COST AND DISTRIBUTIONAL ESTIMATES OF THE GOVERNOR'S MAJOR TAX PROPOSALS FOR FY 2024 - FY 2025

EXECUTIVE SUMMARY

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This brief report has two primary, related objectives. The first primary objective is to provide cost and distributional estimates of the governor’s three major tax proposals for fiscal years 2024 and 2025. The proposals include increasing the Connecticut earned income tax credit (CT EITC), reducing the Connecticut personal income tax (CT PIT), and increasing the Connecticut pass-through entity tax credit (CT PETC). The second primary objective is to show that it is possible to add a permanent Connecticut child tax credit (CT CTC) to the governor’s proposed tax program without increasing the overall cost of the program. This is possible if the proposed program is reformed to only provide support for low- and middle-income families.

The report proceeds in five parts reviewed below.

The first part provides an overview of Connecticut income tax return data by tax filing status and income level. The key finding is that in 2020—the latest year data are available—single tax filers making up to $100,000, head of household tax filers making up to $150,000, and married tax filers making up to $200,000 comprised 85 percent of all Connecticut tax filers, which is the definition of low- and middle-income tax filers, or families, used throughout the report.

The second part provides a cost and distributional estimate of the proposal to increase the CT EITC. The key finding is that the proposed tax cut would cost an estimated $42 million a year and nearly 100 percent of it would go to low- and middle-income families.

The third part provides a cost and distributional estimate of the proposal to reduce the CT PIT. The key finding is that the proposed tax cut would cost an estimated $458 million a year, and about $376 million, or 82 percent, would go to low- and middle-income families and about $82 million, or 18 percent, would go to high-income and wealthy families.

The fourth part provides a cost and distributional estimate of the proposal to increase the CT PETC. The key finding is that the proposed tax cut would cost an estimated $57.5 million a year, and only about $4 million, or 7 percent, would go to low- and middle-income families and about $53 million, or 93 percent, would go to high-income and wealthy families.

The fifth part provides a cost and distributional estimate of the three tax proposals together—increasing the CT EITC, reducing the CT PIT, and increasing the CT PETC—and this part also then reviews the case and option for adding a permanent CT CTC to the tax program. The key finding is that the governor’s proposed tax program would cost an estimated $557 million a year, and about $422 million, or 76 percent, would go to low- and middle-income families and about $135 million, or 24 percent, would go to high-income and wealthy families. The other key, related finding is that if the governor’s proposed tax program is reformed to only provide support for low- and middle-income families, that would free up an estimated $135 million to establish a permanent, fully refundable CT CTC, which is essential when taking into account three key factors: the state’s high level of economic inequality, the state’s unfair tax system, especially for families with children, and the state’s unfair spending system.