

JUST FACTS: MAKING CONNECTICUT'S TAX SYSTEM FAIRER THROUGH TAX TRANSPARENCY

Tax reform requires tax transparency—knowing the necessary amount the disproportionate tax burden to shift, the impact of proposed and passed tax legislation, and the size of the tax gap. This fact sheet provides an overview of the problem and tax transparency proposals.

The following is a summary of the key findings from our January 2022 report:

Connecticut's Tax Transparency Problems

Connecticut's tax incidence report is considerably out of date at this point. Moreover, independent of its outdatedness, Connecticut's tax incidence report provides limited information.

Key Terms

- **Tax incidence** is the tax burden on families after businesses have shifted their own tax liability.
- **Tax transparency** is knowing the necessary amount of the disproportionate tax burden to shift, the impact of proposed and passed tax legislation, and the size of the tax gap.

Connecticut provides no tax incidence estimate of proposed and passed tax legislation. Relatedly, the state's new budget included a mix of extended and built-in tax increases on working- and middle-class families notwithstanding the general belief that there was no "broad-based tax increase."

Connecticut provides no tax gap estimate.

Tax Transparency Proposals

To increase tax transparency, which is essential to reducing the unfair tax burden on working- and middle-class families, policymakers could:

- Require the DRS to either (1) confirm that it has sufficient capacity to provide comprehensive tax incidence and tax gap reports on a regular basis or (2) release a report before the start of the next legislative session detailing the additional capacity that is necessary. Once the tax analysis capacity issue is addressed, require the DRS to provide comprehensive tax incidence and tax gap reports on a regular basis.
- Require the OFA to either (1) confirm that it has sufficient capacity in-house or with the support of the DRS to provide a combination of simple and detailed tax incidence estimates of proposed and passed legislation or (2) release a report before the start of the next legislative session detailing the additional capacity that is necessary. Once the tax analysis capacity issue is addressed, require the OFA to provide simple tax incidence estimates in all fiscal notes and detailed tax incidence estimates for three key pieces of legislation—the governor's proposed tax program, the General Assembly's proposed tax program, and the tax program ultimately passed into law.

Connecticut's Tax Incidence: Effective Tax Rate by Population Decile

Decile	2011 Connecticut AGI	Households	Aggregate CT AGI	Total CT Tax Burden	% of Total CT Tax Burden	Overall Effective Tax Rate
1	up to \$5,532	150,200	\$ 147,242,742	\$ 989,881,505	5.7%	**
2	5,533 - 16,245	150,063	1,656,113,142	439,383,210	2.5%	26.62%
3	16,246 - 26,511	150,127	3,214,379,161	588,847,703	3.4%	18.37%
4	26,512 - 37,419	150,219	4,783,322,948	747,337,535	4.3%	15.67%
5	37,420 - 50,198	150,033	6,551,395,173	961,904,432	5.5%	14.72%
6	50,199 - 64,971	150,129	8,581,638,624	1,199,411,989	6.9%	13.99%
7	64,972 - 84,935	150,127	11,187,844,749	1,526,305,871	8.7%	13.66%
8	84,936 - 112,904	150,128	14,695,567,114	1,952,390,475	11.2%	13.30%
9	112,905 - 165,393	150,128	20,325,378,589	2,513,939,114	14.4%	12.38%
10	165,394 and up	150,128	79,885,981,397	6,534,713,231	37.4%	8.18%
TOTAL		1,501,282	\$151,028,863,639	\$17,454,115,067	100.0%	11.57%

*Source: CT DRS.

Minnesota's Tax Incidence: The Property Tax (in millions)

Tax Type	Total	As Imposed			After shifting		Full-Sample Suits Index
		MN HH's	NR	Business	Minnesota	Exported	
Taxes on Property							
State Property Tax	\$818	\$34	\$8	\$775	\$413	\$405	-0.071
Residential recreational property	43	34	8		34	8	-0.138
Commercial ²	506			506	275	231	-0.052
Industrial	157			157	33	124	0.124
Utility	112			112	69	42	-0.207
Motor vehicle registration tax	793	666		127	755	38	-0.206
Mortgage and deed taxes	249	149		101	208	42	-0.003
Total Property Taxes	\$1,860	\$849	\$8	\$1,002	\$1,375	\$485	-0.135
Property Tax Refunds							
Homeowners	-\$501	-\$501			-\$501		+0.634
Renters	-223	-223			-223		+0.878
Total Property Tax Refunds	-\$723	-\$723			-\$723		+0.709
Local Taxes							
Taxes on Property	\$9,350	\$4,720	\$70	\$4,560	\$7,651	\$1,699	-0.170
General Property Tax	9,211	4,684	70	4,457	7,599	1,612	-0.170
Homeowners (before PTR)	4,398	4,398			4,398		-0.181
Residential recreational & 2 nd homes ³	356	285	70		285	70	-0.039
Commercial ²	1,730			1,730	941	789	-0.052
Industrial	527			527	112	415	0.124
Farm (other than residence) ⁴	630			630	629	2	-0.166
Rental Housing (before PTR) ⁵	1,171			1,171	986	185	-0.299
Utility ⁶	399			399	248	151	-0.207

*Source: Minnesota Department of Revenue.

Minnesota's Tax Incidence: Effective Tax Rate by Population Decile, 2018

HOUSEHOLD CHARACTERISTICS	Population Decile										Total	
	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten		
Number of Households	278,751	278,751	278,751	278,751	278,751	278,751	278,751	278,751	278,751	278,751	278,751	2,787,506
Average Household Income	\$7,787	\$16,984	\$25,683	\$34,909	\$45,345	\$58,154	\$75,367	\$98,965	\$135,241	\$164,719	\$376,374	\$87,481
Maximum Household Income	\$12,826	\$21,235	\$30,194	\$39,804	\$51,162	\$65,832	\$86,043	\$113,534	\$164,719	\$164,719	\$164,719	
Percent with Earned Income ¹	47%	57%	71%	79%	81%	81%	82%	85%	88%	92%	92%	76%
Average Earned Income ¹	\$9,542	\$15,235	\$23,349	\$31,627	\$39,643	\$48,856	\$61,946	\$79,281	\$107,133	\$224,757	\$224,757	\$71,505
Homeowners ²	15%	20%	29%	35%	47%	62%	74%	84%	89%	93%	93%	55%
Married	7%	8%	11%	15%	23%	35%	53%	71%	83%	88%	88%	39%
Seniors	17%	25%	25%	22%	24%	29%	29%	27%	23%	20%	20%	24%
Households with Children	15%	20%	24%	26%	23%	23%	28%	35%	44%	52%	52%	29%
Average Market Value	\$196,016	\$147,677	\$155,926	\$165,109	\$165,334	\$194,195	\$199,194	\$214,630	\$259,724	\$373,654	\$373,654	\$231,190
Average Monthly Rent	\$192	\$367	\$552	\$673	\$776	\$902	\$960	\$1,118	\$1,295	\$1,518	\$1,518	\$624
AVERAGE TAX BURDENS												
Local Property Tax												
All Households												
Total Tax	\$378	\$522	\$755	\$922	\$1,208	\$1,646	\$1,965	\$2,448	\$2,975	\$4,575	\$4,575	\$1,739
-Property Tax Refund	-166	-292	-354	-356	-364	-389	-325	-283	-56	-10	-10	-260
Tax after PTR	\$212	\$230	\$401	\$566	\$844	\$1,257	\$1,640	\$2,165	\$2,919	\$4,565	\$4,565	\$1,479
Renters Only												
Total Tax on Rental Unit	\$576	\$1,037	\$1,392	\$1,643	\$1,851	\$2,099	\$2,200	\$2,561	\$2,955	\$3,472	\$3,472	\$1,532
Renters Share of Tax	222	399	536	632	712	808	847	985	1,137	1,336	1,336	590
-Property Tax Refund	-229	-425	-427	-411	-343	-222	-35	-4	0	0	0	-300
Tax after PTR	-\$7	-\$26	\$109	\$221	\$369	\$586	\$812	\$981	\$1,137	\$1,336	\$1,336	\$290
Homeowners Only												
Total Tax on Home	\$1,811	\$1,689	\$1,837	\$1,929	\$2,069	\$2,299	\$2,465	\$2,778	\$3,237	\$4,849	\$4,849	\$2,878
-Property Tax Refund	-412	-514	-616	-575	-545	-534	-431	-335	-63	-11	-11	-328
Homeowners Tax after PTR	\$1,399	\$1,175	\$1,221	\$1,354	\$1,524	\$1,765	\$2,034	\$2,443	\$3,174	\$4,838	\$4,838	\$2,550
State Income Tax	-\$50	-\$114	\$61	\$520	\$1,168	\$1,847	\$2,741	\$4,116	\$6,291	\$24,257	\$24,257	\$4,084
State Sales Tax	408	529	622	706	800	934	1,153	1,435	1,781	3,379	3,379	1,175
State Excise Taxes	291	319	348	372	385	399	429	468	506	568	568	409
Other Taxes	260	340	442	537	690	860	1,049	1,288	1,636	2,892	2,892	999
Business Taxes ³	1,128	812	1,072	1,164	1,326	1,610	2,039	2,440	3,128	8,643	8,643	2,336
Total State and Local Tax Burden	\$2,250	\$2,115	\$2,945	\$3,866	\$5,215	\$6,908	\$9,052	\$11,913	\$16,259	\$44,304	\$44,304	\$10,483
Effective Tax Rate for all Taxes	28.9%	12.5%	11.5%	11.1%	11.5%	11.9%	12.0%	12.0%	12.0%	11.8%	11.8%	12.0%

*Source: Minnesota Department of Revenue

Minnesota's Tax Incidence: Effective Tax Rate by Population Decile, 2018–2023

Decile	1990	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	2014	2016	2018	2023 (est.)
First	17.9%	16.1%	17.3%	17.8%	20.2%	17.4%	18.2%	18.9%	25.2%	31.4%	31.1%	28.3%	29.9%	32.1%	28.9%	24.7%
Second	11.1%	12.0%	12.3%	12.0%	11.3%	9.8%	10.5%	11.3%	13.2%	12.7%	13.5%	12.9%	13.9%	13.4%	12.5%	11.5%
Third	10.7%	12.1%	11.8%	12.2%	10.8%	10.6%	10.1%	10.5%	12.0%	11.3%	11.9%	11.5%	11.9%	11.9%	11.5%	10.8%
Fourth	11.3%	12.1%	12.8%	12.5%	12.0%	11.1%	11.0%	11.5%	11.9%	11.5%	11.3%	11.4%	11.5%	11.5%	11.1%	10.5%
Fifth	11.1%	12.2%	12.8%	13.0%	12.1%	11.5%	11.4%	11.9%	12.7%	11.8%	11.8%	12.3%	12.1%	11.9%	11.5%	11.2%
Sixth	11.8%	12.3%	13.2%	13.1%	13.1%	12.3%	11.9%	12.2%	12.4%	12.0%	11.9%	12.2%	12.3%	12.3%	11.9%	11.8%
Seventh	12.0%	12.2%	13.0%	13.1%	12.9%	12.0%	12.0%	12.3%	12.3%	11.8%	11.9%	12.2%	12.4%	12.6%	12.0%	11.9%
Eighth	11.9%	12.0%	13.0%	13.0%	12.9%	12.0%	11.8%	12.3%	12.0%	11.9%	11.8%	12.1%	12.2%	12.4%	12.0%	11.9%
Ninth	11.8%	11.9%	13.0%	13.0%	12.5%	11.9%	11.7%	12.3%	11.8%	11.5%	11.5%	11.8%	11.9%	12.3%	12.0%	12.1%
Tenth	11.7%	11.9%	12.6%	12.2%	10.6%	10.3%	10.7%	10.9%	10.1%	10.2%	10.2%	10.5%	11.5%	11.6%	11.8%	11.6%
Total	11.8%	12.1%	12.9%	12.7%	11.8%	11.2%	11.3%	11.6%	11.4%	11.3%	11.3%	11.5%	12.0%	12.2%	12.0%	11.8%
Top 5%	11.6%	11.8%	12.3%	11.9%	10.1%	9.9%	10.5%	10.5%	9.7%	9.9%	10.0%	10.2%	11.3%	11.6%	11.8%	11.6%
Top 1%	11.2%	11.6%	11.8%	11.0%	8.3%	8.4%	9.0%	9.6%	8.9%	9.8%	9.5%	9.8%	11.5%	11.8%	11.50%	11.3%

*Source: Minnesota Department of Revenue

Table 25. Oregon's Income Tax Gap

Oregon Personal Income Tax Gap Estimate TY 2010 (\$ Millions)	
Tax return line item misreporting by visibility category:	
Substantial information reporting and withholding ¹	\$67
Substantial information reporting ²	\$62
Some information reporting ³	\$291
Little or no information reporting ⁴	\$905
Tax credits	\$122
Adjustment due to GAO findings	-\$199
Total misreporting gap	\$1,247
<i>Nonfiling gap</i>	\$133
<i>Underpayment gap</i>	\$155
Gross tax gap	<u>\$1,536</u>
<i>Voluntary withholding payments not claimed on timely returns</i>	-\$250
<i>Other receipts beyond reported tax</i>	-\$148
Net tax gap	<u>\$1,137</u>
Net tax gap as % of true liability	17.8%

*Source: Oregon Department of Revenue.