terminology of the phrase “stepped-up” basis benefit.


Keith M. Phaneuf, Pressure Builds to Repeal Tax on Inheritances of the Wealthy, CT MIRROR, Feb. 12, 2019, https://ctmirror.org/2019/02/12/pressure-builds-to-repeal-tax-on-inheritances-of-the-wealthy/ (Senator Alex Bergstein describing the revenue raised by the estate tax as “a pittance”).


O’Brien, supra note 16, at 53 (citing CARL DAVIS ET AL., INSTITUTE ON TAXATION AND ECONOMIC POLICY, IMPROVING TAX FAIRNESS WITH A STATE EARNED INCOME TAX CREDIT (2014)).


A recent report by the Institute on Taxation and Economic Policy shows that working- and middle-class families already pay a greater share of their income in state and local taxes compared to the most wealthy. See INSTITUTE ON
Some have argued that estate tax repeal is necessary because Connecticut is becoming less competitive with neighboring states. The oft cited statistics supporting this claim is the fact that only 19 states currently have an EIG tax. See, E.g., Pressure Builds, supra note 15 (statement of co-chairs of the Commission on Fiscal Stability and Economic Competitiveness Bob Patricelli and Jim Smith) (“Why keep … an estate tax when we are one of only 13 states with it?”); SUZANNE BATES, YANKEE INSTITUTE FOR PUBLIC POLICY, A BETTER PLACE TO DIE, REFORMING CONNECTICUT’S ESTATE TAX 2, https://yankeeinstitute.org/wp-content/uploads/2016/01/Estate-Tax-Policy-Brief-1.pdf.

See the glossary for more details on the “tax cliff.”


See also, Ben Geier, Maryland Estate Tax, SMARTASSET (Dec. 11, 2018), https://smartasset.com/estate-planning/maryland-estate-tax.

2014 Md. Laws Ch. 612 (H.B. 739).


51 Id.

N.Y. TAX LAW § 954 (McKinney 2019).

52 Department of Taxation and Finance, supra note 50.

53 See also, Department of Taxation and Finance, Estate Tax (June 18, 2019), https://www.tax.ny.gov/pit/estate/etidx.htm.

54 44 R.I. GEN. LAWS ANN. §44-22 (West 2019).


58 Data for this graph was compiled from the sources in endnotes 35 to 55.


62 CONWAY & RORK, supra note 59, at 5.

63 Id. at 19-20.

64 See, e.g., BATES, supra note 33, at 3.

65 CONWAY & RORK, supra note 59, at 19. Indeed a previous study conducted by the two authors found that the causal relationship is likely reversed: elderly residents are moving to Florida for its milder climate or for other reasons, and then lobby state politicians for favorable tax treatment after they arrive. Karen Smith Conway & Jonathan C. Rork, State “Death” Taxes and Elderly Migration – The Chicken or the Egg?, 59 NAT’L TAX J. 97 (2006).

66 Id. at 20.

67 Because of the dearth of statistical evidence supporting the claim that EIG taxes cause millionaire tax flight, critics of the estate tax often resort to anecdotal evidence. This narrative makes the claim that wealthy Connecticut residents are moving out of state due to the estate tax, costing the state more revenue in lost income and sales tax than it raises from the estate tax itself. See e.g., Public Hearing Before the Executive and Legislative Nominations Committee, 2019 Gen. Assemb. (January 24, 2019) (Senator Martin M. Looney), at 49-50, https://www.cga.ct.gov/2019/exndata/chr/pdf/2019EXN00124-R001100-CHR.pdf (“We hear all the time, anecdotal information from financial planners and accountants and the like that many people make their estate planning decisions 7 to 10 years or so before they actually pass away. And it's at that time, they may make a decision to move out of Connecticut if that's an option for them, especially for the very, very wealthy people who have multiple residences already in multiple states and it's easy enough for them to declare one of the others rather than Connecticut as being their principle residence. The argument that is made is that we actually lose more revenue by losing that person as a Connecticut resident at that time that the amount of revenue that we would have collected from that person from the date of the estate planning decision until the person's actual death 7 to 10 years later in terms of their payment of income tax within the state there”).


71 E.g., Pressure Builds, supra note 15 (statement of Representative Chris Davis of Ellington) (“This is particularly a problem for family farms… They are land-rich and cash-poor and many have to literally sell the farm to pay the tax man”).


75 Pressure Builds, supra note 15.


Pennsylvania Department of Revenue, supra note 56.

