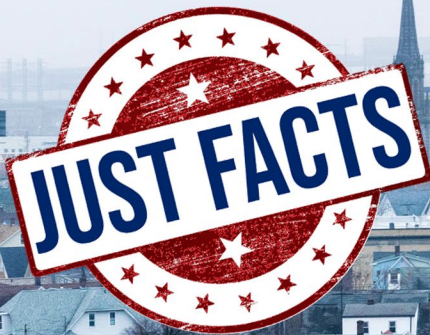


ADVANCING ECONOMIC JUSTICE THROUGH TAX REFORM

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PATRICK R. O'BRIEN, PH.D., RESEARCH & POLICY FELLOW
DANIEL CURTIS, RESEARCH & POLICY ASSOCIATE



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What is economic justice and why is it important?

At the broadest level, our vision of a just economic system will produce a *strong economy* with an *equitable distribution of income and wealth*, which together will enable all families to live a secure and fulfilling life. In our conversations with community members, stakeholders, and others, we heard that a just economic system will ensure that all families have high-quality health care, child care, food, and clothing; it will enable all families to, without financial and legal barriers, purchase homes or rent apartments in safe neighborhoods of their choice with well-funded public schools; it will enable all families to provide the emotional and developmental support necessary for even the highest needs children; it will enable all families to support their children in career and college attainment without burdening them with excessive debt; and it will secure the dream that future generations of families will have more opportunities than the previous. What we derive from these conversations is that a just economic system requires an equitable distribution of income and wealth to ensure that all of Connecticut's children reach their full potential, which in turn will produce a strong economy that benefits all of the state's residents.

Currently, the distribution of Connecticut's economic system is highly unjust, especially for families of color:

- The average pre-tax income in 2018 for the top one percent of tax filers (\$3,092,389) is
 - 40.6 times greater than the pre-tax income for the median household (\$76,106),
 - 64.6 times greater than the pre-tax income for the median Black household (\$47,856), and
 - 67.6 times greater than the pre-tax income for the median Hispanic household (\$45,730).
- The average net worth in 2016 for the top one percent of taxed estates (\$41,183,109) is
 - 357 times greater than the net worth for the median household (\$115,400); and
 - wealth inequality is even greater for households of color, though a more precise estimate is not available.
- Economic growth averaged 0.05 percent during the 2010s, the third slowest of all the states.



How does Connecticut's tax system contribute to economic injustice?

Connecticut's regressive—or unfair—tax system contributes to all five major components of economic injustice:

- **Connecticut's regressive tax system exacerbates a high level of income inequality.** In 2018, the median household in Connecticut had a pre-tax income of \$76,106, whereas the top one percent of tax filers had an average pre-tax income of \$3,092,389, which is 40.6 times greater than the pre-tax income for the median household. Adding to that high level of inequality, the median household had an effective state and local tax rate of 13.66 percent, leaving a post-tax income of \$65,710. In contrast, the top one percent of tax filers had an average effective tax rate of only 6.5 percent, leaving a post-tax income of \$2,891,384, which is 44 times greater than the post-tax income for the median household. This means that Connecticut's tax system *increases* the post-tax inequality level by 3.4 times.
- **Connecticut's regressive tax system exacerbates a substantial racial income gap.** In 2018, the median Black household in Connecticut had a pre-tax income of \$47,856, whereas the top one percent of tax filers had an average pre-tax income of \$3,092,389, which is 64.6 times greater than the pre-tax income for the median Black household. Adding to that high level of inequality, which incorporates a substantial racial income gap, the median Black household had an effective state and local tax rate of 14.72 percent, leaving a post-tax income of \$40,812. In contrast, the top one percent of tax filers had an average effective tax rate of only 6.5 percent, leaving a post-tax income of \$2,891,384, which is 70.9 times greater than the post-tax income for the median Black household. This means that Connecticut's tax system *increases* the post-tax inequality level by 6.2 times for the median Black household, which is even more than the increase for the overall median household because the tax system also exacerbates the racial income gap.
- **Connecticut's regressive tax system contributes to rising wealth inequality.** By disproportionately burdening the typical household with a higher effective tax rate that exacerbates income inequality, Connecticut's regressive tax system decreases the amount of income that the typical household can turn into wealth, which contributes to rising wealth inequality.
- **Connecticut's regressive tax system contributes to the racial wealth gap.** By disproportionately burdening the typical household of color with an even higher effective tax rate that exacerbates both income inequality and the racial income gap, Connecticut's regressive tax system especially decreases the amount of income that the typical household of color can turn into wealth, which contributes to rising wealth inequality and the racial wealth gap.
- **Connecticut's regressive tax system contributes to slowing economic growth.** By disproportionately burdening the typical household, especially one of color, with a higher effective tax rate that decreases the amount of income and wealth available to spend and increase economic demand, Connecticut's regressive tax system contributes to slowing economic growth.



How is the coronavirus pandemic-induced recession impacting economic justice?

The coronavirus pandemic-induced recession is causing a projected multi-year revenue shortfall and substantial budget deficits in Connecticut.

- The State of Connecticut projects an average revenue shortfall of \$1.39 billion a year over the current and next three fiscal years. This revenue shortfall is in turn generating a projected budget deficit of \$854.5 million for the current fiscal year and more than \$2 billion a year for the next three fiscal years.

Cutting government spending in response to the revenue shortfall would hurt Connecticut's economy in the following ways:

- Connecticut has a spending cap that limits government spending to the level appropriated in the previous year plus a percentage increase based on the greater of either the average growth in the state's personal income or the growth in the consumer price index (CPI). Importantly, because the budget base is defined as appropriated spending rather than allowed spending or actual spending, **any cut made to balance the budget in response to a recession-induced reduction in tax revenue will decrease the budget base in subsequent years** for each successive recession, ratcheting down the level of investment in infrastructure and services and thereby **weakening Connecticut's economy and the quality of life in the state.**
- The fiscal multiplier effect is the ratio of the change in economic output to the change in government spending or taxes and a fiscal multiplier greater than one indicates that economic output increases by more than a dollar for each dollar in government spending or tax cuts. This is due to a combination of the direct effect on economic output and the indirect effects that arise when the direct effect spreads throughout the economy.
 - To take one example, government spending on infrastructure projects directly increases economic output, and it also increases wages for construction workers, who in turn increase their consumption of goods and services and thereby further boost economic output. For a leading estimate of this dynamic, **the Congressional Budget Office finds that when the economy is weak a \$1 increase in government spending has a cumulative effect on output equal to an increase in spending of \$1.50 on average**, meaning the positive impact is amplified. Conversely, when the economy is weak a \$1 decrease in government spending has a cumulative effect on output equal to a decrease in spending of \$1.50 on average, meaning the negative impact is amplified.
- Put simply, maintaining government spending during a recession and its aftermath will provide the greatest boost in support of Connecticut's economy in general, which will benefit all of the state's families. This fiscal policy will also allow the state to more effectively support its neediest families in particular by preventing or limiting cuts in key services, such as spending on health care, child care, education, food, and cash assistance, all of which are more needed than ever.



How do we reform Connecticut's tax system so that it works to advance economic *justice* rather than continue to contribute to economic *injustice*?

To simultaneously raise revenue to fund essential government services, combat rising income and wealthy inequality, and support the economy, Connecticut should raise income and wealth taxes on the wealthy. Four approaches include:

- **Raise the income tax on the wealthy.** This would raise an additional \$504 million to \$1.72 billion a year (depending upon the option selected) and would only apply to single tax filers making more than \$500,000 a year (joint filers making more than a \$1 million).
- **Expand the estate and gift tax.** This would raise an additional \$108 million to \$162 million a year and would only apply to multi-million dollar estates. [This is a wealth tax.]
- **Establish a surcharge on investment income.** This would raise \$167 million to \$334 million a year and would only apply to investment income for single tax filers making more than \$500,000 a year (joint filers making more than a \$1 million). [This is a wealth tax.]
- **Establish a statewide property tax on mansions.** This would raise \$331 million to \$663 million a year and would only apply to the portion of homes worth more than \$1.5 million. [This is a wealth tax.]

To further combat rising income and wealth inequality and further support the economy, Connecticut should establish and/or expand tax credits for working- and middle-class families. Three approaches include:

- **Expand the Connecticut Earned Income Tax Credit (CT EITC).** This would benefit working-class families (single tax filers making up to \$50,954 a year and joint filers making up to \$56,844 a year) by reducing their tax burden by \$34 million to \$155 million a year (depending upon the option selected).
- **Expand the Connecticut Property Tax Credit (CT PTC).** This would benefit working- and middle-class families (single tax filers making up to \$219,000 a year and joint filers making up to \$261,000 a year) by reducing their tax burden by \$345 million to \$864 million a year.
- **Create the Connecticut Child Tax Credit.** This would benefit working-class, middle-class, and a portion of upper-class families (single tax filers making up to about \$200,000 a year and joint filers making up to about \$400,000 a year) by reducing their tax burden by \$381 million to \$598 million a year.

