

ADVANCING ECONOMIC JUSTICE THROUGH TAX REFORM

DECEMBER 2020



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



CONNECTICUT
VOICES
FOR CHILDREN

Table of Contents

Glossary	2
Introduction	3
An Overview of Economic Injustice	4
• Rising Income Inequality in the U.S.	5
• Even Greater Rising Income Inequality in Connecticut	7
• A Substantial Racial Income Gap in the U.S. and Even Greater Gap in Connecticut	9
• Rising Wealth Inequality in the U.S.	11
• Even Greater Rising Wealth Inequality in Connecticut	13
• A Substantial Racial Wealth Gap in the U.S. and Even Greater Gap in Connecticut	14
• Slowing Economic Growth in the U.S. and Even Slower Growth in Connecticut	16
• Economic Injustice Harms Working- and Middle-Class Families	18
Connecticut’s Regressive Tax System Contributes to Economic Injustice	20
• Connecticut Is Not A High-Tax State	21
• Three Types of Tax Systems: Regressive, Proportional, and Progressive	23
• Connecticut Has A Regressive Tax System	24
○ The Property Tax	26
○ Sales and Excise Taxes	27
○ Business Taxes	28
○ The Personal Income Tax	29
○ The Estate and Gift Tax	30
○ The State and Local Tax System	31
• Contributing to Economic Injustice	32
Connecticut’s Projected Revenue Shortfall and Budget Deficits	34
Options for Tax Reform	37
• Options for Raising the Income Tax on the Wealthy	38
• Options for Raising Wealth Taxes on the Wealthy	42
○ Expand the Estate and Gift Tax	42
○ Establish a Surcharge on Investment Income	45
○ Establish a Statewide Property Tax on Mansions	47
• Options for Lowering Taxes on Working- and Middle-Class Families	49
○ Expand the Connecticut Earned Income Tax Credit	49
○ Expand the Connecticut Property Tax Credit	52
○ Create the Connecticut Child Tax Credit	55
• Putting Together a Tax Reform Program	59
Conclusion	64
Acknowledgements	65
References	66

Glossary

Economic growth is commonly measured as the percentage change in real (inflation-adjusted) gross domestic product (GDP), which is the nation's or state's total income over a given period of time.

Economic justice is providing the economic resources to enable all families to live a secure and fulfilling life and is achievable based on the support of a strong economy with an equitable distribution of income and wealth.

Effective tax rate is the total amount of taxes that a family pays as a percentage of taxable income.

Income is the flow of money that a person or family receives over a given period of time, and it is derived from an array of sources, including salaries and wages, business income, rental income, investment income (e.g., capital gains, dividends, interest), and government transfers.

Progressive tax system requires upper-class families and the wealthiest families to pay a higher percentage of their incomes in taxes than working- and middle-class families.

Proportional tax system requires all families to pay the same percentage of their incomes in taxes.

Racial income gap is the difference in income among populations grouped by race or ethnicity.

Racial wealth gap is the difference in wealth among populations grouped by race or ethnicity.

Regressive tax system requires working- and middle-class families to pay a higher percentage of their incomes in taxes than upper-class families and the wealthiest families.

Wealth is the stock of assets, including money, property, stocks, bonds, and other kinds of capital.

Worker power arises primarily from unionization or the threat of unionization, from firms being run in the interests of workers as stakeholders, and from an economy at full employment, all of which strengthen the ability of workers to increase their pay to a higher level than would otherwise be possible.

Introduction

Connecticut's economy has a highly unjust distribution of income and wealth in general as well as a highly unjust distribution of income and wealth by race. This economic injustice has been rising for several decades, benefitting a small group of wealthy families while the state's working- and middle-class families, especially those of color, fall further behind.

A major cause of economic injustice in Connecticut is the unfair distribution of pre-tax income and wealth gains from economic growth, which have gone primarily to the wealthy for the last several decades. This is due to several factors, especially the decline of worker power,¹ and it stands in stark contrast to the more just distribution of the income and wealth gains from economic growth during the first half of the post-World War II period—a time when John F. Kennedy popularized the metaphor that “a rising tide lifts all the boats.”²

Another major cause of economic injustice in Connecticut is the regressive—or unfair—state and local tax system, which requires working- and middle-class families, especially those of color, to pay a higher percentage of their incomes in taxes than the wealthy. This exacerbates pre-tax income inequality and thereby contributes to wealth inequality. Moreover, by decreasing the income and wealth available for working- and middle-class families to spend and increase economic demand, Connecticut's regressive tax system slows economic growth, which hurts all of the state's families. Or to return to Kennedy's popular metaphor, the regressive tax system slows the rise of the tide overall and is designed to lift only boats that are already at the top and therefore do not need additional support.

Along with the decades-long rise of economic injustice and the regressive tax system contributing to that problem, the ongoing coronavirus pandemic-induced recession is accelerating the rise of economic injustice and causing substantial budget deficits that are creating considerable pressure to cut government spending on essential services at a time when government support is more needed than ever.

This combination of economic problems in Connecticut severely threatens the well-being of the state's working- and middle-class families, especially those of color. At the same time, it provides an opportunity to step back and consider sweeping proposals. To guide that discussion, this report proceeds in four sections. The first section provides an overview of economic injustice in Connecticut. The second section provides an overview of Connecticut's regressive tax system. The third section provides an overview of Connecticut's projected revenue shortfall and deficits due to the coronavirus pandemic-induced recession. And the fourth section provides an overview of fair tax reform options to address the three preceding problems and ensure that Connecticut's tax system works to advance economic *justice* rather than continue to contribute to economic *injustice*.

An Overview of Economic Injustice

To show that Connecticut's economy has a highly unjust distribution of income and wealth in general as well as a highly unjust distribution of income and wealth by race, all of which in turn slows economic growth, this section of the report provides an overview of five key economic indicators at both the national level and the state level. This section also provides a brief overview of the ways in which economic injustice harms children from working- and middle-class families.

The following is a summary of the key findings:

- Income inequality has been rising for several decades in the U.S. and has recently reached the highest levels since at least the end of the Second World War in 1945; and income inequality is even greater in Connecticut than in the U.S. as a whole.
- The decades-long rise in income inequality in the U.S. includes a substantial racial income gap, which exacerbates income inequality for households of color; and the racial income gap in Connecticut is even greater than in the U.S. as a whole.
- Wealth inequality has been rising for several decades in the U.S. and has recently reached the highest levels since at least the end of the Second World War in 1945; and wealth inequality is even greater in Connecticut than in the U.S. as a whole.
- The decades-long rise in wealth inequality in the U.S. includes a substantial racial wealth gap, which exacerbates wealth inequality for households of color; and the racial wealth gap in Connecticut is even greater than in the U.S. as a whole.
- Economic growth in the U.S. has slowed to the lowest average level since at least the end of the Second World War in 1945, and economic growth has slowed even more in Connecticut than in the U.S. as a whole since the Great Recession of 2007–09.
- Altogether, these economic indicators show that in the U.S. in general and in Connecticut in particular the income and wealth shares from an increasingly slow-growing economy have overwhelmingly gone to the wealthiest families, meaning the distribution of the current economic system is highly unjust, especially for families of color. Moreover, economic injustice is important not simply in its own right but because of the ways in which it harms children from working- and middle-class families, especially those of color, in the areas of educational success, health, economic mobility, and more.

Rising Income Inequality in the U.S.

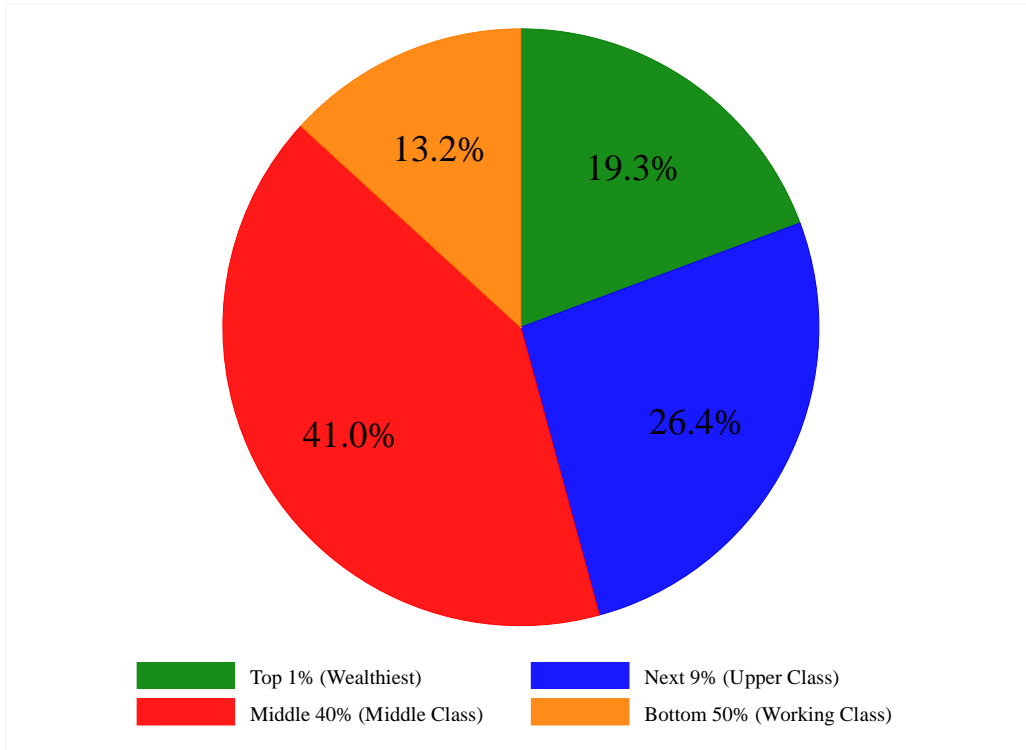
Income is the flow of money that a family receives over a given period of time. To trace the historical distribution of pre-tax income in the U.S., three economists—Thomas Piketty, Emmanuel Saez, and Gabriel Zucman—have developed a prominent dataset using annual tax return data from the Internal Revenue Services (IRS). The distribution for four groups is of particular interest: (1) the bottom 50 percent of tax filers, referred to here as the *working class* or lower-income group; (2) the next 40 percent of tax filers, referred to here as the *middle class* or middle-income group; (3) the next 9 percent of tax filers, referred to here as the *upper class* or upper-income group; and (4) the top one percent of tax filers, referred to here as the *wealthiest*. For reference, IRS data on income shares for the working and middle class are only available beginning in 1962, whereas the other data are available for the entire historical analysis.³

There are two key, relevant and related findings:

The pre-tax income share for the top one percent of tax filers in the U.S. now exceeds that for the entire working class, and the pre-tax income share for the top 10 percent of tax filers now exceeds that for the entire middle class. As **Figure 1** shows, in 2016—the most recent year available—the pre-tax income share for the top one percent is 19.3 percent, which is larger than the income share of 13.2 percent for the entire working class, a group 50 times larger in population. Likewise, the pre-tax income share for the top 10 percent (the upper class plus the wealthiest) is 45.7 percent, which is larger than the income share of 41 percent for the entire middle class, a group four times larger in population.⁴

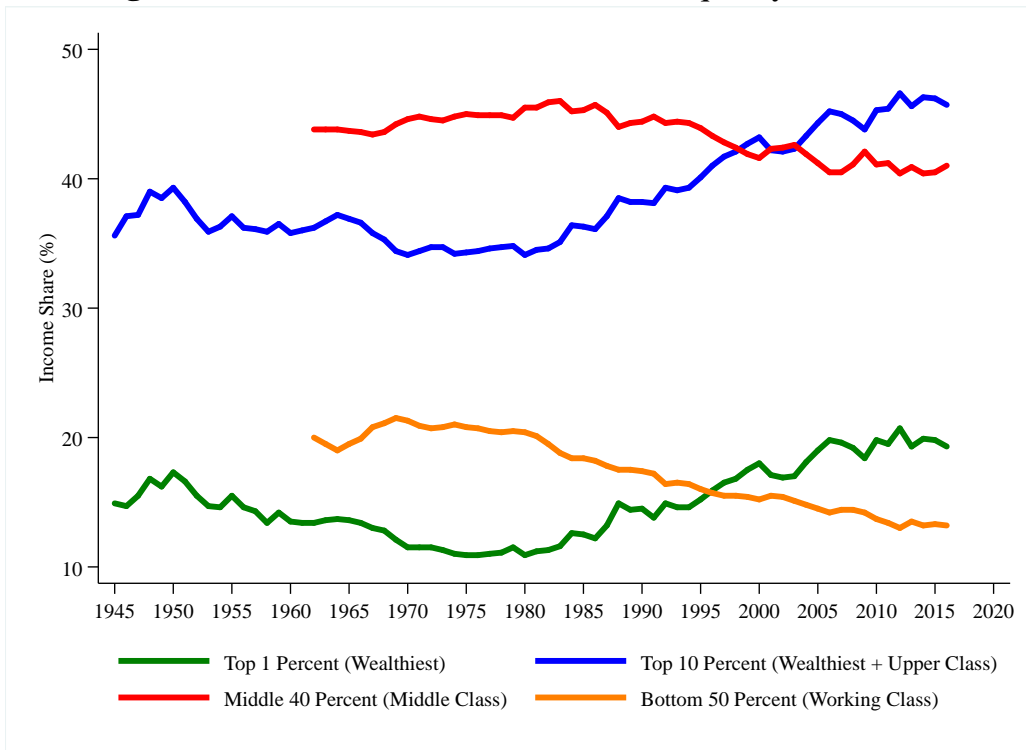
Income inequality has been rising for several decades in the U.S. and has recently reached the highest levels since at least the end of the Second World War in 1945. However, the pre-tax income share for the working class used to exceed that for the top one percent of tax filers, and the pre-tax income share for the middle class used to exceed that for the top 10 percent of tax filers, which demonstrates that it is possible to have a more just distribution of income. As **Figure 2** shows, between 1945 and 1975, the pre-tax income share for the top one percent decreased from 14.9 percent to 10.9 percent. Then, between 1975 and 2016, the pre-tax income share for the top one percent increased from 10.9 percent to 19.3 percent, whereas the pre-tax income share for the working class decreased from 20.8 percent to 13.2 percent. Likewise, between 1945 and 1980, the pre-tax income share for the top 10 percent decreased slightly from 35.6 percent to 34.1 percent. Then, between 1980 and 2016, the pre-tax income share for the top 10 percent increased from 34.1 percent to 45.7 percent, whereas the pre-tax income share the middle class decreased from 45.5 percent to 41 percent.⁵

Figure 1. Pre-Tax Income Distribution in the U.S., 2016



*See reference 4.

Figure 2. The Rise of Pre-Tax Income Inequality in the U.S.



*See reference 5.

Even Greater Rising Income Inequality in Connecticut

Shifting from the national level to the state level, a combination of data from different sources effectively shows the rise of pre-tax income inequality. Specifically, the U.S. Census Bureau provides the most up to date measure of income inequality in all 50 states and the District of Columbia. Two economists—Estelle Sommeiller and Mark Price—have developed a prominent dataset that provides the most extensive historical overview of income inequality in all 50 states and D.C. And the Connecticut Department of Revenue Services (DRS) provides the most detailed data on income inequality in Connecticut.

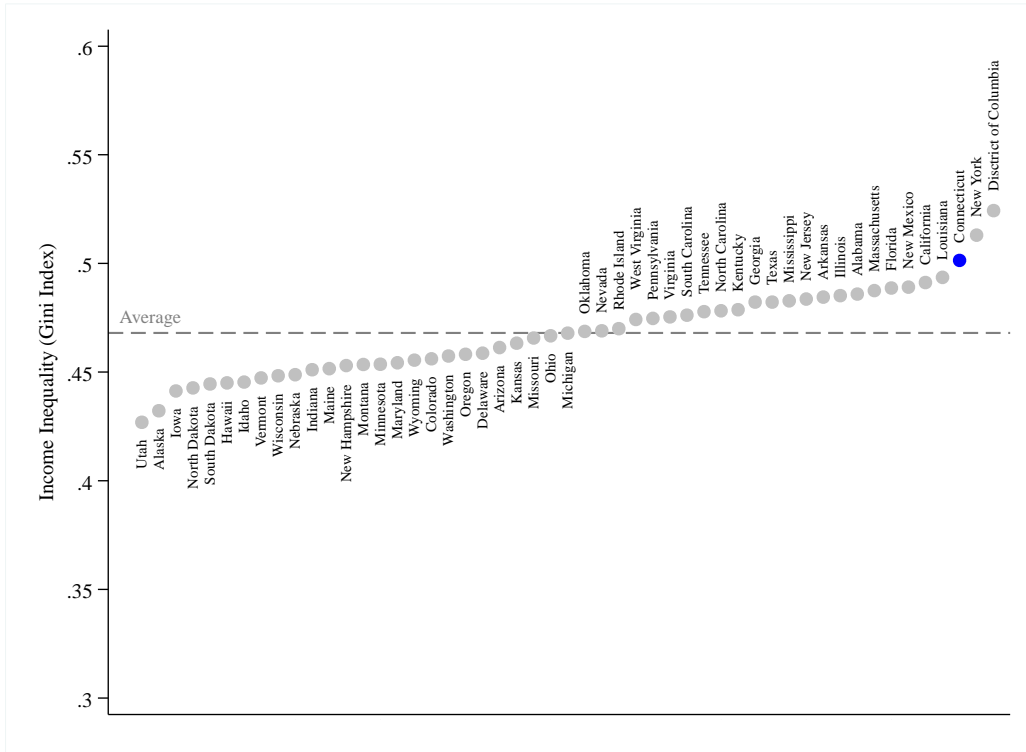
There are three key, relevant and related findings:

Pre-tax income inequality is even greater in Connecticut than in the U.S. as a whole. As **Figure 3** shows, in 2018, Connecticut had a Gini Index score of 0.501, which is the third highest level of pre-tax income inequality in the U.S., behind only D.C. and New York and substantially above 0.468, the average for all 50 states and D.C.⁶ For reference, the Gini Index “ranges from 0, indicating perfect equality (where everyone receives an equal share), to 1, perfect inequality (where only one recipient or group of recipients receives all the income).”⁷

The average pre-tax income for the top one percent of tax filers in Connecticut is 40.6 times greater than the pre-tax income for the median household in the state. An analysis of data from the DRS reveals that the top one percent of tax filers in Connecticut earned on average \$3,092,389 in 2018—the most recent year available.⁸ In contrast, data from the Census Bureau show that the median household in Connecticut earned \$76,106 before taxes in 2018.⁹

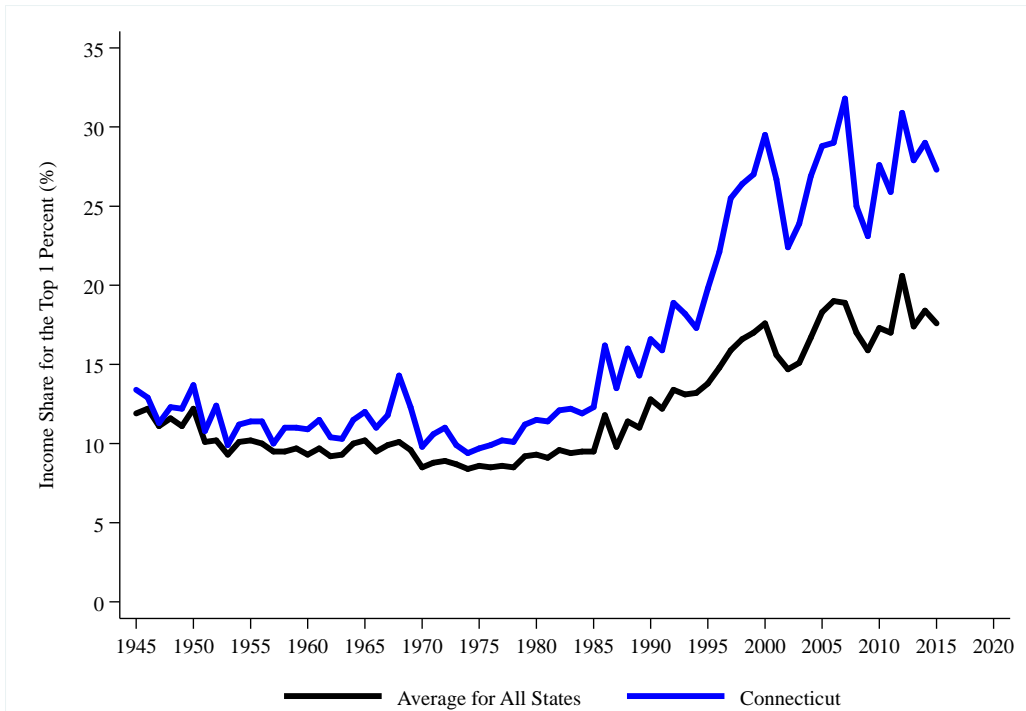
Income inequality has been rising for several decades in Connecticut and has recently reached the highest levels since at least the end of the Second World War in 1945. However, the pre-tax income share for the top one percent of tax filers in Connecticut used to be considerably smaller and more closely aligned with the U.S. as a whole, which demonstrates that it is possible to have a more equitable distribution of income. As **Figure 4** shows, between 1945 and 1978, the average pre-tax income share for the top one percent in all 50 states and D.C. decreased from 11.9 percent to 8.5 percent; and in Connecticut, the pre-tax income share for the top one percent decreased from 13.4 percent to 10.1 percent. Then, between 1978 and 2015—the most recent year in the dataset—the average pre-tax income share for the top one percent in all 50 states and D.C. increased from 8.5 percent to 17.6 percent; and in Connecticut the pre-tax income share for the top one percent increased from 10.1 percent to 27.3 percent, which is the third highest level of income inequality, behind only New York and Florida.¹⁰

Figure 3. Ranking of Pre-Tax Income Inequality by State, 2018



*See reference 6.

Figure 4. The Rise of Pre-Tax Income Inequality at the State Level



*See reference 10.

A Substantial Racial Income Gap in the U.S. and Even Greater Gap in Connecticut

Along with the broader rise in income inequality, it is possible to examine the racial income gap in the U.S. and Connecticut using data from the U.S. Census Bureau and the Connecticut Department of Revenue Services. As measured here, the racial income gap is the difference in pre-tax income among households grouped by race or ethnicity.

There are three key, relevant findings:

The decades-long rise in income inequality in the U.S. includes a substantial racial income gap. As **Table 1** shows, in 2018, the median white household in the U.S. had a pre-tax income of \$63,917, whereas the median Black household had a pre-tax income of \$40,155 and the median Hispanic household had a pre-tax income of \$49,225. Put in relative terms, the median Black household had a pre-tax income equal to only 63 percent of that for the median white household—which had the top median income—and the median Hispanic household had a pre-tax income equal to only 77 percent.¹¹

The racial income gap in Connecticut is even greater than in the U.S. as a whole. As **Table 2** shows, in 2018, the median white household in Connecticut had a pre-tax income of \$82,950, whereas the median Black household had a pre-tax income of \$47,856 and the median Hispanic household had a pre-tax income of \$45,730. Put in relative terms, the median Black household had a pre-tax income equal to only 58 percent of that for the median white household—which had the top median income—and the median Hispanic household had a pre-tax income equal to only 55 percent.¹²

The racial income gap exacerbates income inequality for households of color. As **Table 3** shows, the average pre-tax income for the top one percent of tax filers in Connecticut is 40.6 times greater than that for median household in the state due to rising income inequality. Even worse, the average pre-tax income for the top one percent of tax filers in Connecticut is 64.6 times greater than that for the median Black household and 67.6 times greater than that for the median Hispanic household due to the combination of rising income inequality and the racial income gap. Put differently, it would take nearly 41 years for the median household in Connecticut to make what the top one percent of tax filers in the state make on average in a single year, and it would take the median Black household nearly 65 years and the median Hispanic household nearly 68 years.¹³

Table 1. Pre-Tax Racial Income Gap in the U.S., 2018

Group	Pre-Tax Income	Relative to Median White Household
Median Household	\$61,937	94%
Median White Household	\$65,902	-
Median Black Household	\$41,511	63%
Median Hispanic Household	\$51,404	78%

*See reference 11.

Table 2. Pre-Tax Racial Income Gap in Connecticut, 2018

Group	Pre-Tax Income	Relative to Median White Household
Median Household	\$76,106	92%
Median White Household	\$82,950	-
Median Black Household	\$47,856	58%
Median Hispanic Household	\$45,730	55%

*See reference 12.

Table 3. Pre-Tax Income Inequality by Race in Connecticut, 2018

Group	Pre-Tax Income	Inequality Level
Top 1% of Tax Filers (Avg.)	\$3,092,389	-
Median Household	\$76,106	40.6x
Median Black Household	\$47,856	64.6x
Median Hispanic Household	\$45,730	67.6x

*See reference 13.

Rising Wealth Inequality in the U.S.

Whereas income is the flow of money that a family receives over a given period of time, wealth is a family's stock of assets, which includes money as well as property, stocks, bonds, and other kinds of capital. The two financial resources are closely connected. As one economist puts it, "Income and wealth reinforce each other: from the one side, higher incomes can be saved into stocks of wealth; from the other, having substantial wealth makes it possible to invest in ways that yield higher incomes."¹⁴

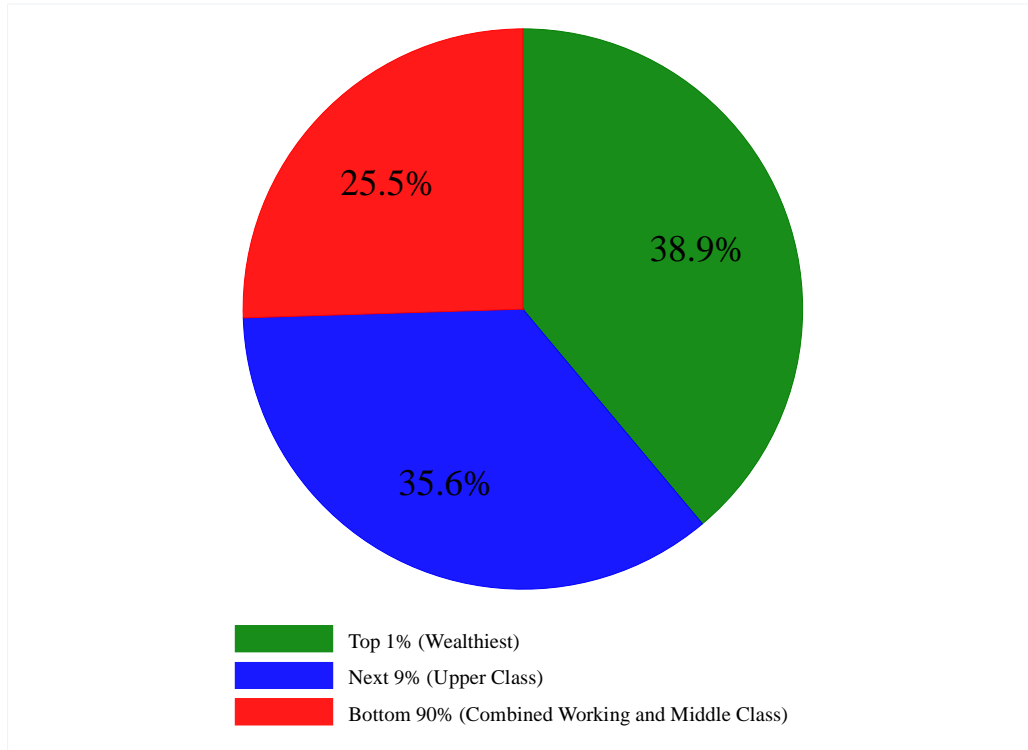
To trace the historical distribution of wealth in the U.S., and operating as the counterpart to the Piketty et al. study of income inequality, two economists—Emmanuel Saez and Gabriel Zucman—have developed a prominent dataset using tax return data from the IRS. The distribution for three groups is of particular interest: (1) the bottom 90 percent of tax filers, referred to here as the combined *working and middle class* or lower- and middle-income groups; (2) the next 9 percent of tax filers, referred to here as the *upper class* or upper-income group; and (3) the top 1 percent of tax filers, referred to here as the *wealthiest*. For reference, the three wealth groups analyzed here are not identical to the previous income groups because wealth is even more concentrated at the top than income.¹⁵

There are two key, relevant and related findings:

The wealth share for the top one percent of tax filers in the U.S. now considerably exceeds that for the entire combined working and middle class. As **Figure 5** shows, in 2016—the most recent year in the dataset—the wealth share for the top one percent of tax filers is 38.9 percent, which is considerably larger than the wealth share of 25.5 percent for the combined working and middle class, a group 90 times larger in population.¹⁶

Wealth inequality has been rising for several decades in the U.S. and has recently reached the highest levels since at least the end of the Second World War in 1945. However, the wealth share for the combined working and middle class used to exceed that for the top one percent of tax filers, which demonstrates that it is possible to have a more equitable distribution of wealth. As **Figure 6** shows, between 1945 and 1978, the wealth share for the top one percent of tax filers decreased from 32.7 percent to 22.7 percent. Then, between 1978 and 2016, the wealth share for the top one percent increased from 22.7 percent to 38.9 percent, whereas the wealth share for the combined working and middle class decreased from 34.2 percent to 25.5 percent.¹⁷

Figure 5. Wealth Distribution in the U.S., 2016



*See reference 16.

Figure 6. The Rise of Wealth Inequality in the U.S.



*See reference 17.

Even Greater Rising Wealth Inequality in Connecticut

Shifting from the national level to the state level, a combination of data from different sources effectively shows the rise of wealth inequality. Specifically, Prosperity Now, a non-profit organization, provides several measures of savings and assets by state using data from the U.S. Census Bureau. And the Connecticut Department of Revenue Services provides an annual overview of estate tax data. For reference, the available data on wealth inequality at the state level are not as detailed as the data on income inequality at the state level, meaning the analysis requires making certain inferences.

There are two key, relevant and related findings:

Wealth inequality is even greater in Connecticut than in the U.S. as a whole. As **Table 4** shows, in 2016—the most recent year available in the dataset—the median household net worth was \$92,110 in the U.S. and \$115,400 in Connecticut. Moreover, the percentage of households with zero or negative net worth—meaning they have no financial cushion to weather a crisis—was 15.7 percent in the U.S. and 21.1 percent in Connecticut.¹⁸ This combination of greater wealth for the median household and a higher zero net worth rate indicates that wealth inequality in Connecticut is greater than the near-unprecedented level of wealth inequality in the U.S. as a whole. It is also reasonable to infer that wealth inequality is greater in Connecticut than in the U.S. as a whole based on the strong relationship between income and wealth in general and the data showing that Connecticut has the third highest level of income inequality.¹⁹

The average net worth for the top one percent of taxed estates in Connecticut is 357 times greater than the net worth for the median household in the state. An analysis of data from the DRS reveals that the top one percent of taxed estates in Connecticut are worth on average at least \$41,183,109 in 2016—the most recent year data are available for all of the components.²⁰ In contrast, data from the Census Bureau—and analyzed by Prosperity Now—show that the median household in Connecticut had a net worth of \$115,400 in 2016.²¹

Table 4. Net Worth in the U.S. and Connecticut, 2016

Group	Median Household Net Worth	Households with Zero Net Worth
U.S.	\$92,110	15.7%
Connecticut	\$115,400	21.1%

*See reference 18.

A Substantial Racial Wealth Gap in the U.S. and Even Greater Gap in Connecticut

Along with the broader rise in wealth inequality, it is possible to examine the racial wealth gap in the U.S. and Connecticut using data from the Federal Reserve’s Survey of Consumer Finances and the Prosperity Now scorecard. As measured here, the racial wealth gap is the difference in either the level of median family wealth or the zero net worth rate among households grouped by race or ethnicity. For reference, the available data on the racial wealth gap at the state level are not as detailed as the data at the national level, meaning the analysis requires making certain inferences. Moreover, the analysis maintains the units and terms that the original data sources employ, meaning part of the analysis uses the family unit, whereas another part uses the household unit; and part of the analysis uses the term Hispanic, whereas another part uses the term Latino.

There are three key, relevant and related findings:

The decades-long rise in wealth inequality in the U.S. includes a substantial racial wealth gap. As **Table 5** shows, in 2016, the median white family in the U.S. had a net worth of \$171,000, whereas the median Black family had a net worth of \$17,600 and the median Hispanic family had a net worth of \$20,700. Put in relative terms, the median Black family had a net worth equal to only 10 percent of that for the median white family—which had the top net worth—and the median Hispanic family had a net worth equal to only 12 percent.²²

The racial wealth gap in Connecticut is even greater than in the U.S. as a whole. As **Table 6** shows using a different, less detailed source of data to compare the U.S. and Connecticut, in 2016—the most recent year available—12.7 percent of white households in the U.S. had zero or negative net worth, whereas 28.7 percent of Black households and 20.2 percent of Latino households had zero or negative net worth. Put differently, the zero net worth rate for Black and Latino households in the U.S. was 2.3 times and 1.6 times greater, respectively, than that for white households. In comparison, 10.3 percent of white households in Connecticut had zero or negative net worth, whereas 34.6 percent of Black households and 51.4 percent of Latino households had zero or negative net worth. Put differently, the zero net worth rate for Black and Latino households in Connecticut was 3.4 times and 5 times greater, respectively, than that for white households.²³

The racial wealth gap exacerbates wealth inequality for households of color. As **Table 7** shows, in 2016, the average net worth for the top one percent of taxed estates in Connecticut is 357 times greater than the net worth for the median household. Moreover, as demonstrated, households of color tend to have a much lower net worth than white households. This indicates that the net worth for the top one percent of taxed estates in Connecticut is more than 357 times greater than the median net worth for households of color due to a combination of rising wealth inequality and the racial wealth gap, though a more precise estimate is not available.²⁴

Table 5. Racial Wealth Gap in the U.S., 2016

Group	Wealth	Relative to Median White Family
Median Family	\$97,300	57%
Median White Family	\$171,000	-
Median Black Family	\$17,600	10%
Median Hispanic Family	\$20,700	12%

*See reference 22.

Table 6. Racial Wealth Gap in the U.S. and Connecticut, 2016

Group	U.S.		Connecticut	
	Zero Net Worth Rate	Relative to White Households	Zero Net Worth Rate	Relative to White Households
All Households	15.7%	1.2x	21.1%	2.0x
White Households	12.7%	-	10.3%	-
Black Households	28.7%	2.3x	34.6%	3.4x
Latino Households	20.2%	1.6x	51.4%	5.0x

*See reference 23.

Table 7. Wealth Inequality by Race in Connecticut, 2018

Group	Net Worth	Inequality Level
Top 1% of Taxed Estates (Avg.)	\$41,183,109	-
Median Household	\$115,400	357x
Median Black Household	< \$115,400	>357x
Median Hispanic Household	< \$115,400	>357x

*See reference 24.

Slowing Economic Growth in the U.S. and Even Slower Growth in Connecticut

Whereas income is the flow of money that a family receives over a given period of time and wealth is a family's stock of assets, economic growth is the change in total income that a nation or state generates over a given period of time. Put differently, whereas the preceding analyses showed the distribution of income and wealth, the analysis here shows the growth in the total income that the economy generates in the first place. Moreover, economic growth and its distribution are connected. As the Washington Center for Equitable Growth, a non-partisan think tank, explains, "Most research shows that, in the long term, inequality is negatively related to economic growth."²⁵

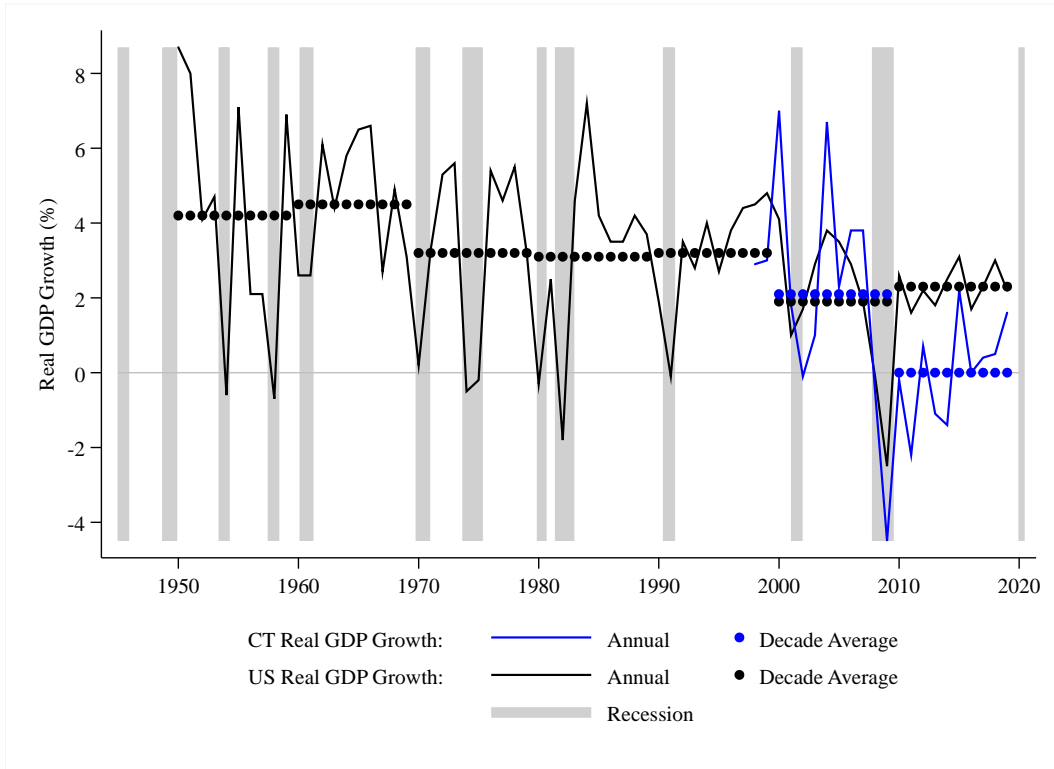
To trace the historical growth of the economy in the U.S. and Connecticut, the U.S. Bureau of Economic Analysis provides annual measures of both the percentage change in real (inflation-adjusted) gross domestic product (GDP) and the percentage change in real GDP per capita, which is the growth rate in total income adjusted for population size. For reference, the most accurate economic growth data at the state level are only available beginning in 1997, whereas the data at the national level are available for the entire historical analysis.

There are two key, relevant and related findings:

Economic growth in the U.S. has slowed to the lowest average level since at least the end of the Second World War in 1945. As **Figure 7** shows, real GDP growth in the U.S. has declined from an average of more than 4 percent during the 1950s and 1960s to between 3 and 4 percent during the 1970s, 1980s, and 1990s and to slower than 3 percent during the 2000s and 2010s.²⁶ Moreover, when controlling for population size, **Figure 8** shows that real GDP growth in the U.S. has declined from an average of 2.5 percent or higher during the 1950s and 1960s to between 2 and 2.2 percent during the 1970s, 1980s, and 1990s and to 1.6 percent or slower during the 2000s and 2010s.²⁷ Together with the preceding analyses of income and wealth, the analysis here shows that the wealthiest families are taking a growing, disproportionate share of the gains from an increasingly slow-growing national economy.

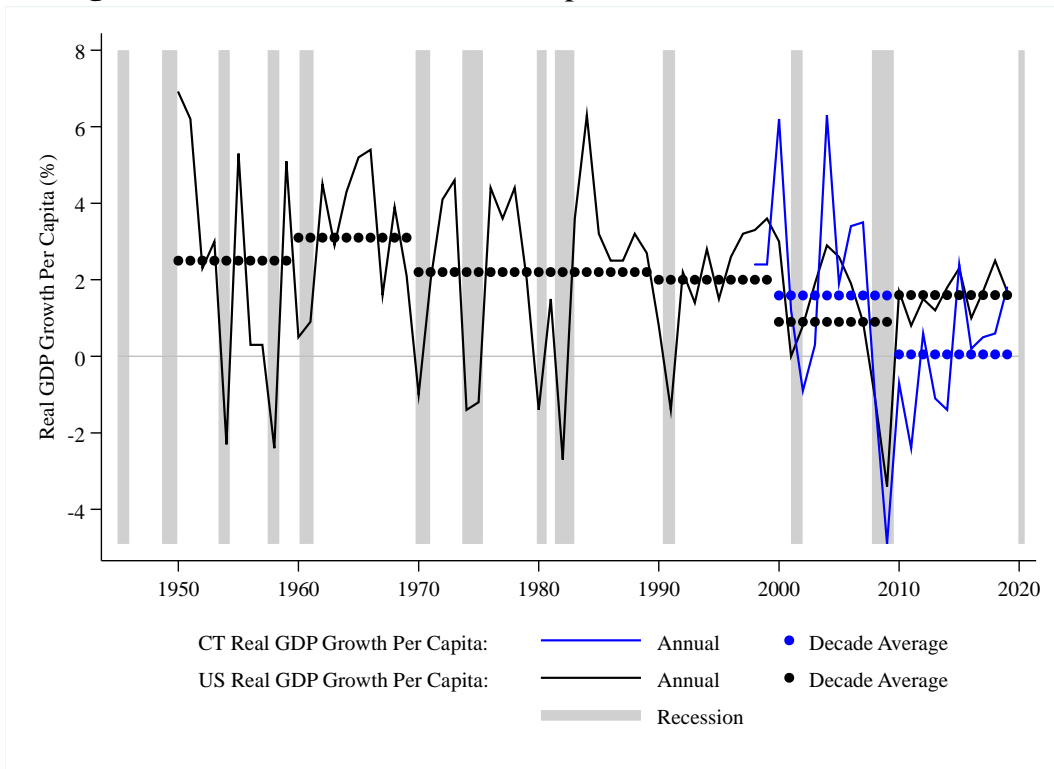
Economic growth has slowed even more in Connecticut than in the U.S. as a whole since the Great Recession of 2007–09. As **Figure 7** shows, real GDP growth in Connecticut has declined from an average of 2.1 percent during the 2000s to 0.05 percent during the 2010s, making its growth rate the third slowest of all the states.²⁸ Moreover, when controlling for population size—which has been decreasing in Connecticut—**Figure 8** shows that real GDP growth has declined from an average of 1.6 percent during the 2000s to 0.05 percent during the 2010s, making its growth rate the seventh slowest of all the states.²⁹ Together with the preceding analyses of income and wealth, the analysis here shows that the wealthiest families are taking a growing and even more disproportionate share of the gains from Connecticut's especially slow-growing economy.

Figure 7. Real GDP Growth in the U.S. and Connecticut



*See references 26 and 28.

Figure 8. Real GDP Growth Per Capita in the U.S. and Connecticut



*See references 27 and 29.

Economic Injustice Harms Working- and Middle-Class Families

As previous research from Connecticut Voices for Children (CT Voices) emphasizes, Connecticut's highly unjust distribution of income and wealth from an increasingly slow-growing economy is important not simply in its own right but because of the ways in which it harms the children from working- and middle-class families, especially those of color. Most notably, it limits the ability of many families to ensure that they have high-quality health care, child care, food, and clothing. It limits the ability of many families to purchase homes or rent apartments in safe neighborhoods of their choice with well-funded public schools. It limits the ability of many families to provide the emotional and developmental support necessary for high needs children. It limits the ability of many families to support their children in career and college attainment without the burden of excessive debt. And it limits the ability of many families to ensure that future generations will have more opportunities than previous ones.³⁰

Consider further the following areas: educational success, health, and economic mobility.

Rising income and wealth inequality harms the educational success of children from working- and middle-class families. Providing a succinct overview, one review of research on the subject explains,

The influence of income inequality affects multiple aspects of society's functioning, from health outcomes and even life expectancy to democratic ideals (Putnam 2015; Schanzenbach et al. 2016; Stringhini et al. 2017). In the education arena, children's socioeconomic status (SES), of which income is a key component, is considered one of the most significant predictors—if not the most significant predictor—of educational success. A number of studies show the strong relationship between social class (of which socioeconomic status is a frequent measure) and test scores, educational attainment, and college attendance and completion (see Duncan, Morris, and Rodrigues 2011; García 2015; García and Weiss 2015; Lee and Burkam 2002; Mishel et al. 2012; Putnam 2015; among others).

As a result of these trends and associations, achievement gaps by social class have grown substantially since the 1960s, especially between children at the highest end of the income distribution and all of the others (Reardon 2011). Some researchers have identified a large increase in parental investment in education among high-SES parents as one driver of the divergence in education outcomes (Duncan and Murnane 2011), among other contributing factors, such as time parents spend with their children and time parents devote to education-enhancing activities (Morsy and Rothstein 2015; Van Voorhis et al. 2013).³¹

Rising income and wealth inequality harms the health of children from working- and middle-class families. For example, a review of research on the subject explains,

In the United States as in other countries, the higher one's income, the better one's health. This income-health gradient spans all levels of income and holds true for most measures of health, from life expectancy to the prevalence of diseases and health behaviors. It is found at most ages, appearing first in childhood Because a stepwise gradient between income and health is found at almost all levels of income, it is important to recognize that this issue extends beyond antipoverty programs: even the health of middle-class Americans is affected by the economic circumstances of families and communities.³²

Rising income and wealth inequality harms the economic mobility of children from working- and middle-class families. As a landmark study on the subject explains,

We estimated rates of “absolute income mobility”—the fraction of children who earn more than their parents—by combining data from U.S. Census and Current Population Survey cross sections with panel data from de-identified tax records. We found that rates of absolute mobility have fallen from approximately 90% for children born in 1940 to 50% for children born in the 1980s. Increasing Gross Domestic Product (GDP) growth rates alone cannot restore absolute mobility to the rates experienced by children born in the 1940s. However, distributing current GDP growth more equally across income groups as in the 1940 birth cohort would reverse more than 70% of the decline in mobility. These results imply that reviving the “American dream” of high rates of absolute mobility would require economic growth that is shared more broadly across the income distribution.³³

Rising income and wealth inequality especially harms the economic mobility of Black children. For example, a review of research on the subject explains,

Black mobility in earlier generations lagged white mobility in every area of the United States. The regions where the gap was largest, however, were quite different than they are today. In earlier generations, the South was the epicenter of racial inequality, while today, the South and the Northeast and Midwest are fairly indistinguishable with respect to racial inequality.

The process through which areas that once were more racially equitable but today are not is a complicated story of policy-driven choices that affected intergenerational mobility across the country. Recent research highlights that factors such as school segregation, disinvestment from public goods, and divergent levels of investment in education since the 1950s have combined to create a nexus of low mobility for blacks in general and for black men in particular.³⁴

Connecticut's Regressive Tax System Contributes to Economic Injustice

To demonstrate that Connecticut's regressive tax system contributes to economic injustice and is a more pressing issue than the overall level of the state's tax burden, this section of the report proceeds in four parts. The first part provides an overview of the level of taxation in Connecticut relative to other states. The second part provides an overview of the three types of tax systems from a distributional perspective—regressive, proportional, and progressive. The third part provides an overview of Connecticut's regressive tax system in particular. And the fourth part shows how Connecticut's regressive tax system contributes to economic injustice.

The following is a summary of the key findings:

- Connecticut is not an especially high-tax state when taking into account each state's personal income level—or ability to pay. And Connecticut is a low-tax state if taxation is defined more broadly to include all of the revenue that a state actually collects from its residents.
- Connecticut's tax system is regressive, meaning it requires working- and middle-class families to pay a higher percentage of their incomes in taxes than upper-class families and the wealthiest families.
- Connecticut's regressive tax system exacerbates a high level of income inequality and a substantial racial income gap, which in turn contribute to wealth inequality, the racial wealth gap, and slow economic growth.
- Altogether, this analysis shows that the most pressing tax issue in Connecticut is not the overall tax burden but rather the regressive distribution of that burden, which contributes to economic injustice.

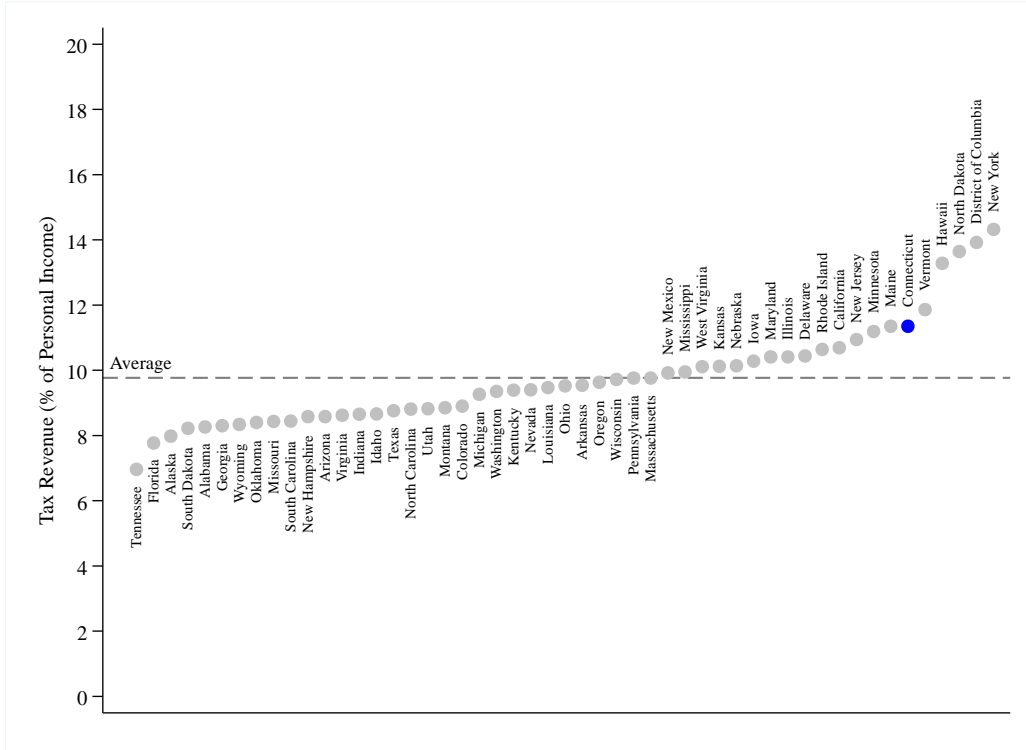
Connecticut Is Not A High-Tax State

In 2018—the most recent year that data are available for a comprehensive comparison—Connecticut had in simple dollar terms the third highest combined state and local tax burden at \$8,494 per capita.³⁵ However, Connecticut is not a high tax when taking into account two key variables: each state’s personal income level and each state’s reliance on tax revenue as a percentage of total revenue.

Connecticut is not an especially high-tax state when taking into account each state’s personal income level (or ability to pay). Personal income in 2018 ranged from a low of \$37,852 per capita in Mississippi to a high of \$81,243 per capita in the District of Columbia, and Connecticut ranked second at \$74,855 per capita, all of which demonstrates that the ability to pay taxes varies substantially among states.³⁶ Incorporating this key variable into a cross-state comparison, **Figure 9** shows that in 2018 the combined state and local tax burden as a percent of personal income averaged 9.8 percent and ranged from a low of 7 percent in Tennessee to a high of 14.3 percent in New York. At 11.3 percent, Connecticut’s tax burden ranked above average but remained significantly below that for the highest group of states—Hawaii, North Dakota, D.C., and New York.³⁷

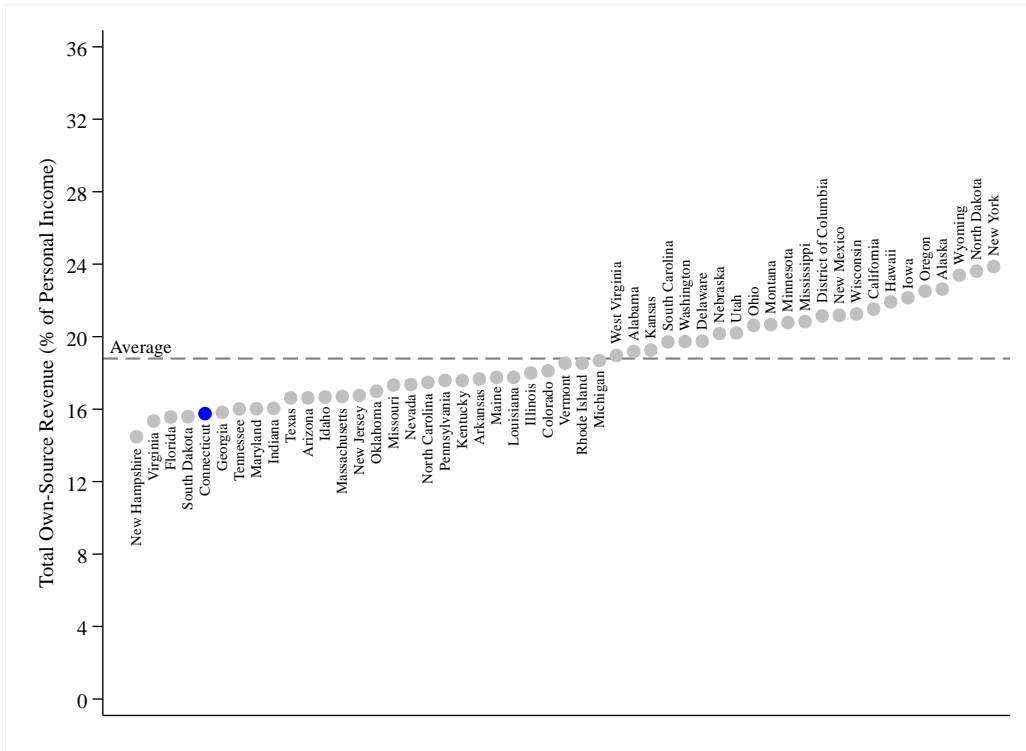
Connecticut is a low-tax state if taxation is defined more broadly to include all of the revenue that each state actually collects from its residents. Each state’s total own-source revenue—all of the revenue that the state collects minus the contribution from the federal government—is based on a combination of tax revenue (e.g., the property tax, the personal income tax, the sales tax) and non-tax revenue (e.g., tolls, fines, services charges). Tax revenue as a percent of total own-source revenue in 2018 ranged from a low of 35.3 percent in Alaska to a high of 72 percent in Connecticut, which demonstrates that some states primarily raise revenue through non-tax sources, whereas other states (i.e., Connecticut) primarily raise revenue through taxes.³⁸ Expanding the cross-state comparison to include tax revenue as well as non-tax revenue, **Figure 10** shows that in 2018 the combined state and local own-source revenue burden as a percent of personal income averaged 18.8 percent and ranged from a low of 14.5 percent in New Hampshire to a high of 23.9 percent in New York. At 15.8 percent, Connecticut’s total own-source revenue burden was among the lowest in the country—and in fact was nearly identical to Florida, one of the leading examples of a low-tax state.³⁹

Figure 9. Tax Revenue as a Percent of Personal Income, 2018



*See reference 37.

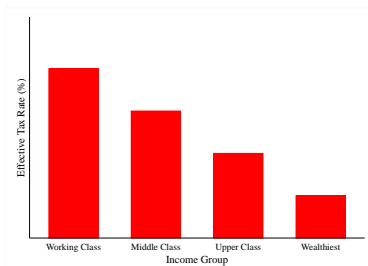
Figure 10. Total Own-Source Revenue as a Percent of Personal Income, 2018



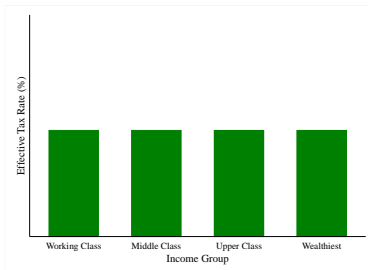
*See reference 39.

Three Types Of Tax Systems: Regressive, Proportional, and Progressive

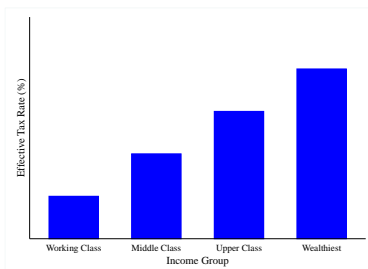
Shifting the analysis from the overall level of the tax burden to the distribution of that burden, a family's *effective tax rate* is the total amount of taxes that it pays as a percentage of taxable income. Variation in this key rate across income groups reveals three basic types of tax systems: A *regressive tax system* requires working- and middle-class families to pay a higher percentage of their incomes in taxes than upper-class families and the wealthiest families. A *proportional tax system* requires all families to pay the same percentage of their incomes in taxes. And a *progressive tax system* requires upper-class families and the wealthiest families pay a higher percentage of their incomes in taxes than working- and middle-class families.



A **regressive tax system** requires working- and middle-class families to pay a higher percentage of their incomes in taxes than upper-class families and the wealthiest families.



A **proportional tax system** requires all families to pay the same percentage of their incomes in taxes.



A **progressive tax system** requires upper-class families and the wealthiest families to pay a higher percentage of their incomes in taxes than working- and middle-class families.

Connecticut Has A Regressive Tax System

The Connecticut Department of Revenue Services (DRS) released a comprehensive tax incidence report in 2014 showing that Connecticut’s tax system is regressive, meaning it requires working- and middle-class families to pay a higher percentage of their incomes in taxes than upper-class families and the wealthiest families. The 2014 report—the most recent to date—uses income tax data from 2011 (updated here to 2018 dollars to account for inflation) and it presents the overall findings in two ways: by income deciles and by population deciles.⁴⁰

Applying the first approach, **Table 8** shows that the effective tax rate decreases from 23.62 percent for the lowest income decile to 6.28 percent for the highest income decile.⁴¹

Applying the second approach, **Table 9** shows that the effective tax rate decreases from 26.62 percent for the second lowest population decile to 8.18 percent for the highest population decile. Notably, this approach does not include a tax rate for the lowest population decile because it “reflects an overstated value resulting from Connecticut residents who file federal but not state income tax returns.”⁴²

Using the data from the income deciles approach—which, unlike the population deciles approach, does not exclude any data—it is possible to estimate the effective tax rate for the four groups of interest examined in the preceding section: (1) the *working class*, defined as the bottom 50 percent of the income distribution and whose tax rate is measured here using the data for income decile one; (2) the *middle class*, defined as the next 40 percent of the income distribution and whose tax rate is measured here using the data for income deciles two through five; (3) the *upper class*, defined as the next nine percent of the income distribution and whose tax rate is measured here using data for income deciles six and seven; and (4) the *wealthiest*, defined as the top one percent of the income distribution and whose tax rate is measured here using data for income deciles eight through 10.⁴³

As **Table 10** shows using the modified income deciles approach, Connecticut requires working-class families (those earning \$53,418 a year or less in 2018 dollars) to pay on average 23.62 percent of their income in state and local taxes, and it requires middle-class families (those earning between \$53,419 and \$202,859 a year) to pay on average 13.27 percent of their income in state and local taxes. In contrast, Connecticut requires the wealthiest families (those earning \$681,862 a year or more) to pay on average only 7.44 percent of their income in state and local taxes—and in fact, families making more than \$1 million a year pay an even smaller percent of their income in state and local taxes.⁴⁴

To understand the most important regressive and progressive features of Connecticut’s tax system, the following is an overview of the five major tax components: the property tax, sales and excise taxes, business taxes, the personal income tax, and the estate and gift tax.

Table 8. Effective Tax Rate by Income Decile

Decile	CT Adjusted Gross Income (2011 \$)	CT Adjusted Gross Income (Updated 2018 \$)	Number of Households	Aggregate CT AGI (2011 \$)	Effective Tax Rate
1	\$0 to \$47,948	\$0 to \$53,418	725,202	\$15,103,112,547	23.62%
2	\$47,949 to \$74,427	\$53,419 to \$82,918	251,321	\$15,103,182,979	13.93%
3	\$74,428 to \$101,827	\$82,919 to \$113,443	173,126	\$15,103,113,264	13.35%
4	\$101,828 to \$134,527	\$113,444 to \$149,874	129,303	\$15,102,288,605	12.87%
5	\$134,528 to \$182,087	\$149,875 to \$202,859	97,426	\$15,103,013,303	11.93%
6	\$182,088 to \$287,629	\$202,860 to \$320,441	67,958	\$15,102,959,408	10.53%
7	\$287,630 to \$612,040	\$320,442 to \$681,861	37,893	\$15,104,085,522	9.03%
8	\$612,041 to \$2,019,383	\$681,862 to \$2,249,751	15,050	\$15,103,068,542	7.69%
9	\$2,019,384 to \$13,194,828	\$2,249,752 to \$14,700,075	3,646	\$15,113,849,361	6.50%
10	\$13,194,829 and up	\$14,700,076 and up	357	\$15,090,190,108	6.28%

*See reference 41.

Table 9. Effective Tax Rate by Population Decile

Decile	CT Adjusted Gross Income (2011 \$)	CT Adjusted Gross Income (Updated 2018 \$)	Number of Households	Aggregate CT AGI (2011 \$)	Effective Tax Rate
1	\$0 to \$5,532	\$0 to \$6,163	150,200	\$147,242,742	Not provided
2	\$5,533 to \$16,245	\$6,164 to \$18,098	150,063	\$1,656,113,142	26.62%
3	\$16,246 to \$26,511	\$18,099 to \$29,535	150,127	\$3,214,379,161	18.37%
4	\$26,512 to \$37,419	\$29,536 to \$41,688	150,219	\$4,783,322,948	15.67%
5	\$37,420 to \$50,198	\$41,689 to \$55,925	150,033	\$6,551,395,173	14.72%
6	\$50,199 to \$64,971	\$55,926 to \$72,383	150,129	\$8,581,638,624	13.99%
7	\$64,972 to \$84,935	\$72,384 to \$94,624	150,127	\$11,187,844,749	13.66%
8	\$84,936 to \$112,904	\$94,625 to \$125,784	150,128	\$14,695,567,114	13.30%
9	\$112,905 to \$165,393	\$125,785 to \$184,261	150,128	\$20,325,378,589	12.38%
10	\$165,394 and up	\$184,262 and up	150,128	\$79,885,981,397	8.18%

*See reference 42.

Table 10. Effective Tax Rate by Income Group

Group	CT Adjusted Gross Income (2011 \$)	CT Adjusted Gross Income (Updated 2018 \$)	Effective Tax Rate
Working Class (Bottom 50%)	\$0 to \$47,948	\$0 to \$53,418	23.62%
Middle Class (Next 40%)	\$47,949 to \$182,087	\$53,419 to \$202,859	13.27%
Upper Class (Next 9%)	\$182,088 to \$612,040	\$202,860 to \$681,861	9.99%
Wealthiest (Top 1%)	\$612,041 and up	\$681,862 and up	7.44%

*See reference 44.

The Property Tax

Beginning at the local level, each town in Connecticut levies a regressive property tax. As the DRS explains, “Connecticut state law authorizes the taxation of property, including real estate, motor vehicles, business-owned personal property and some personal property that individuals own. Local governmental officials administer the property assessment and taxation.”⁴⁵

At least three key features make the property tax regressive:

The property tax tends to tax a smaller percentage of total wealth for families at higher income levels because it is limited to property. As the Institute on Taxation and Economic Policy (ITEP), a non-partisan tax policy organization, explains, “For average families, a home represents the lion’s share of their total wealth, so most of their wealth is taxed. At high income levels, however, homes are only a small share of total wealth, which mostly consists of stock portfolios, business interests, and other assets that are generally completely exempt from property taxes.”⁴⁶

The property tax rate is generally lower for families at higher income levels because towns with higher property values are able to generate a greater amount of revenue at lower tax rates. For example, Darien has a median household income of \$210,511 and a mill rate of 16.33—a mill is equal to \$1 of tax for each \$1,000 of assessed property value. In contrast, New Haven has a median household income of \$41,142 and a mill rate of 43.88. This means that a house in New Haven is taxed at more than 2.5 times the rate of a house in Darien due to both New Haven’s lower property values and the higher percentage of tax-exempt property in New Haven that increases the burden on those residents actually paying the property tax.⁴⁷

The property tax is passed through from homeowners to renters in the form of higher rent, and housing costs tend to account for an especially large share of income for renters. For example, the median housing cost for renters in Connecticut is 29.6 percent of household income, whereas the median housing cost for homeowners is 19.9 percent of household income.⁴⁸

For an overview of the variation in the effective property tax rate by income group due to these key features, **Figure 11** shows that it *decreases* from an average of 12.52 percent of income for working-class families, to 6.63 percent for middle-class families, to 3.62 percent for upper-class families, and to 1.67 percent for the wealthiest families.

Figure 11. Effective Property Tax Rate



Sales and Excise Taxes

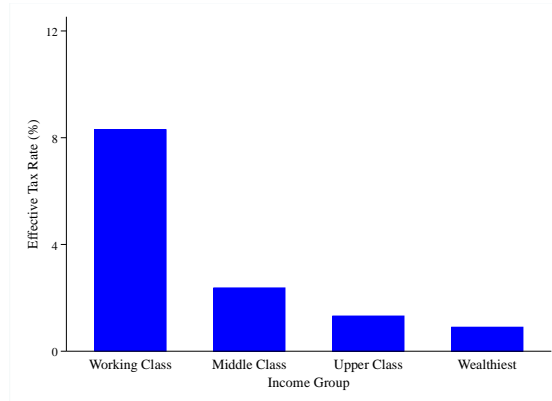
Shifting to the state level, Connecticut levies a mix of regressive sales and excise taxes. While there are numerous exemptions to the sales tax, the DRS explains that “[g]enerally, all sales, leases, and rentals of goods in Connecticut are subject to a 6.35% sales and use tax when the title of goods transfers from the seller to the buyer in Connecticut.”⁴⁹ A per-unit excise tax is also levied on items such as alcoholic beverages and cigarettes.⁵⁰

The sales tax is regressive because it is levied at the same rate for all consumers and the percentage of income spent on taxed goods and services tends to decrease for families at higher income levels. As ITEP explains, “Unlike an income tax, which generally applies to most income, the sales tax applies only to spent income and exempts saved income. Since high earners are able to save a much larger share of their incomes than middle-income families—and since the poor can rarely save at all—the tax is inherently regressive.”⁵¹

Excise taxes are even more regressive than the sales tax because they are applied on a per-unit basis and the share of income spent on taxed goods tends to decrease for families at higher income levels. For example, ITEP explains regarding the former point, “[E]xcise taxes are typically based on volume rather than price—per gallon, per pack and so forth. Thus, better-off people pay the same absolute tax on an expensive premium beer as low-income families pay on a run-of-the-mill variety. As a result, excise taxes are usually the most regressive kind of tax.”⁵²

For an overview of the variation in the effective sales and excise taxes rate by income group due to these key features, **Figure 12** shows that it *decreases* from an average of 8.3 percent of income for working-class families, to 2.37 percent for middle-class families, to 1.32 percent for upper-class families, and to 0.9 percent for the wealthiest families.

Figure 12. Effective Sales and Excise Taxes Rate



Business Taxes

Operating as the other major regressive tax component at the state level, Connecticut levies a mix of business taxes. This includes a general corporation business tax at a rate of 7.5 percent (plus a 10 percent surcharge), a pass-through entity tax, and a number of specific business taxes, such as for public services companies, insurance companies, and health providers.⁵³

Whether a business tax is regressive or progressive depends upon the way in which the burden is shifted. There are three primary entities to consider. The *consumers* of a company's products can pay the tax through higher prices, which is likely to operate as a regressive sales tax—though this depends in part on whether the goods and/or services produced are necessities or luxuries. The *workers* of a company can pay the tax through a reduction in wages, which is likely to operate as either a progressive income tax for high-income workers or a regressive income tax for low-income workers. And the *owners* of a company can pay the tax through a reduction in profits, which is likely to operate as a progressive income tax—though this ultimately depends upon the income levels of the owners.⁵⁴

The DRS tax incidence report examines only three business taxes—the corporation business tax, the public service companies tax, and the insurance companies tax—and finds that all three are regressive but vary in degree:

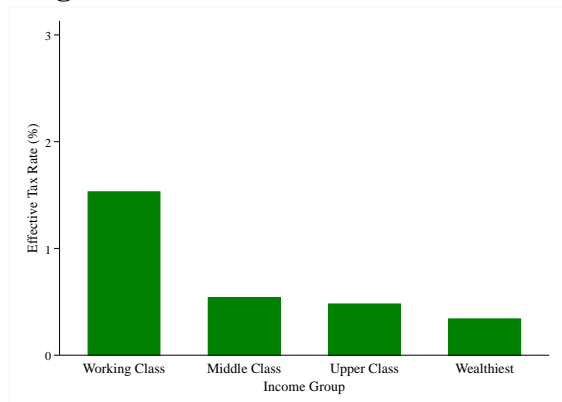
The corporation business tax is only slightly regressive. Based on the shifting of the tax, workers pay 47.7 percent of the burden, owners pay 34.8 percent, and consumers pay 16.8 percent.⁵⁵

The public services companies tax essentially operates as a regressive sales tax. Based on the shifting of this tax, consumers pay 83.5 percent of the burden, workers pay 11.9 percent, and owners pay only 4.5 percent.⁵⁶

The insurance companies tax essentially operates as a regressive sales tax. Based on the shifting of the tax, consumers pay 74.1 percent of the burden, workers pay 19.2 percent, and owners pay only 6.5 percent.⁵⁷

For an overview of the variation in the effective business taxes rate by income group, **Figure 13** shows that it *decreases* from an average of 1.53 percent of income for working-class families, to 0.54 percent for middle-class families, to 0.48 percent for upper-class families, and to 0.34 percent for the wealthiest families.

Figure 13. Effective Business Taxes Rate



The Personal Income Tax

Turning now to the progressive tax components, Connecticut levies a tax on wage income and non-wage income, such as capital gains, dividends, and interest.⁵⁸

At least four key features make the personal income tax progressive:

The income tax is based on income—or ability to pay—and the use of an exemption decreases the income tax rate at lower income levels, whereas the phase out of the exemption increases the income tax rate at higher income levels. For example, for single filers, the first \$15,000 of income is exempt from tax. However, once reaching an adjusted gross income of \$29,000, the exemption decreases by \$1,000 for each \$1,000 increase in income and is entirely phased out at an income of \$44,000.⁵⁹

The use of progressive tax brackets increases the tax rate at higher income levels. For example, for single filers, the brackets range from 3 percent on the first \$10,000 of taxable income to 6.99 percent on taxable income over \$500,000.⁶⁰

The use of tax recapture increases the income tax rate at higher income levels. As the DRS explains, “For taxpayers whose annual Connecticut Adjusted Gross Income exceeds specified thresholds, a recapture provision is imposed to eliminate the benefits they receive from having a portion of their taxable income taxed at lower marginal rates.” For example, for single filers, the recapture rate is \$90 per \$5,000 of income over \$200,000 and the recapture is limited to a total of \$3,150.⁶¹

The refundable earned income tax credit (EITC) lowers the effective income tax rate at lower income levels. For example, for single filers with three or more children and earnings of less than \$50,954, Connecticut provides a maximum refundable income tax credit of \$1,532 (which is equal to 23 percent of the federal credit).⁶²

For an overview of the variation in the effective personal income tax rate by income group due to these key features, **Figure 14** shows that it *increases* from an average of 1.1 percent of income for working-class families, to 3.64 percent for middle-class families, to 4.49 percent for upper-class families, and to 4.36 percent for the wealthiest families. Notably, the wealthiest have a slightly lower effective tax rate than the upper class because of the relatively low income level at which the top income tax rate goes into effect.

Figure 14. Effective Income Tax Rate



The Estate and Gift Tax

Operating as the other progressive tax component, Connecticut levies an estate and gift tax. As the DRS explains, “Resident and nonresident estates of decedents are liable for the Connecticut Estate Tax on the amount of their Connecticut taxable estate,” which “is defined as the sum of the total value of the decedent’s federal gross estate, less allowable deductions, plus the aggregate amount of Connecticut taxable gifts A credit is granted for gift taxes previously paid; however, the credit cannot exceed the amount of the Connecticut estate tax.”⁶³ Put simply, the estate tax applies to the transfer of wealth when one dies and the gift tax applies to the transfer of wealth while alive, meaning the estate and gift tax is simply a tax on the transfer of wealth to individuals that did not earn that wealth themselves.

At least two key features make the estate and gift tax progressive and one key feature decreases its progressivity:

The estate and gift tax is based on wealth—or ability to pay—and the use of an exemption eliminates the tax at lower wealth levels. For example, in 2020, estates worth less than \$5.1 million are exempt from the estate and gift tax.⁶⁴

The use of progressive tax brackets increases the estate and gift tax rate at higher wealth levels. For example, in 2020, the tax brackets range from 10 percent on the portion of estates worth more than \$5.1 million to 12 percent on the portion worth more than \$10.1 million.⁶⁵

The use of a payment cap lowers the estate and gift tax rate at the highest wealth levels. As the DRS explains, “The maximum amount of tax paid by the estates of decedents who die on or after January 1, 2019 is \$15 million. This payment cap also applies to the gift tax amount paid by donors who make taxable gifts on or after January 1, 2019. The payment cap on gifts made between January 1, 2016 and December 31, 2018 or the estates of decedents who died between January 1, 2016 and December 31, 2018 had been \$20 million.”⁶⁶

For an overview of the variation in the effective estate and gift tax rate by income group, **Figure 15** shows that it *increases* from zero percent of income for working-class, middle-class, and upper-class families to 0.14 percent for the wealthiest families.

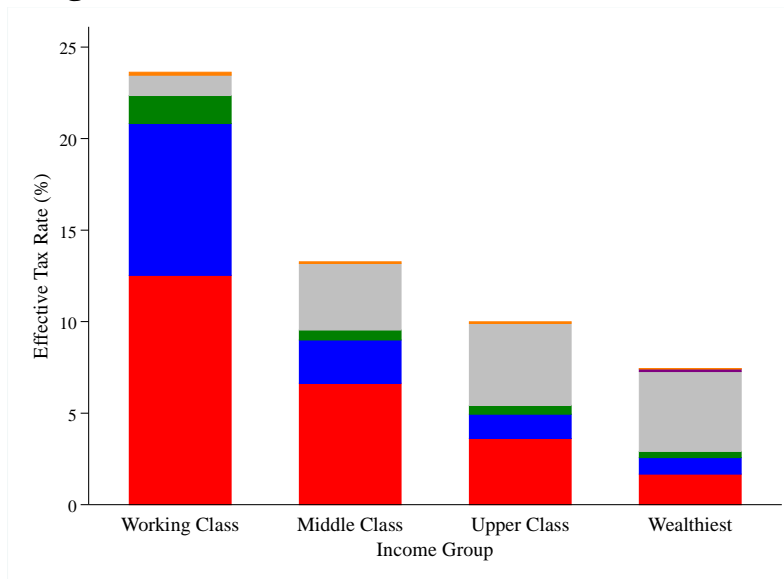
Figure 15. Effective Estate Tax Rate



The State and Local Tax System

Although two components of Connecticut’s tax system are progressive, the tax system as a whole is regressive. As **Figure 16** shows, Connecticut requires working-class families to pay on average 23.62 percent of their income in state and local taxes and it requires middle-class families to pay on average 13.27 percent. For working-class families, this includes 12.52 percent on the property tax, 8.3 percent on sales and excise taxes, 1.53 percent on business taxes, 1.11 percent on the personal income tax, 0 percent on the estate tax, and 0.16 percent on other taxes. For middle-class families, this includes 6.63 percent on the property tax, 2.37 percent on sales and excise taxes, 0.54 percent on business taxes, 3.64 percent on the personal income tax, 0 percent on the estate tax, and 0.09 percent on other taxes. In contrast, Connecticut requires the wealthiest families to pay on average only 7.44 percent of their income in state and local taxes. This includes 1.67 percent on the property tax, 0.9 percent on sales and excise taxes, 0.34 percent on business taxes, 4.36 percent on the personal income tax, 0.14 percent on the estate tax, and 0.03 percent on other taxes.⁶⁷

Figure 16. Total Effective State and Local Tax Rate



Income Group	Property Tax	Sales and Excise Taxes	Business Taxes	Personal Income Tax	Estate and Gift Tax	Other	Average Effective Tax Rate
Working Class	12.52%	8.30%	1.53%	1.11%	0.00%	0.16%	23.62%
Middle Class	6.63%	2.37%	0.54%	3.64%	0.00%	0.09%	13.27%
Upper Class	3.62%	1.32%	0.48%	4.49%	0.00%	0.08%	9.99%
Wealthiest	1.67%	0.90%	0.34%	4.36%	0.14%	0.03%	7.44%

*See reference 67.

Contributing to Economic Injustice

To show how Connecticut’s regressive tax system contributes to economic injustice, the following is an overview of the impact of the tax system on the five major components of economic injustice reviewed in the previous section: income inequality, the racial income gap, wealth inequality, the racial wealth gap, and economic growth.

Connecticut’s regressive tax system exacerbates a high level of income inequality. As **Table 11** shows, 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.⁶⁸

Connecticut’s regressive tax system exacerbates a substantial racial income gap. As **Table 11** shows, 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.⁶⁹

Table 11. Connecticut’s Regressive Tax System Exacerbates Income Inequality

Income Group	Pre-Tax		Effective Tax Rate	Post-Tax		Change in Inequality Level
	Income	Inequality Level		Income	Inequality Level	
Average of Top 1%	\$3,092,389	-	6.50%	\$2,891,384	-	-
Median Household	\$76,106	40.6x	13.66%	\$65,710	44.0x	+3.4x
Median Black Household	\$47,856	64.6x	14.72%	\$40,812	70.9x	+6.2x
Median Hispanic Household	\$45,730	67.6x	14.72%	\$38,999	74.1x	+6.5x

*See reference 68.

Connecticut's regressive tax system contributes to rising wealth inequality. As noted, “Income and wealth reinforce each other: from the one side, higher incomes can be saved into stocks of wealth; from the other, having substantial wealth makes it possible to invest in ways that yield higher incomes.”⁷⁰ 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. For example, the Economic Policy Institute, a non-partisan think tank, explains, “Income inequality in the United States is suppressing growth in aggregate demand (spending by households, businesses, and governments) by shifting an ever larger share of income to rich households that save rather than spend.” It is estimated that “rising inequality has slowed growth in aggregate demand by 2 to 4 percentage points of [gross domestic product] annually in recent years.”⁷¹

Connecticut’s Projected Revenue Shortfall and Budget Deficits

Another major problem in Connecticut is the projected multi-year revenue shortfall and substantial budget deficits due to the coronavirus pandemic-induced recession. This section of the report provides an overview of the state’s fiscal position and addresses why the fairest and most effective policy moving forward is to balance the budget by filling the projected revenue shortfall rather than cut spending.

Connecticut is projecting a multi-year revenue shortfall and substantial budget deficits. As **Table 12** shows using the January 2020 consensus revenue forecast as a baseline, the government projected in April an average revenue shortfall of \$2.15 billion a year over the current and next three fiscal years, and it projected in November a reduced but still considerable average revenue shortfall of \$1.39 billion a year. The revenue shortfall in turn is 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, which is too large for the the Budget Reserve Fund (BRF) to fill. As the Office of Fiscal Analysis reports, “While the current balance in the BRF is \$3,012.9 million, the highest ever, the BRF is projected to be almost entirely depleted by the end of FY 22, absent mitigating action.”⁷²

Table 12. Projected Revenue Shortfall and Budget Deficits, FY 2021-24

Consensus Revenue Forecast	Revenue Shortfall Estimate (in millions)				
	2021	2022	2023	2024	Average
January 2020	\$20,317.3	\$19,764.1	\$20,091.7	\$20,618.0	\$20,197.8
April 2020	\$18,088.4	\$17,434.7	\$18,094.3	\$18,590.6	\$18,052.0
Difference from January 2020	-\$2,228.9 -11.0%	-\$2,329.4 -11.8%	-\$1,997.4 -9.9%	-\$2,027.4 -9.8%	-\$2,145.8 -10.6%
November 2020	\$18,837.2	\$18,309.9	\$18,798.7	\$19,302.6	\$18,812.1
Difference from January 2020	-\$1,480.1 -7.3%	-\$1,454.2 -7.4%	-\$1,293.0 -6.4%	-\$1,315.4 -6.4%	-\$1,385.7 -6.9%
Fiscal Accountability Report	Budget Deficit Estimate (in millions)				
	2021	2022	2023	2024	Average
November 2020	-\$854.5	-\$2,067.0	-\$2,230.4	-\$2,142.0	-\$1,823.5

*See reference 72.

Filling the projected revenue shortfall would prevent cuts in government spending, which would support Connecticut’s economy in general and the state’s neediest families and children in particular. As previous research from CT Voices explains, Connecticut’s budget has five major structural restrictions: (1) a constitutional and statutory spending cap, (2) a volatility cap, (3) an appropriations cap, (4) a bond cap, and (5) a bond lock. The statutory component of the constitutional spending cap first went in effect in 1991 and the other statutory and bond restrictions went into effect in 2018. For

the spending cap, the key feature is that it 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 over the past five years or the growth in the consumer price index (CPI) over the last year. 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.⁷³

To further make clear the importance of maintaining government spending, consider the fiscal multiplier effect, which is the ratio of the change in economic output to the change in government spending or taxes. 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.⁷⁴

Put simply, maintaining government spending during a recession and its aftermath will provide the greatest boost—or “bang for the buck”—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. For example, based on its most recent survey (spanning November 11 through November 23), the U.S. Census Bureau reports that 11.8 percent of Connecticut residents are experiencing food scarcity, 20.7 percent are facing the likelihood of eviction or foreclosure in the next two months, 27.4 percent are having difficulty paying for usual household expenses, and 31.2 percent expect someone in their household to have a loss in employment income in the next 4 weeks.⁷⁵

Filling the projected revenue shortfall provides an opportunity to reform Connecticut's tax system, which would further support Connecticut's economy in general and the state's neediest families and children in particular. As addressed briefly in the preceding section and in more detail in previous research, moving from a regressive tax system to a progressive tax system would operate as an expansionary fiscal policy because the economic boost of each dollar in tax cuts for working- and middle-class families is greater than the economic drag of each dollar in tax increases on the wealthy.

This is because the wealthy have a lower marginal propensity to consume relative to working- and middle-class families, meaning the wealthy spend a smaller percentage of their income and save more.

For a prominent estimate of this dynamic, Moody's Analytics, the firm that provides economic models for Connecticut's Office of Fiscal Analysis, shows that a \$1 tax cut in the form of the Earned Income Tax Credit—which primarily benefits working-class families—has an overall direct and indirect expansionary effect on economic output equal to \$1.24. Likewise, a \$1 tax cut in the form of the Child Tax Credit—which primarily benefits working- and middle-class families—has an overall direct and indirect expansionary effect on output equal to \$1.38. In contrast, a \$1 tax increase on investment income, which goes overwhelmingly to the wealthy, has an overall direct and indirect contractionary effect on output equal to only \$0.39. This means that each \$1 increase in taxes on the wealthy to pay for a \$1 tax cut for working- and middle-class families increases economic output by between \$0.85 and \$0.99.⁷⁶

The volatility cap establishes restrictions on certain revenue sources but it does not preclude policymakers from filling the projected revenue shortfall by raising taxes on the wealthy. As the Office of Legislative Research explains, “The volatility cap is a mechanism for diverting volatile tax revenue to the Budget Reserve Fund (BRF). It is tied to (1) personal income tax revenue from estimated and final payments (generated from taxpayers who make estimated income tax payments on a quarterly basis) and (2) pass-through entity tax revenue. Estimated and final income tax payments are the most volatile component of personal income tax collections. They generally come from investments, such as capital gains realized in the stock market, and thus fluctuate with economic booms and busts. The passthrough entity tax is a new entity-level income tax on most pass-through businesses.”⁷⁷

Although the volatility cap establishes restrictions on certain revenue sources, there are at least four ways to fill the projected revenue shortfall through tax increases on the wealthy. First, the volatility cap only applies to two taxes, the personal income tax and the pass-through entity tax, meaning policymakers can raise revenue through other taxes on the wealthy not restricted by the cap. Second, the volatility cap only applies to the estimated and final payments portion of the personal income tax, which accounts for an estimated 55 percent of the income tax from single tax filers making more than \$500,000 a year (or joint tax filers making more than \$1 million a year), meaning policymakers can raise revenue from the 45 percent of the income tax from the wealthy that is collected through withholding.⁷⁸ Third, based on the most recent revenue projection, the available capacity under the volatility cap is \$90 million in fiscal year 2021, \$202 million in fiscal year 2022, and \$125 million in fiscal year 2023, meaning policymakers can raise additional revenue even from the two restricted tax sources.⁷⁹ Fourth, revenue that the volatility cap diverts to the BRF can be used to fill a revenue shortfall in a following year, meaning the distinction between restricted and unrestricted revenue sources weakens when putting together a multi-year program to fill substantial budget deficits.⁸⁰

Options for Tax Reform

To address the major problems reviewed in this report, CT Voices recommended this past April,⁸¹ July,⁸² and September⁸³ two primary policy recommendations at the state level: use the Budget Reserve Fund (BRF) to maintain government spending, and create a progressive tax system both to further support government spending and to reduce the disproportionate tax burden on working- and middle-class families. In October, the Lamont administration followed our first recommendation when it released a plan to use the BRF to close most of the budget deficit for fiscal year 2021.⁸⁴

This section of the report develops the second policy recommendation, creating a progressive tax system, and it proceeds in four parts. The first part provides an overview of options for raising the income tax on the wealthy. The second part provides an overview of options for raising wealth taxes on the wealthy. The third part provides an overview of options for lowering taxes on working- and middle-class families. The fourth part provides an overview of putting together a tax reform program.

To be clear, the objective here is not to recommend any specific tax increase or tax cut. Rather, the objective is to provide a range of options showing policymakers that it is possible and beneficial to raise taxes on the wealthy and also lower taxes on the working and middle class, which together works to reform the tax system and advance economic justice.

The following is a summary of the three tax reform options:

- Connecticut should generate a substantial amount of revenue, combat income inequality, and support its economy by raising the income tax on single filers making more than \$500,000 a year (joint filers making more than a \$1 million a year). This would not make the state an outlier nor contribute to “millionaire tax flight.”
- Connecticut should generate a substantial amount of revenue, combat wealth inequality, and support its economy by establishing and/or raising wealth taxes on the wealthy.
- Connecticut should further combat income and wealth inequality and further support its economy by providing a substantial tax cut for working- and middle-class families.

Options for Raising the Income Tax on the Wealthy

To simultaneously raise revenue to fund essential government services, combat rising income inequality, and support the economy, Connecticut should raise the income tax on the wealthy. **Table 13** presents four options:

Option 1: Increase the current top rate of 6.99 percent on income over \$500,000 for single filers (\$1 million for joint filers) to 7.99 percent, and create a millionaire tax bracket of 8.49 percent on income over \$1 million for single filers (\$2 million for joint filers). This option is estimated to raise an additional \$504 million a year.

Option 2: Increase the current top rate of 6.99 percent on income over \$500,000 for single filers (\$1 million for joint filers) to 8.99 percent, and create a millionaire tax bracket of 9.99 percent on income over \$1 million for single filers (\$2 million for joint filers). This option is estimated to raise an additional \$1.01 billion a year.

Option 3 (New Jersey rates): Increase the current top rate of 6.99 percent on income over \$500,000 for single filers (\$1 million for joint filers) to 8.97 percent (the second highest rate in New Jersey excluding the local income tax), and create a millionaire tax bracket of 10.75 percent (the top rate in New Jersey excluding the local income tax) on income over \$1 million for single filers (\$2 million for joint filers). This option is estimated to raise an additional \$1.21 billion a year.

Option 4 (New York rates): Increase the current top rate of 6.99 percent on income over \$500,000 for single filers (\$1 million for joint filers) to 8.97 percent (the top rate in New York excluding the local income tax), and create a millionaire tax bracket of 12.696 percent (the top rate in New York including the local income tax) on income over \$1 million for single filers (\$2 million for joint filers). This option is estimated to raise an additional \$1.72 billion a year.⁸⁵

Table 13. Options for Raising the Income Tax on the Wealthy

Taxable Income by Filing Status			Current	Options			
Single	Head of Household	Joint	Tax Rate	1	2	3 (NJ)	4 (NY)
\$0 to \$10,000	\$0 to \$16,000	\$0 to \$20,000	3%	3%	3%	3%	3%
Over \$10,000	Over \$16,000	Over \$20,000	5%	5%	5%	5%	5%
Over \$50,000	Over \$80,000	Over \$100,000	5.5%	5.5%	5.5%	5.5%	5.5%
Over \$100,000	Over \$160,000	Over \$200,000	6%	6%	6%	6%	6%
Over \$200,000	Over \$320,000	Over \$400,000	6.5%	6.5%	6.5%	6.5%	6.5%
Over \$250,000	Over \$400,000	Over \$500,000	6.9%	6.9%	6.9%	6.9%	6.9%
Over \$500,000	Over \$800,000	Over \$1,000,000	6.99%	7.99%	8.99%	8.97%	8.82%
Over \$1,000,000	Over \$1,600,000	Over \$2,000,000	-	8.49%	9.99%	10.75%	12.696%
Additional Annual Revenue				\$504 million	\$1.01 billion	\$1.21 billion	\$1.72 billion

*Revenue estimates provided by the Institute on Taxation and Economic Policy. See reference 85.

There are several benefits to the above options:

Raising the top income tax rates would provide a substantial source of revenue that is only partially restricted by the volatility cap. The above options are estimated to raise an additional \$504 million to \$1.72 billion a year. Moreover, an estimated 45 percent of the revenue is exempt from the volatility cap and the other 55 percent can fill the revenue shortfall in subsequent years through the BRF.⁸⁶

Raising the top income tax rates would strengthen a progressive component of Connecticut’s regressive tax system because it is based on ability to pay and would only apply to the top income earners. The above options would only apply to single filers making more than \$500,000 and joint filers making more than \$1 million. It is also possible to create additional income tax brackets at even higher income levels—for example, on income above \$2 million for single filers (\$4 million for joint filers) or on income above \$5 million for single filers (\$10 million for joint filers).

Raising the top income tax rates would not make Connecticut an outlier. As Table 14 shows, 18 states currently have a higher combined top income tax rate than Connecticut when taking into account the top statewide tax rate and the top local income tax rate in the state. Local income taxes—which Connecticut does not have—are often overlooked and make some states appear to have a lower overall top income tax rate than is the case (at least in some of the cities/towns in those states).⁸⁷

Table 14. Top Combined State and Local Income Tax Rate

Rank	State	Top State Income Tax Rate	Top Local Income Tax Rate	Top State and Local Income Tax Rate
1	California	13.30%	0.38%	13.68%
2	New York	8.82%	3.876%	12.696%
3	New Jersey	10.75%	1.00%	11.75%
4	Hawaii	11.00%		11.00%
5	Oregon	9.90%	0.6918%	10.5918%
6	Minnesota	9.85%		9.85%
7	Iowa	8.53%	1.00%	9.53%
8	District of Columbia	8.95%		8.95%
9	Maryland	5.75%	3.20%	8.95%
10	Vermont	8.75%		8.75%
11	Kansas	5.70%	2.50%	8.20%
12	Delaware	6.60%	1.25%	7.85%
13	Ohio	4.80%	3.00%	7.80%
14	Wisconsin	7.65%		7.65%
15	Kentucky	5.00%	2.50%	7.50%
16	Maine	7.15%		7.15%
17	South Carolina	7.00%		7.00%
18	Alabama	5.00%	2.00%	7.00%
19	Connecticut	6.99%		6.99%
20	Pennsylvania	3.07%	3.8809%	6.9509%

*See reference 87. Rates include top state income tax rate (2020) and top local income tax rate (2019).

Raising the top income tax rates does not contribute to “millionaire tax flight.” The primary argument against raising income taxes on the wealthy at the state level is simply that they will move to a state with lower taxes. However, as demonstrated below, the empirical evidence does not support this argument.⁸⁸

Connecticut has raised the top income tax rate three times since 2009 and the number of millionaire tax filers in the state has increased over that period. In 2009, Connecticut raised the top income tax rate from five percent on income over \$10,000 for single filers (\$20,000 for joint filers) to 6.5 percent on income over \$500,000 for single filers (\$1 million for joint filers); in 2011, it raised the top income tax rate to 6.7 percent on income over \$250,000 for single filers (\$500,000 for joint filers); and in 2015, it raised the top income tax rate to 6.99 percent on income over \$500,000 for single filers (\$1 million for joint filers). Comparing 2008 (the year before the first tax increase) to 2018 (the most recent year available), **Table 15** shows that the number of tax filers making between \$500,000 and \$1 million a year increased from 14,097 (0.98 percent of tax filers) to 20,491 (1.25 percent of tax filers). Similarly, the number of tax filers making more than \$1 million a year increased from 9,506 (0.66 percent of tax filers) to 11,975 (0.73 percent of tax filers).⁸⁹

Table 15. Connecticut Tax Returns by Income Level, 2008-18

CT Adjusted Gross Income	Number of Tax Returns		Percent of Total	
	2008	2018	2008	2018
\$500,000 to \$1,000,000	14,097	20,491	0.98%	1.25%
\$1,000,001 and over	9,506	11,975	0.66%	0.73%

*See reference 89.

Connecticut is primarily losing working- and middle-class families due to out-migration. Using a different data source that provides an alternative breakdown of income groups, **Table 16** shows that from 2017 to 2018, the most recent years for which data are available, Connecticut lost 50,261 tax filers to out-migration, and it gained 40,392 tax filers to in-migration, for net loss of 9,869 tax filers.⁹⁰ This analysis confirms that the overall loss of tax filers due to net migrations is very small—it accounts for less than 0.7 percent of all tax filers. Moreover, this analysis confirms that, of the 9,869 tax filers lost to net migration, 8,350 (or 85 percent) make less than \$200,000 a year, meaning the state is primarily losing working- and middle-class families. It is also important to keep in mind that losing tax filers to net migration is not the equivalent of losing state income. As the Office of Policy and Management explains, “Most people cannot take their income with them—when people move due to change in employment generally their job (and associated wages) remain in the state and just the person moves. In cases when a business leaves, some income may transfer to others in the state—if a small business owner leaves, another small business owner may gain those customers keeping the income in the state.”⁹¹

Table 16. Connecticut Migration by Income Level, 2017-18

Adjusted Gross Income	Number of Tax Returns			
	All	Outflow	Inflow	Net Migration
\$1 to under \$10,000	91,363	4,032	3,542	-490
\$10,000 to under \$25,000	227,420	9,194	7,961	-1,233
\$25,000 to under \$50,000	332,207	11,695	9,833	-1,862
\$50,000 to under \$75,000	229,310	8,032	6,485	-1,547
\$75,000 to under \$100,000	158,883	5,035	3,923	-1,112
\$100,000 to under \$200,000	274,726	7,585	5,479	-2,106
\$200,000 or more	132,672	4,688	3,169	-1,519
Total	1,446,581	50,261	40,392	-9,869

*See reference 91.

Differences in state income tax rates have little to no effect on migration. As the Center on Budget and Policy Priorities (CBPP), a non-partisan budget organization, explains, “Relatively few Americans relocate from state to state” and “[p]eople who do move are nearly as likely to move from low-tax states to high-tax states.”⁹² Moreover, regarding Connecticut in particular, **Table 17** shows that three of the four most popular destinations for families leaving the state include New York, Massachusetts, and California, which are generally considered high-tax states. Equally notable, the four most popular destinations for families leaving Connecticut are also the four most popular starting points for families moving to Connecticut, all of which suggests that taxes have little to no effect on migration.⁹³

Table 17. Connecticut Migration by State, 2017-18

Rank	Outflow		Inflow	
	State	Number of Tax Returns	State	Number of Tax Returns
1	New York	8,776	New York	12,591
2	Florida	7,905	Massachusetts	4,824
3	Massachusetts	5,465	Florida	3,663
4	California	2,887	California	1,927
5	North Carolina	2,331	New Jersey	1,922
6	New Jersey	1,923	Rhode Island	1,529
7	Texas	1,828	Pennsylvania	1,269
8	South Carolina	1,647	Texas	1,220
9	Pennsylvania	1,623	North Carolina	1,047
10	Virginia	1,517	Virginia	1,046

*See reference 93.

Options for Raising Wealth Taxes on the Wealthy

To simultaneously raise revenue to fund essential government services, combat rising wealth inequality, and support the economy, Connecticut should establish and/or expand wealth taxes. The following is an overview of three approaches: expand the estate and gift tax; establish a surcharge on investment income; and establish a statewide property tax on mansions.

Expand the Estate and Gift Tax

As previously discussed, the estate tax applies to the transfer of wealth when one dies, and the gift tax applies to the transfer of wealth while alive, meaning the estate and gift tax is simply a tax on the transfer of wealth to individuals that did not earn that wealth themselves. Moreover, although this tax only applies to the wealthy—and is only one of two progressive taxes in Connecticut—policymakers have significantly dismantled it over the last decade and a half. As **Table 18** shows, before the Great Recession of 2007–09, Connecticut taxed all estates worth more than \$2 million at a rate of 5.1 percent and it taxed the wealthiest estates—those worth more than \$10.1 million—at a rate of 16 percent. However, under current law, the estate tax is scheduled to apply only to estates worth more than \$10 million, the top rate is down to 12 percent, and a new \$15 million payment cap limits the maximum liability for estates worth more than \$100 million—all of which operates as a tax cut for wealthy.⁹⁴

Table 18. Parameters for the Estate and Gift Tax Under Current Law

Value of Taxable Estate or Gift	Exemption and Tax Rates by Year									
	2005-09	2010	2011-17	2018	2019	2020	2021	2022	2023	
\$0 to \$2,000,000	Exempt		Exempt							
Over \$2,000,000	5.085%		7.2%	Exempt						
Over \$2,100,000	8%	Exempt	7.2%		Exempt					
Over \$2,600,000	8.8%		7.2%	7.2%		Exempt				
Over \$3,100,000	9.6%		7.2%	7.2%			Exempt			
Over \$3,500,000	9.6%	7.2%	7.2%	7.2%				Exempt		
Over \$3,600,000	10.4%	7.8%	7.8%	7.8%	7.8%				Exempt	
Over \$4,100,000	11.2%	8.4%	8.4%	8.4%	8.4%					
Over \$5,100,000	12%	9%	9%	10%	10%	10%				
Over \$6,100,000	12.8%	9.6%	9.6%	10.4%	10.4%	10.4%				
Over \$7,100,000	13.6%	10.2%	10.2%	10.8%	10.8%	10.8%	10.8%			
Over \$8,100,000	14.4%	10.8%	10.8%	11.2%	11.2%	11.2%	11.2%			
Over \$9,100,000	15.2%	11.4%	11.4%	11.6%	11.6%	11.6%	11.6%	11.6%		
Over \$10,100,000*	16%	12%	12%	12%	12%	12%	12%	12%	12%	
Payment Cap	None	None	None*	\$20 mil	\$15 mil	\$15 mil	\$15 mil	\$15 mil	\$15 mil	

*\$20 million payment cap went into effect in 2016.

**See reference 94.

Table 19. Options for Expanding the Estate and Gift Tax

Value of Taxable Estate or Gift	Exemption and Tax Rates		
	Option 1	Option 2	Option 3
\$0 to \$2,000,000	Exempt	Exempt	Exempt
Over \$2,000,000			7.2%
Over \$3,000,000		7.8%	7.8%
Over \$4,000,000		8.4%	8.4%
Over \$5,000,000	10%	11%	11%
Over \$6,000,000	11%	12%	12%
Over \$7,000,000	12%	13%	13%
Over \$8,000,000	13%	14%	14%
Over \$10,000,000	14%	15%	16%
Over \$15,000,000	14%	16%	17%
Over \$25,000,000	14%	16%	18%
Payment Cap	None	None	None
Additional Revenue	\$108 million	\$135 million	\$162 million

*See reference 95 for data source.

Table 19 provides an overview of three options for expanding the estate and gift tax:

Option 1: Lower the exemption to \$5 million, increase the top tax rate to 14 percent, and remove the \$15 million payment cap. This option is estimated to raise an additional \$108 million a year.

Option 2: Lower the exemption to \$3 million, increase the top tax rate to 16 percent, and remove the \$15 million payment cap. This option is estimated to raise an additional \$135 million a year.

Option 3: Lower the exemption to \$2 million, increase the top tax rate to 18 percent, and remove the \$15 million payment cap. This option is estimated to raise an additional \$162 million a year.⁹⁵

There are several benefits to the above options:

Expanding the estate and gift tax would provide a substantial source of revenue that is entirely exempt from the volatility cap. The above options are estimated to generate an additional \$108 million to \$162 million a year on average over the next three years relative to the current law. Moreover, the estate and gift tax is entirely exempt from the volatility cap.⁹⁶

Expanding the estate and gift tax would strengthen a progressive component of Connecticut's regressive tax system because it is based on ability to pay and would only apply to wealthy families. The expansion of the estate and gift tax would only apply to estates worth more than \$2 million (option 3), \$3 million (option 2), or \$5 million (option 1). It is also possible to adjust and/or mix the

components from the proposed options. For example, policymakers could lower the exemption to \$2 million, raise the top rate to 16 percent, and keep the payment cap or increase it.

Expanding the estate and gift tax would help to tax a major source of wealth and income for the wealthiest that would otherwise go untaxed due to the step-up in basis. As CBPP explains,

Under current state and federal law, people who inherit assets such as stocks, bonds, or real estate pay no taxes on any appreciation of those assets that occurred before they inherited them. (Technically, the value of those assets is “stepped up” from the original purchase price to their value on the date of inheritance.) As a result, a large share of capital gains are never taxed.

For example, consider a taxpayer who bought 100 shares of stock for \$10 each and held them until her death, when their value had risen to \$50 per share. She left them to her daughter, who sold them a number of years later, after their value had risen to \$55 per share. Under current law, the daughter’s taxable capital gains would reflect the \$5-per-share increase that occurred while she owned the stock, not the \$45-per-share increase that occurred since her mother bought it.

State estate taxes used to help compensate for stepped-up basis by taxing assets at the time they were inherited. But most states no longer have an estate tax, and the tax thresholds in states that do have the tax are generally so high that very few estates actually owe it.

Stepped-up basis primarily benefits the wealthiest families because they have the most unrealized capital gains. Also, they can afford to hold on to their assets until they die and pass them on to their heirs rather than use them to pay expenses in retirement.⁹⁷

Expanding the estate and gift tax would reverse its dismantling over the last decade and a half. The estate tax exemption was \$2.1 million or lower in all but one year between 2005 and 2018, the top rate was 16 percent before 2010, and there was no payment cap before 2016, meaning the proposed components would basically restore the dismantled tax.⁹⁸ Moreover, research shows that having an estate tax does not adversely impact a state’s ability to generate revenue due to the relocation of its wealthy residents. For example, a study by the Federal Reserve Bank of San Francisco finds that for Connecticut in particular “the revenue benefit of having an estate tax [is] 26% larger than the revenue cost” due to relocation.⁹⁹

Establish a Surcharge on Investment Income (Capital Gains, Dividends, and Interest)

Capital gains are the profit from the sale of an investment, such as real estate or shares of stock. Dividends are the distribution of a company’s profits to its shareholders. And interest is a payment for the use of funds over a period of time. This means that capital gains, dividends, and interest are all income but derived from invested wealth and therefore are included here as another approach to taxing wealth. **Table 20** provides an overview of three options for establishing a surcharge on investment income.

Option 1: Establish a one percentage point investment income surcharge on the portion of income exceeding \$500,000 for single filers (\$1,000,000 for joint filers). For example, based on the current tax rate of 6.99 percent on income over \$1,000,000 for joint filers, investment income above that level would be taxed at a rate of 7.99 percent. This option is estimated to raise \$167 million a year.

Option 2: Establish a one percentage point investment income surcharge on the portion of income exceeding \$500,000 for single filers (\$1,000,000 for joint filers), and increase the surcharge to two percentage points on the portion of income exceeding \$1,000,000 for single filers (\$2,000,000 for joint filers). For example, based on the current tax rate of 6.99 percent on income over \$1,000,000 for joint filers, investment income above that level would be taxed at a rate of 7.99 percent and investment income above \$2 million would be taxed at a rate of 8.99 percent. This option is estimated to raise \$313 million a year.

Option 3: Establish a two percentage point investment income surcharge on the portion of income exceeding \$500,000 for single filers (\$1,000,000 for joint filers). For example, based on the current tax rate of 6.99 percent on income over \$1,000,000 for joint filers, investment income above that level would be taxed at a rate of 8.99 percent. This option is estimated to raise \$334 million a year.¹⁰⁰

Table 20. Options for Establishing a Surcharge on Investment Income

Income by Tax Filing Status			Surcharge Rates on Investment Income		
Single	Head of Household	Joint	Option 1	Option 2	Option 3
Over \$500,000	Over \$800,000	Over \$1,000,000	1%	1%	2%
Over \$1,000,000	Over \$1,600,000	Over \$2,000,000	1%	2%	2%
Annual Revenue			\$167 million	\$313 million	\$334 million

*Revenue estimates provided by the Institute on Taxation and Economic Policy.

**See reference 100.

There are several benefits to the above options:

Establishing a surcharge on investment income would provide a substantial source of revenue that is only partially restricted by the volatility cap. The above options are estimated to provide between \$167 million to \$334 million a year. Moreover, based on the most recent revenue projection, the estimated additional revenue capacity under the volatility cap is \$90 million in FY 2021, \$202 million in FY 2022, and \$125 million in FY 2023.¹⁰¹

Establishing a surcharge on investment income would strengthen a progressive component of Connecticut’s regressive tax system because it would be based on ability to pay and would only apply to wealthy families. The above options would only apply to single filers making more than \$500,000 and joint filers making more than \$1 million. It is also possible to increase the surcharge at even higher income levels. For example, policymakers could establish a higher surcharge on investment income above \$2 million for single filers (\$4 million for joint filers) or above \$5 million for single filers (\$10 million for joint filers).

Establishing a surcharge on investment income would help to offset the step-up in basis that primarily benefits the wealthy. As previously noted, “Under current state and federal law, people who inherit assets such as stocks, bonds, or real estate pay no taxes on any appreciation of those assets that occurred before they inherited them. (Technically, the value of those assets is ‘stepped up’ from the original purchase price to their value on the date of inheritance.) As a result, a large share of capital gains are never taxed.”¹⁰² However, establishing an investment income surcharge would help to offset the step-up in basis by increasing the rate on investment income that is taxed. Moreover, Andrew Mellon, the conservative Treasury secretary for three Republican presidents—Warren Harding (1921–23), Calvin Coolidge (1923–29), and Herbert Hoover (1929–33)—made an effective case for taxing investment income at a higher rate, explaining in his 1924 treatise, *Taxation: The People’s Business*, “The fairness of taxing more lightly incomes from wages, salaries and professional services than the incomes from business or from investments is beyond question. In the first case, the income is uncertain and limited in duration, sickness or death destroys it and old age diminishes it. In the other, the source of the income continues ... and it descends to his heirs. Surely we can afford to make a distinction between the people whose only capital is their mental and physical energy, and the people whose income is derived from investments.”¹⁰³

Establishing a surcharge on investment income would partially reverse a tax cut for wealthy families in Connecticut. Before expanding the personal income tax to wage income in 1991, Connecticut taxed capital gains income at 7 percent and dividends and interest income above \$100,000 at 14 percent. Since expanding the personal income tax, Connecticut has taxed wage and non-wage income at the same rate—originally at 4.5 percent, and then rising to but never exceeding 6.99 percent. This means the expansion of the personal income tax provided a substantial tax cut for the wealthiest families, whose income is disproportionately based on investments.¹⁰⁴ As CBPP explains regarding the distribution of investment income in the U.S., “About 80 percent of capital gains go to the wealthiest 5 percent of taxpayers; 69 percent go to the top 1 percent of taxpayers.”¹⁰⁵

[Establish a Statewide Property Tax on Mansions](#)

The local property tax is the largest regressive tax component and establishing a progressive statewide tax that only applies to mansions would raise substantial revenue and make Connecticut’s tax system fairer. **Table 21** provides an overview of four options:

Option 1: Establish a one percent statewide property tax on the portion of the market value of each home in excess of \$1.5 million. For example, if a home is valued at \$3.62 million—the estimated average for homes in Connecticut worth more than \$2 million—the one percent tax rate applies only to the final \$2.12 million of the home’s value. This option is estimated to raise \$331 million a year.

Option 2: Establish a one percent statewide property tax on the portion of the market value of each home in excess of \$1.5 million and increase the tax rate to 1.5 percent on the portion in excess of \$2 million. For example, if a home is valued at \$3.62 million, the first \$1.5 million of its value is not taxed, the next \$500,000 is taxed at one percent, and the final \$1.62 million is taxed at 1.5 percent. This option is estimated to raise \$449 million a year.

Option 3: Establish a 1.5 percent statewide property tax on the portion of the market value of each home in excess of \$1.5 million and increase the tax rate to two percent on the portion in excess of \$2 million. For example, if a home is valued at \$3.62 million, the first \$1.5 million of its value is not taxed, the next \$500,000 is taxed at 1.5 percent, and the final \$1.62 million is taxed at 2 percent. This option is estimated to raise \$614 million a year.

Option 4: Establish a two percent statewide property tax on the portion of the market value of each home in excess of \$1.5 million. For example, if a home is valued at \$3.62 million, the two percent tax rate applies to the final \$2.12 million of the home’s value. This option is estimated to raise \$663 million a year.¹⁰⁶

Table 21. Options for Establishing a Statewide Property Tax on Mansions

Option	Home Value	Number of Homes	Average Home Value	Average Taxable Portion	Tax Rate	Annual Revenue
1	\$1.5 to \$1.99 million	9,351	\$1.75 million	\$0.25 million	1.0%	\$331 million
	\$2 million or more	14,551	\$3.62 million	\$2.12 million	1.0%	
2	\$1.5 to \$1.99 million	9,351	\$1.75 million	\$0.25 million	1.0%	\$449 million
	\$2 million or more	14,551	\$3.62 million	\$0.50 million	1.0%	
				\$1.62 million	1.5%	
3	\$1.5 to \$1.99 million	9,351	\$1.75 million	\$0.25 million	1.5%	\$614 million
	\$2 million or more	14,551	\$3.62 million	\$0.50 million	1.5%	
				\$1.62 million	2.0%	
4	\$1.5 to \$1.99 million	9,351	\$1.75 million	\$0.25 million	2.0%	\$663 million
	\$2 million or more	14,551	\$3.62 million	\$2.12 million	2.0%	

*See reference 106.

There are several benefits to the above options:

Establishing a statewide property tax on mansions would provide a substantial and stable source of revenue that is entirely exempt from the volatility cap. The above options are estimated to provide between \$331 million to \$663 million a year. Moreover, this tax would be entirely exempt from the volatility cap.¹⁰⁷ Regarding the benefits of property taxes in general, CBPP explains, “It is helpful for states and localities to use a variety of taxes that exhibit different properties across the business cycle and tax different aspects of residents’ behavior. Property taxes have historically been more stable than income or sales taxes; if they do decline in recessions, they usually do so with a lag, even as other revenue sources are recovering. And they are, at least in part, a tax on wealth rather than income or consumption, adding diversity to revenue sources.”¹⁰⁸

Establishing a statewide property tax on mansions would add a progressive component to Connecticut’s regressive tax system because it would be based on ability to pay and would only apply to wealthy families. The above options only apply to owner-occupied homes worth more than \$1.5 million, which accounts for 2.7 percent of all owner-occupied homes and 1.7 percent of all occupied housing units in Connecticut. However, it is possible to expand the tax to high-value rental units or other types of high-value property. It is also possible to adjust the tax so that it has an even higher exemption and/or more progressive tax rate structure. For example, the tax could be designed to apply only to property worth more than \$2 million and/or the tax rate structure could be designed to increase from one percent on the portion above \$2 million to 1.25 percent on the portion above \$3 million to 1.5 percent on the portion above \$4 million and so on. Moreover, to ensure that the tax does not excessively burden families that live in expensive homes but have relatively low or moderate incomes, it could include a circuit breaker that limits the maximum payment as a percent of income. As ITEP explains, a property tax circuit breaker “protects taxpayers from a property tax ‘overload’ just like an electric circuit breaker: when a property tax bill exceeds a certain percentage of a taxpayer’s income, the circuit breaker reduces property taxes in excess of this ‘overload’ level.”¹⁰⁹

Establishing a statewide property tax on mansions would not contribute to “mansion tax flight.” As CBPP succinctly puts it, “houses can’t be easily moved across borders to avoid taxation, unlike other types of wealth such as stocks, bonds, or bank accounts.”¹¹⁰ Moreover, Connecticut’s housing market is the strongest it has been in more than a decade due to an influx of “New Yorkers fleeing the city” during the coronavirus pandemic, which makes it an opportune time to establish a mansion tax.¹¹¹

Establishing a statewide property tax on mansions would be easy to implement relative to many other new wealth taxes. Because the tax would simply add a progressive component to the regressive local property tax system already in place, it would not require substantial new administrative support or a substantial period of time to implement. As CBPP explains, “Home values are easier to measure than other forms of wealth: recent sales of similar properties in the same locality can often be identified, and housing ownership is usually publicly available information. In contrast, the value of an ownership interest in a closely held business can be very difficult to estimate accurately.”¹¹²

Options for Lowering Taxes on Working- and Middle-Class Families

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. The following is an overview of three approaches: expand the earned income tax credit, expand the property tax credit, and create a child tax credit.

Expand the Connecticut Earned Income Tax Credit

The federal earned income tax credit (EITC) is a refundable tax credit designed primarily to support working-class families. As **Table 22** shows, eligibility for and the amount of the EITC are based on several factors, including earned income level, number of children, and marital status.¹¹³

Table 22. The Earned Income Tax Credit and Expansion Options

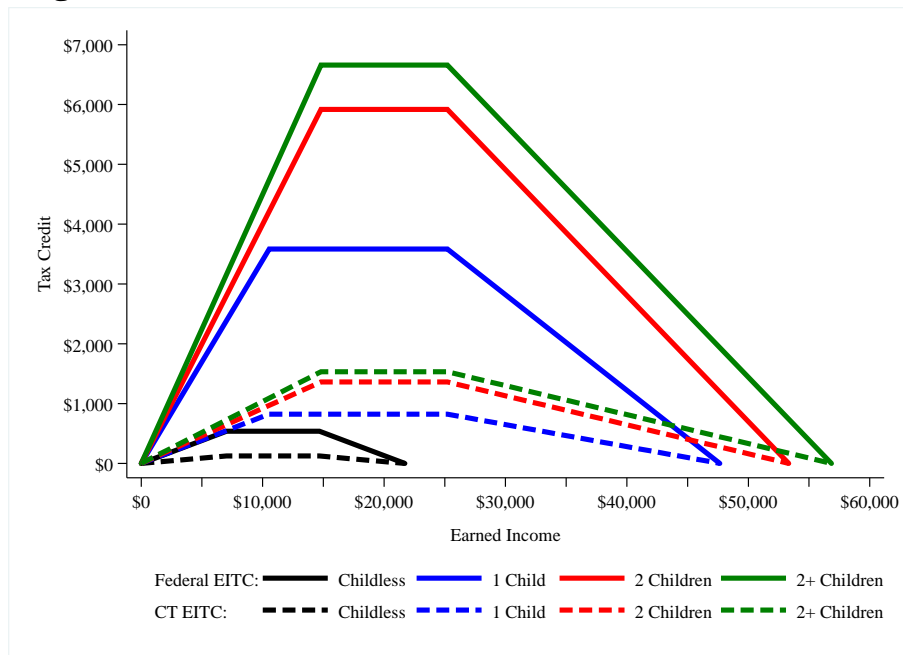
Family Size	Phase-In		
	Rate	Income Range Single Tax Filers	Income Range Married Tax Filers
Childless	7.65%	\$0 to \$7,030	\$0 to \$7,030
1 Child	34%	\$0 to \$10,540	\$0 to \$10,540
2 Children	40%	\$0 to \$14,800	\$0 to \$14,800
2+ Children	45%	\$0 to \$14,800	\$0 to \$14,800

Family Size	Phase-Out		
	Rate	Income Range Single Tax Filers	Income Range Married Tax Filers
Childless	7.65%	\$8,790 to \$15,820	\$14,680 to \$21,710
1 Child	15.98%	\$19,330 to \$41,756	\$25,220 to \$47,646
2 Children	21.06%	\$19,330 to \$47,440	\$25,220 to \$53,330
2+ Children	21.06%	\$19,330 to \$50,954	\$25,220 to \$56,844

Family Size	Maximum Credit				
	Federal	CT (23%)	Expansion Options		
			30%	40%	50%
Childless	\$538	\$124	\$161	\$215	\$269
1 Child	\$3,584	\$824	\$1,075	\$1,434	\$1,792
2 Children	\$5,920	\$1,362	\$1,776	\$2,368	\$2,960
2+ Children	\$6,660	\$1,532	\$1,998	\$2,664	\$3,330
Additional Cost			\$34 mil	\$82 mil	\$130 mil
Include ITIN Filers			\$49 mil	\$102 mil	\$155 mil

*Revenue estimates provided by the Institute on Taxation and Economic Policy. See reference 113 and 115.

Figure 17. The Earned Income Tax Credit, Married Tax Filers



*See references 113 and 115.

For a further explanation of the key parameters, **Figure 17** shows how the EITC operates for married tax filers. For example, the EITC operates as follows for married tax filers with three children: the credit increases by \$0.45 for each dollar of earned income from \$0 up to \$14,800; the maximum credit of \$6,660 is provided to those with earned income from \$14,800 up to \$25,220; and the credit decreases by \$0.2106 for each dollar of earned income from \$25,220 up to \$56,844, at which point the credit is entirely phased out.

Like many states, Connecticut has a refundable EITC that mirrors the federal EITC, currently at the rate of 23 percent. For example, the maximum CT EITC for married families with three children is \$1,532 (i.e., 23 percent of the maximum federal credit).¹¹⁴

Table 22 presents three options for expanding the CT EITC to support working-class families:

Option 1: Restore the CT EITC to 30 percent, the level at which it was set when enacted in 2011. This is estimated to cost an additional \$34 million a year, or an additional \$49 million if the expansion includes immigrants who pay and file taxes with an Individual Tax Identification Number (ITIN) but who are currently excluded from the EITC.

Option 2: Increase the CT EITC to 40 percent. This is estimated to cost an additional \$82 million a year, or an additional \$102 million if the expansion includes ITIN filers.

Option 3: Increase the CT EITC to 50 percent. This is estimated to cost an additional \$130 million a year, or an additional \$155 million if the expansion includes ITIN filers.¹¹⁵

Table 23. Benefit Distribution of Expanding the CT EITC (Option 2)

Group	Pre-Tax Income		Additional Benefit from CT EITC		
	Range	Average	1 Child	2 Children	2+ Children
Working Class	\$0 to \$53,418	\$26,709	\$569	\$953	\$1,079
Middle Class	\$53,419 to \$202,859	\$128,139	\$0	\$0	\$0
Upper Class	\$202,860 to \$681,861	\$442,361	\$0	\$0	\$0
Wealthiest	\$681,862 and up	\$3,092,389	\$0	\$0	\$0

Group	Pre-Tax Income	Additional Benefit from CT EITC		
		1 Child	2 Children	2+ Children
Median Household	\$76,106	\$0	\$0	\$0
Median Black Household	\$47,856	\$0	\$196	\$322
Median Hispanic Household	\$45,730	\$52	\$272	\$398

*See reference 116.

There are several benefits to the above options:

Expanding the CT EITC would strengthen a progressive component of Connecticut’s regressive tax system because the credit is based on income level and number of children and would benefit working-class families, who have the highest effective tax rate. As **Table 23** shows, of the four income groups, only an average working-class family would benefit by expanding the EITC. For example, increasing the EITC to 40 percent would provide an additional \$569, \$953, or \$1,079 for a working-class family with one child, two children, or more than two children, respectively.¹¹⁶

Expanding the CT EITC would especially benefit families of color, who have lower incomes and higher effective tax rates on average. As **Table 23** shows, expanding the CT EITC to 40 percent would provide an additional \$196 for a family with two children and an income equal to the median Black household, and it would provide an additional \$322 for the same family with three children.

Expanding the CT EITC would reverse a tax increase on working-class families. Connecticut reduced the CT EITC from a high of 30 percent to a low of 23 percent, the current rate since 2017. This has effectively operated as a tax increase on working-class families.¹¹⁷

Expanding the CT EITC would reduce poverty and boost economic growth. As CBPP explains, “The EITC reduces poverty by supplementing the earnings of low-wage workers and by rewarding work. ... Moving out of poverty is particularly important for young children. Research has found that lifting low-income families’ income when a child is young not only tends to improve a child’s immediate well-being, but is associated with better health, more schooling, more hours worked, and higher earnings in adulthood. A burgeoning literature links EITC receipt to improved school performance and higher college attendance rates.”¹¹⁸ Moreover, as noted, research shows that a \$1 tax cut in the form of the EITC has an overall direct and indirect expansionary effect on economic output equal to \$1.24, making it a highly effective policy for stimulating the economy.¹¹⁹

[Expand the Connecticut Property Tax Credit](#)

The Connecticut property tax credit (PTC) is a nonrefundable state income tax credit designed primarily to help ease the high property tax burden for working- and middle-class families. As **Table 24** shows, eligibility for the credit is currently limited to tax filers who are seniors or who have a dependent, and the amount of the credit is based on several factors, including income level, the amount of property tax paid, and tax filing status.¹²⁰

For a further explanation of the key parameters, the CT PTC operates as follows for married tax filers with at least one dependent: the maximum credit is \$200 if the family makes \$70,500 or less, if the family pays at least \$200 in property taxes, and if the family has at least \$200 in state income tax liability; the credit decreases by \$30 (or 15 percent) for every \$10,000 above the income threshold of \$70,500; and the credit is entirely phased out once the family makes more than \$130,500.

Since the creation of the CT PTC in the 1990s, Connecticut has restricted its eligibility, reduced the maximum credit, lowered the income levels at which it phases out, and increased the phase out rate, all of which has significantly weakened the credit. For example, taxpayers who had been eligible for this support in the past, benefitting collectively from more than \$350 million in property tax relief in the mid-2000s, have had that support reduced by more than 80 percent, to \$63 million.¹²¹

Table 24. The Connecticut Property Tax Credit

Eligibility		
(1) Property owners with a dependent, paid property taxes equal to or greater than credit amount, and have income tax liability equal to or greater than credit amount.		
(2) Property owners 65 years or older, paid property taxes equal to or greater than credit amount, and have income tax liability equal to or greater than credit amount.		
Income Range		Maximum
Single Tax Filers	Married Tax Filers	Credit
\$0 to \$49,500	\$0 to \$70,500	\$200
\$49,501 to \$59,500	\$70,501 to \$80,500	\$170
\$59,501 to \$69,500	\$80,501 to \$90,500	\$140
\$69,501 to \$79,500	\$90,501 to \$100,500	\$110
\$79,501 to \$89,500	\$100,501 to \$110,500	\$80
\$89,501 to \$99,500	\$110,501 to \$120,500	\$50
\$99,501 to \$109,500	\$120,501 to \$130,500	\$20
\$109,501 and up	\$130,501 and up	\$0
Annual Cost		\$63 million

*See reference 120.

Table 25. Options for Expanding the Connecticut Property Tax Credit

Eligibility				
(1) All property owners that paid property taxes equal to or greater than credit amount. (2) All renters that paid property taxes (20% of rent) equal to or greater than credit amount.				
Income Range		Maximum Credit		
Single Tax Filers	Married Tax Filers	Option 1	Option 2	Option 3
\$0 to \$99,000	\$0 to \$141,000	\$300	\$500	\$750
\$99,001 to \$119,000	\$141,001 to \$161,000	\$255	\$425	\$638
\$119,001 to \$139,000	\$161,001 to \$181,000	\$210	\$350	\$525
\$139,001 to \$159,000	\$181,001 to \$201,000	\$165	\$275	\$413
\$159,001 to \$179,000	\$201,001 to \$221,000	\$120	\$200	\$300
\$179,001 to \$199,000	\$221,001 to \$241,000	\$75	\$125	\$188
\$199,001 to \$219,000	\$241,001 to \$261,000	\$30	\$50	\$75
\$219,001 and up	\$261,001 and up	\$0	\$0	\$0
Additional Cost		\$345 million	\$585 million	\$864 million

*Revenue estimates provided by the Institute on Taxation and Economic Policy. See reference 122.

Table 25 provides an overview of three options for expanding the CT PTC to support working- and middle-class families:

Option 1: Increase the maximum CT PTC to \$300 and make it refundable, double the income threshold, restore eligibility to non-seniors and childless tax filers, and extend the credit to renters. This is estimated to cost an additional \$345 million a year.

Option 2: Increase the maximum CT PTC to \$500 and make it refundable, double the income threshold, restore eligibility to non-seniors and childless tax filers, and extend the credit to renters. This is estimated to cost an additional \$585 million a year.

Option 3: Increase the maximum CT PTC to \$750 and make it refundable, double the income threshold, restore eligibility to non-seniors and childless tax filers, and extend the credit to renters. This is estimated to cost an additional \$864 million a year.¹²²

There are several benefits to the above options:

Expanding the CT PTC would strengthen a progressive component of Connecticut’s regressive tax system because it is based on income level and property taxes paid and would benefit working- and middle-class families, who have high effective tax rates. As **Table 26** shows, of the four income groups, only working- and middle-class families would benefit by expanding the CT PTC to \$500 and increasing eligibility. For example, increasing the CT PTC would provide an additional \$300 for a family that owns its home (assuming it qualifies for the existing credit) and an additional \$500 for a family that rents, which is the most common housing status at an income of \$26,709.¹²³

Table 26. Benefit Distribution of Expanding the CT PTC to \$500 (Option 2)

Group	Pre-Tax Income		Additional Benefit from PTC		Majority Housing Status
	Range	Average	Renter	Owner	
Working Class	\$0 to \$53,418	\$26,709	\$500	\$300	Renter (1.3x)
Middle Class	\$53,419 to \$202,859	\$128,139	\$500	\$480	Owner (3.8x)
Upper Class	\$202,860 to \$681,861	\$442,361	\$0	\$0	Owner (8.5x)
Wealthiest	\$681,862 and up	\$3,092,389	\$0	\$0	Owner (8.5x)

Group	Pre-Tax Income	Additional Benefit from PTC		Majority Housing Status
		Renter	Owner	
Median Household	\$76,106	\$500	\$330	Owner (2.3x)
Median Black Household	\$47,856	\$500	\$300	Owner (1.1x)
Median Hispanic Household	\$45,730	\$500	\$300	Owner (1.1x)

*See reference 123. This benefit distribution excludes the effect of the property tax credit for vehicles.

Expanding the CT PTC would especially benefit families of color, who have lower incomes and higher effective tax rates on average. As Table 26 shows, expanding the CT PTC to \$500 and increasing eligibility would provide an additional \$330 for a family that owns its home and has an income equal to the median household (assuming the family qualifies for the existing credit); and it would provide an additional \$300 for a family that owns its home and has an income equal to the median Black or Hispanic households (assuming the family qualifies for the existing credit). However, the expanded CT PTC would provide an additional \$500 for a family at any of the above income levels that rents its home rather than owns it and is therefore currently excluded. This especially benefits families of color because at the income level for the median Black and Hispanic households there are 1.1 times more homeowners than renters, whereas at the income level for the median overall household there are 2.3 times more homeowners than renters, meaning families of color will benefit at a higher percentage from the additional \$500 credit for renters.

Expanding the CT PTC would reverse a tax increase on working- and middle-class families. Since the creation of the CT PTC in the 1990s, Connecticut has restricted the eligibility, reduced the maximum credit, lowered the income levels at which it phases out, and increased the phase out rate, all of which has effectively operated as a tax increase on working- and middle-class families.

Expanding the CT PTC would reduce poverty and boost economic growth. Including renters and making the CT PTC refundable (meaning tax payers receive a refund for the portion of the credit that exceeds their income tax liability) will help the state’s neediest residents. As the Tax Policy Center explains, if tax credits are “not refundable, low-income households most in need of assistance would not benefit from them.”¹²⁴ Moreover, CBPP notes that refundable tax credits “deliver high bang-for-the-buck stimulus because the money flows to lower-income people, who tend to spend rather than save what modest income they have in order to meet basic needs.”¹²⁵

[Create the Connecticut Child Tax Credit](#)

The federal child tax credit (CTC) is a partially refundable tax credit designed primarily to help ease the high cost of raising children, especially for working- and middle-class families. As **Table 27** shows, eligibility for and the amount of the CTC are based on several factors, including earned income level, tax filing status, and number of qualifying children. Moreover, the maximum credit per child is \$2,000 but only \$1,400 is refundable, which is referred to as the additional child tax credit (ACTC).¹²⁶

For a further explanation of the key parameters, **Figure 18** shows how the CTC operates in two different cases. First, for a single tax filer with one child, the CTC operates as follows: the credit increases by \$0.15 for each additional dollar of earned income from \$2,500 up to \$11,833, at which point the maximum refundable credit of \$1,400 is reached; the non-refundable portion phases in for each additional dollar of earned income from \$12,400 up to \$18,400, at which point the maximum overall credit of \$2,000 is reached; and the credit decreases by \$0.05 for each additional dollar of earned income from \$200,000 up to \$240,000, at which point the credit is entirely phased out.

Second, for a married tax filer with two children, the CTC operates as follows: the credit increases by \$0.15 for each additional dollar of earned income from \$2,500 up to \$21,167, at which point the maximum refundable credit of \$2,800 is reached (\$1,400 per child); the non-refundable portion phases in for each additional dollar of earned income from \$24,800 up to \$36,800, at which point the maximum overall credit of \$4,000 is reached; and the credit decreases by \$0.05 for each additional dollar of earned income from \$400,000 up to \$480,000, at which point it is entirely phased out.

Table 27. The Child Tax Credit

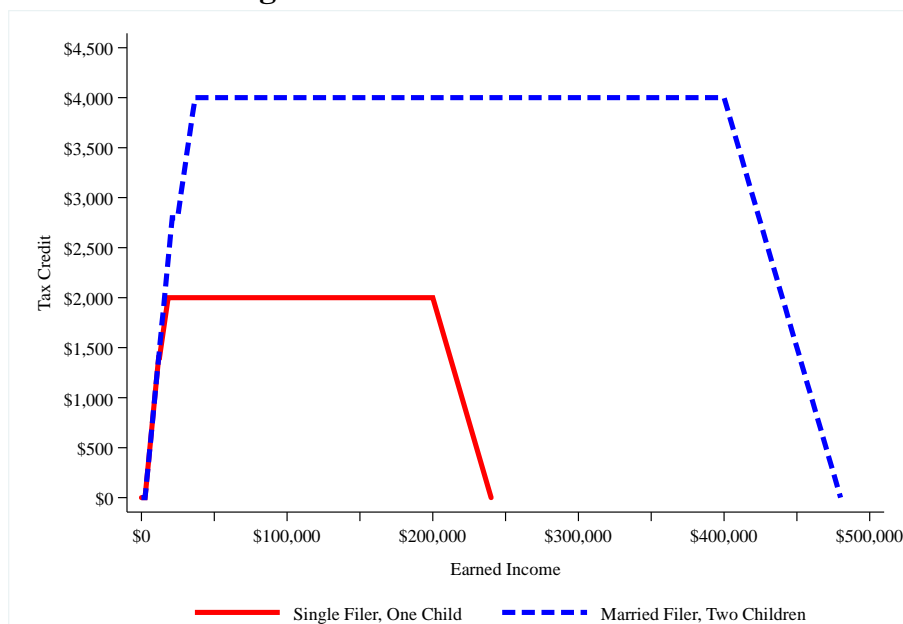
Tax Filer Status	Credit Type	Phase-In	
		Rate	Income Level
Single	ACTC / CTC	15%	above \$2,500
Married	ACTC / CTC	15%	above \$2,500

Tax Filer Status	Credit Type	Phase-Out	
		Rate	Income Level
Single	ACTC / CTC	5%	above \$200,000
Married	ACTC / CTC	5%	above \$400,000

Tax Filer Status	Credit Type	Maximum Credit Per Child
Single / Married	ACTC (Refundable)	\$1,400
Single / Married	CTC	\$2,000

*See reference 126.

Figure 18. The Child Tax Credit



*See reference 126.

Unlike the EITC, Connecticut does not have a state-level CTC that mirrors the federal credit. Moreover, unlike most states, Connecticut does not provide any tax break, such as a child exemption or deduction, that is specifically designed to ease the financial burden of raising children.

Table 28 presents several options for creating a CT CTC to support working- and middle-class families:

Option 1: Create a CT CTC at 30 percent of the federal CTC. This is estimated to cost \$381 million a year. (Creating it at 40 percent—Option 1a—is estimated to cost \$506 million.)

Option 2: Create a CT CTC at 30 percent of the federal CTC, make it fully refundable, and eliminate the phase in. This is estimated to cost \$449 million a year. (Creating it at 40 percent—Option 2a—is estimated to cost \$598 million.)

Option 3: Create a CT CTC at 30 percent of the federal CTC, make it fully refundable, eliminate the phase in, and replace the phase out with a hard cap at \$200,000 for single filers and \$400,000 for joint filers. This is estimated to cost \$443 million a year. (Creating it at 40 percent—Option 3a—is estimated to cost \$591 million.).¹²⁷

It is important to note that the current parameters of the CTC are temporary under the Tax Cut and Jobs Act. To avoid a considerable scheduled shift in the federal CTC after 2025, the CT CTC could be created based on one of the above options without officially mirroring the federal CTC.¹²⁸

Table 28. Options for Creating the CT Child Tax Credit

Option	Maximum Credit Per Child			Phase In	Phase Out	Annual Cost
	Rate	Total	Refundable			
1	30%	\$600	\$420	15% above \$2,500	5% above \$200k (\$400k)	\$381 million
2	30%	\$600	\$600	None	5% above \$200k (\$400k)	\$449 million
3	30%	\$600	\$600	None	Hard Cap at \$200k (\$400k)	\$443 million
1a	40%	\$800	\$560	15% above \$2,500	5% above \$200k (\$400k)	\$506 million
2a	40%	\$800	\$800	None	5% above \$200k (\$400k)	\$598 million
3a	40%	\$800	\$800	None	Hard Cap at \$200k (\$400k)	\$591 million

*Revenue estimates provided by the Institute on Taxation and Economic Policy. See reference 127.

There are several benefits to the above options:

Creating the CT CTC would add a progressive component to Connecticut's regressive tax system because the tax credit is based on income level and number of children and would primarily benefit working- and middle-class families. As **Table 29** shows, of the four income groups, an average working-class family and an average middle-class family would benefit the most by creating a CT CTC. For example, creating the CT CTC at 30 percent with no phase in (option 2) would provide \$1,200 for a working- or middle-class family with two children and \$565 for an upper-class family. Also, if desirable, it is possible to replace the phase out with a hard cap (option 3), which would eliminate the benefit for a family making more than \$400,000 a year.¹²⁹

Creating a CT CTC that is fully refundable would especially benefit families of color, who have lower incomes and higher effective tax rates on average. As **Table 29** shows, all three median households receive the maximum credit. This is because option 2 makes the CT CTC fully refundable, meaning families receive the maximum credit even if it exceeds their income tax liability. This would especially benefit families of color, who tend to have lower incomes and tax liability and so would be more likely to receive only a partial credit if it were non-refundable.¹³⁰

Table 29. Benefit Distribution of Creating the CT CTC (Option 2)

Group	Pre-Tax Income		Additional Benefit from CT CTC		
	Range	Average	1 Child	2 Children	3 Children
Working Class	\$0 to \$53,418	\$26,709	\$600	\$1,200	\$1,800
Middle Class	\$53,419 to \$202,859	\$128,139	\$600	\$1,200	\$1,800
Upper Class	\$202,860 to \$681,861	\$442,361	\$0	\$565	\$1,165
Wealthiest	\$681,862 and up	\$3,092,389	\$0	\$0	\$0

Group	Pre-Tax Income	Additional Benefit from CT CTC		
		1 Child	2 Children	3 Children
Median Household	\$76,106	\$600	\$1,200	\$1,800
Median Black Household	\$47,856	\$600	\$1,200	\$1,800
Median Hispanic Household	\$45,730	\$600	\$1,200	\$1,800

*See reference 129.

Creating the CT CTC would make Connecticut more in line with the majority of states, which provide tax breaks to offset the cost of raising children. Unlike most states, Connecticut has no tax exemption, deduction, or credit to adjust for family size and help offset the considerable cost of raising children. This means that a household with children pays essentially the same amount in the state income tax as a household without children that earns the same income despite the fact that the former household has less disposable income because it spends significantly more on food, clothing, health care and other necessities. And this is especially troubling in Connecticut due to the high cost of child care compared to most other states.¹³¹

Creating the CT CTC would reduce poverty and boost economic growth. As CBPP explains regarding the federal CTC, “[It] is a powerful weapon against poverty. It lifted approximately 4.3 million people out of poverty in 2018, including about 2.3 million children, and lessened poverty for another 12 million people, including 5.8 million children. It lifts even more families with children out of poverty when combined with the Earned Income Tax Credit” because many “low-income families are ineligible for other tax-based assistance for children.”¹³² Moreover, as noted, research shows that a \$1 tax cut in the form of the CTC has an overall direct and indirect expansionary effect on economic output equal to \$1.38, making it a highly effective policy for stimulating the economy.¹³³

Putting Together a Tax Reform Program

As noted at the opening, the objective here is not to recommend any specific tax increase or tax cut but rather provide a range of options showing policymakers that it is possible and beneficial to use tax reform to address several of the state’s major economic problems. To further demonstrate, this part of the report provides an example tax reform program.

There are two basic approaches to putting together a tax reform program:

(1) Policymakers can raise a combination of income and wealth taxes on the wealthy in order to simultaneously raise revenue to fund essential government services, combat rising income and wealth inequality, and support the economy. As **Table 30** summarizes, there are four categories of income and wealth taxes. Based on the options presented, raising the income tax would only apply to single filers making more than \$500,000 a year (joint filers making more than a \$1 million); expanding the estate and gift tax would only apply to multi-million dollar estates; establishing an investment income surcharge would only apply to investment income for single filers making more than \$500,000 a year (joint filers making more than a \$1 million); and establishing a statewide property tax on mansions would only apply to the portion of homes worth more than \$1.5 million.

Table 30. Options for Raising Income and Wealth Taxes on the Wealthy

Option	Income or Wealth Floor for Tax Increase	Total Tax Revenue	Volatility Cap Restriction	Unrestricted Tax Revenue
Expand Income Tax				
1	\$500,000 / \$1 million	\$504 million	Partial	\$226.8 million + capacity below cap
2	\$500,000 / \$1 million	\$1.01 billion	Partial	\$454.5 million + capacity below cap
3	\$500,000 / \$1 million	\$1.21 billion	Partial	\$544.5 million + capacity below cap
4	\$500,000 / \$1 million	\$1.72 billion	Partial	\$774 million + capacity below cap
Expand Estate and Gift Tax				
1	\$5 million	\$108 million	None	\$108 million
2	\$3 million	\$135 million	None	\$135 million
3	\$2 million	\$162 million	None	\$162 million
Create Investment Income Surcharge				
1	\$500,000 / \$1 million	\$167 million	Partial	\$90-\$167 million
2	\$500,000 / \$1 million	\$313 million	Partial	\$90-\$202 million
3	\$500,000 / \$1 million	\$334 million	Partial	\$90-\$202 million
Create Statewide Property Tax on Mansions				
1	\$1.5 million	\$331 million	None	\$331 million
2	\$1.5 million	\$449 million	None	\$449 million
3	\$1.5 million	\$614 million	None	\$614 million
4	\$1.5 million	\$663 million	None	\$663 million

*Unrestricted income tax revenue is based on estimated withholding portion (45 percent) plus estimated additional capacity below the volatility cap: \$90 million in FY 2021, \$202 million in FY 2022, and \$125 million in FY 2023. Unrestricted investment income surcharge revenue is based on estimated additional capacity below the volatility cap.

Table 31. Options for Lowering Taxes on Working- and Middle-Class Families

Option	Tax Cut Range	Total Tax Revenue	Refundable	Fiscal Restrictions
CT Earned Income Tax Credit				
1	\$0 to \$50,954 / \$56,844	\$34 million (\$49 million w/ ITIN)	Yes	None
2	\$0 to \$50,954 / \$56,844	\$82 million (\$102 million w/ ITIN)	Yes	None
3	\$0 to \$50,954 / \$56,844	\$130 million (\$155 million w/ ITIN)	Yes	None
CT Property Tax Credit				
1	\$0 to \$219,000 / \$261,000	\$345 million	Yes	None
2	\$0 to \$219,000 / \$261,000	\$585 million	Yes	None
3	\$0 to \$219,000 / \$261,000	\$864 million	Yes	None
CT Child Tax Credit				
1	\$2,500 to \$200+k / \$400+k	\$381 million (\$506 million at 40%)	Partially	None
2	\$0 to \$200+k / \$400+k	\$449 million (\$598 million at 40%)	Yes	None
3	\$0 to \$200k / \$400k	\$443 million (\$591 million at 40%)	Yes	None

(2) Policymakers can raise a combination of income and wealth taxes on the wealthy and also lower taxes for working- and middle-class families in order to simultaneously raise revenue to fund essential government services, combat rising income and wealth inequality, and support the economy. This second approach adds a tax cut component that provides more support for working- and middle-class families and therefore more effectively combats income and wealth inequality and more effectively supports the economy. As **Table 31** summarizes, there are three categories of tax cuts. Based on the options presented, expanding the Connecticut Earned Income Tax Credit (CT EITC) would benefit working-class families (single filers making up to \$50,954 a year and joint filers making up to \$56,844 a year); expanding the Connecticut Property Tax Credit (CT PTC) would benefit working- and middle-class families (single filers making up to \$219,000 a year and joint filers making up to \$261,000 a year); and creating the Connecticut Child Tax Credit would benefit working-class, middle-class, and a portion of upper-class families (single filers making up to \$200,000 a year and possibly more depending upon the number of children and the design of the phase out, and joint filers making up to \$400,000 a year and possibly more depending upon the number of children and design of the phase out).

In addition to the two basic approaches to tax reform, it is important to consider three supplemental instruments: the Budget Reserve Fund (BRF), support from the federal government, and borrowing (which has recently received increased attention).¹³⁴

The Budget Reserve Fund can effectively supplement a tax reform program. Connecticut law provides three situations for employing the BRF: (1) it can fill a deficit in the immediately preceding budget based on the determination of the Comptroller; (2) it can fill a deficit in the current budget if a consensus revenue estimate projects a decline in General Fund revenues of one percent or more; and (3) it can fill a deficit in the upcoming budget if the consensus revenue estimate projects a decline in

General Fund revenues of one percent or more. This flexibility in employing the BRF as well as its substantial size make it an effective instrument to supplement a tax reform program. Moreover, by replenishing the BRF, restricted revenue from a tax reform program will strengthen this key instrument.¹³⁵

Support from the federal government can supplement a tax reform program but it is an unreliable instrument. The federal government provided support to state and local governments earlier this year and could do so again. However, this is not under the state’s control and the possibility and size of support is difficult to estimate with any degree of confidence. For example, the *Wall Street Journal* recently reported that the Biden administration “will confront an economic recovery that appears to be losing momentum and uncertain prospects for additional stimulus from Congress.”¹³⁶

The state’s capacity to borrow is severely restricted, and borrowing is a regressive instrument in the absence of tax reform. Connecticut law limits the total amount of debt issued to no more than 1.6 times the General Fund tax revenue, and once the total debt reaches 90 percent of the limit the governor must submit a recommendation for reducing it. Together with the projected decline in revenue, these restrictions severely limit the state’s capacity to borrow. For example, the Office of Fiscal Analysis reports that the state has the “capacity to authorize a net of \$198 million of new [general obligation] bonds to match 90% of the debt limit in FY 22,” the first year of the new biennium budget. Moreover, borrowing is a regressive instrument in the absence of tax reform because the new debt will ultimately be paid through a regressive tax system that disproportionately burdens working- and middle-class families.

Taking into account the various tax options and above instruments, it is possible to develop a wide range of tax reform programs. Consider the example presented in **Table 32**:

Income tax option 2 would raise the current top tax bracket to 8.99 percent over \$500,000 for single filers (\$1 million for joint filers) and it would create a new top tax bracket of 9.99 percent over \$1 million for single filers (\$2 million for joint filers). This is estimated to raise \$1.01 billion in annual revenue, which includes \$656.5 million in unrestricted revenue (\$454.5 million from withholding plus \$202 million from additional estimates and finals capacity below the volatility cap) and \$353.5 million in restricted revenue that would replenish the BRF.

Estate tax option 2 would lower the exemption to \$3 million, increase the top tax rate to 16 percent, and eliminate the payment cap. This is estimated to raise \$135 million in annual revenue, all of which is exempt from the volatility cap.

Mansion tax option 3 would create a 1.5 percent statewide property tax on the portion of the market value of each owner-occupied home in excess of \$1.5 million, and the rate would increase to two percent on the portion in excess of \$2 million. This is estimated to raise \$614 million in annual revenue, all of which is exempt from the volatility cap.

Connecticut Earned Income Tax Credit (CT EITC) option 2 would increase the state credit to 40 percent of the federal credit and include ITIN filers. This is estimated to cost an additional \$102 million a year.

Connecticut Child Tax Credit (CT CTC) option 2 would create a state credit that is fully refundable, has no phase in, and is equal to 30 percent of the maximum federal credit. This is estimated to cost \$449 million a year.

Table 32. Example Tax Reform Program

Option	New Parameters	Revenue		
		Total	Unrestricted	Restricted
Tax Increase				
Income Tax Option 2	Top rate of 9.99% over \$1 million for single filer (\$2 million joint filer)	\$1.01 billion	\$454.5 million \$202 million	\$353.5 million
Estate Tax Option 2	Exemption of \$3 million, top rate of 16%, no payment cap	\$135 million	\$135 million	
Mansion Tax Option 3	1.5% over \$1.5 million, 2% over \$2 million	\$614 million	\$614 million	
		\$1.759 billion	\$1.4055 billion	\$353.5 million
Tax Cut				
CT EITC Option 2	Increase to 40%, include ITIN filers	-\$102 million	-\$102 million	
CT CTC Option 2	Create at 30%, make fully refundable, and eliminate phase in	-\$449 million	-\$449 million	
		-\$551 million	-\$551 million	
Tax Reform Program				
Total		\$1.208 billion	\$854.5 million	\$353.5 million

*Estimated additional estimates and finals income tax revenue capacity below the volatility cap is \$202 million in FY 2022 and \$125 million in FY 2023.

Table 33. Example Implementation of Tax Reform Program

	General Fund (in millions)		
	2021	2022	2023
Projected Deficit	-\$854.5	-\$2,067.0	-\$2,230.4
Tax Reform Program Revenue		\$1,303.5	\$777.5
Budget Reserve Fund Revenue	\$854.5	\$763.5	\$1,452.9
Final Balance	\$0.0	\$0.0	\$0.0
	Budget Reserve Fund (in millions)		
	2021	2022	2023
Restricted Revenue Deposit		\$353.5	\$430.5
Final Balance	\$2,158.4	\$1,748.4	\$726.0

Together with the BRF, the example tax reform program is sufficient to fill the projected deficits for the current fiscal year and upcoming biennium budget (fiscal years 2022-23) and it would also leave the state in a stronger financial position moving forward. Consider the example implementation of the tax reform program presented in **Table 33**:

Fiscal Year 2021: The BRF fills the deficit for the current fiscal year, bringing the balance of the BRF down from \$3.0129 billion to \$2.1584 billion. That closes the current biennium budget (fiscal years 2020-21).

Fiscal Year 2022: The tax reform program is phased in. Specifically, all of the tax increases and the increase of the CT EITC go into effect. This raises a total of \$1.3035 billion in unrestricted revenue (\$1.4055 billion from the tax increases minus \$102 million for increasing the CT EITC). Combined with \$763.5 million from the BRF, that fills the budget deficit. Moreover, \$353.5 million in restricted revenue replenishes the BRF, bringing its balance to \$1.7484 billion at the end of the fiscal year.

Fiscal Year 2023: The tax reform program is fully implemented. Specifically all of the tax increases and the increase of the CT EITC remain in effect, and the creation of the CT CTC also goes into effect. This raises a total of \$777.5 million in unrestricted revenue (\$1.3285 billion from the tax increases minus \$551 million for increasing the CT EITC and creating the CTC). Combined with \$1.4529 billion from the BRF, that fills the budget deficit. Moreover, \$430.5 million in restricted revenue (\$353.5 million plus \$77 million due to the reduced additional capacity below the volatility cap) replenishes the BRF, bringing its balance to \$726 million at the end of the fiscal year.¹³⁷

This example tax reform program and the preceding analysis demonstrate that it is possible and beneficial for policymakers to pass a budget that maintains government spending on essential services, combats income and wealth inequality, supports the economy, and leaves the state in a stronger fiscal position moving forward. In particular, the tax increase component of the example program would ensure that the Connecticut government maintains spending on essential services at a time when those services are more needed than ever. As noted, the U.S. Census Bureau reports that 11.8 percent of Connecticut residents are experiencing food scarcity, 20.7 percent are facing the likelihood of eviction or foreclosure in the next two months, 27.4 percent are having difficulty paying for usual household expenses, and 31.2 percent expect someone in their household to have a loss in employment income in the next 4 weeks.¹³⁸ Moreover, the tax credits component of the example program would provide an additional \$1,800 for a family with three children at the median household income level, and it would provide an additional \$2,122 for a family with three children at the median Black household income level. This would help to ease the high cost of raising children, especially for spending on necessities, such as food, housing, and child care. Lastly, by supporting the state's working- and middle-class families, the example tax reform program as a whole would boost economic growth, which in turn would benefit all of Connecticut's families.

Conclusion

The combination of three major economic problems in Connecticut severely threatens the well-being of the state's working- and middle-class families, especially those of color. First, Connecticut's economy has a highly unjust distribution of income and wealth in general as well as a highly unjust distribution of income and wealth by race. This economic injustice is important not simply in its own right but because of the ways in which it harms children from working- and middle-class families in the areas of educational success, health, economic mobility, and more. Second, Connecticut's regressive tax system exacerbates pre-tax income inequality and thereby contributes to wealth inequality. Moreover, by decreasing the income and wealth available for working- and middle-class families to spend and increase economic demand, Connecticut's regressive tax system slows economic growth, which hurts all of the state's families. Third, the ongoing coronavirus pandemic-induced recession is accelerating the rise of economic injustice and causing substantial budget deficits that are creating considerable pressure to cut government spending on essential services at a time when government support is more needed than ever.

These major economic problems provide policymakers an opportunity to step back and consider sweeping proposals. In particular, this report shows that it is possible and beneficial to pass a fair tax reform program that raises income and wealth taxes on the wealthy and also cuts taxes on the working and middle class, all of which would simultaneously raise revenue to fund essential government services, combat rising income and wealth inequality, and support the economy.

Acknowledgements

Connecticut Voices for Children’s fiscal and economic policy research is funded by the Stoneman Family Foundation and the Melville Charitable Trust.

For assistance on this report, Connecticut Voices for Children thanks Jacob Hacker, Ph.D., Stanley B. Resor Professor of Political Science at Yale University; Elizabeth McNichol, M.A., senior fellow at the Center on Budget and Policy Priorities; Dylan Grundman O’Neill, M.A., senior state policy analyst at the Institute of Taxation and Economic Policy; and Samantha Waxman, M.A., policy analyst at the Center on Budget and Policy Priorities.

References

¹ Patrick R. O'Brien, [“The State of Working Connecticut: Advancing Economic Justice in the Labor Market,”](#) *CT Voices for Children* (2020).

² For example, see John F. Kennedy, [“Remarks in Heber Springs, Arkansas,”](#) *American Presidency Project* (October 3, 1963).

³ Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, [“Distributional National Accounts: Methods and Estimates for the United States,”](#) *Quarterly Journal of Economics* 133 (2018): 553-609. The income divisions used in this report are based on the Piketty et al. study, which emphasizes the development of the pre-tax income distribution for the bottom 50 percent, the middle 40 percent (which the authors define as the “middle class”), the top 10 percent, and the top 1 percent. For an overview of the various leading measures of income inequality, see Chad Stone, Danilo Trisi, Arloc Sherman, and Jennifer Beltran, [“A Guide to Statistics on Historical Trends in Income Inequality,”](#) *Center on Budget and Policy Priorities* (2020).

⁴ Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, [“Distributional National Accounts: Methods and Estimates for the United States,”](#) *Quarterly Journal of Economics* 133 (2018): 553-609 (Update: October 2019 vintage, TB1).

⁵ Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, [“Distributional National Accounts: Methods and Estimates for the United States,”](#) *Quarterly Journal of Economics* 133 (2018): 553-609 (Update: October 2019 vintage, TB1).

⁶ [“Gini Index of Income Inequality: Table B19083 \(2018: ACS 1-Year Estimates\),”](#) *U.S. Census Bureau*.

⁷ [“Gini Index,”](#) *U.S. Census Bureau*.

⁸ [“2018 CT-1040 & CT-1040NR/PY Income Tax Data,”](#) *Connecticut Department of Revenue Services*. The average income (CT AGI) for the top 1 percent is calculated as follows using the data for all filers: the average income for tax filers making \$500,000 and more is \$1,709,659 and constitutes the top 1.98 percent of tax filers; the average income for tax filers making over \$1 million is \$3,474,409 and constitutes the top 0.73 percent of tax filers; based on these data points, the average income for the top 1 percent of tax filers is estimated using linear interpolation.

⁹ [“Median Income in the Past 12 Months \(in 2018 Inflation-Adjusted Dollars\): Table S1903 \(2018: ACS 5-Year Estimates\),”](#) *U.S. Census Bureau*. The median household income in Connecticut using the 2018 1-year estimate is \$76,348. The 5-year estimate is used in this analysis in order to maintain consistency with other CT Voices’ work that analyses income inequality in cities and towns throughout the state. For areas with populations of less than 65,000, there are only 5-year estimates. See [“Understanding and Using ACS Single-Year and Multi-Year Estimates,”](#) *U.S. Census Bureau*.

¹⁰ Estelle Sommeiller and Mark Price, [“The New Gilded Age: Income Inequality in the U.S. by State, Metropolitan Area, and County.”](#) *Economic Policy Institute* (2018).

¹¹ [“Median Income in the Past 12 Months \(in 2018 Inflation-Adjusted Dollars\): Table S1903 \(2018: ACS 5-Year Estimates\).”](#) *U.S. Census Bureau*. We use the terms Hispanic and Latino in this paper to match the source data that we are citing.

¹² [“Median Income in the Past 12 Months \(in 2018 Inflation-Adjusted Dollars\): Table S1903 \(2018: ACS 5-Year Estimates\).”](#) *U.S. Census Bureau*. The median household income in Connecticut using the 2018 1-year estimate is \$76,348, the median white household income is \$83,337, the median Black household income is \$50,113, and the median Hispanic household income is \$42,456. The 5-year estimate is used in this analysis in order to maintain consistency with other CT Voices’ work that analyses income inequality in cities and towns throughout the state. For areas with populations of less than 65,000, there are only 5-year estimates. See [“Understanding and Using ACS Single-Year and Multi-Year Estimates.”](#) *U.S. Census Bureau*.

¹³ Data for calculating income for the top 1 percent of tax filers: [“2018 CT-1040 & CT-1040NR/PY Income Tax Data.”](#) *Connecticut Department of Revenue Services*. Data for median household income by state: [“Median Income in the Past 12 Months \(in 2018 Inflation-Adjusted Dollars\): Table S1903 \(2018: ACS 5-Year Estimates\).”](#) *U.S. Census Bureau*.

¹⁴ Heather Boushey, *Unbound: How Inequality Constricts Our Economy and What We Can Do About It* (Cambridge: Harvard University Press, 2019), quotes on 24.

¹⁵ Emmanuel Saez and Gabriel Zucman, [“Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data.”](#) *Quarterly Journal of Economics* 131 (2016): 519-578. The wealth divisions used in this report are based on the Saez and Zucman study, which emphasizes the development of the wealth distribution for the bottom 90 percent versus the rest.

¹⁶ Gabriel Zucman, [“Global Wealth Inequality.”](#) *Annual Review of Economics* (2019): 109–138 (Capitalized Income Tax Data-Tax Units). See also Emmanuel Saez and Gabriel Zucman, [“Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data.”](#) *Quarterly Journal of Economics* 131 (2016): 519-578.

¹⁷ Gabriel Zucman, [“Global Wealth Inequality.”](#) *Annual Review of Economics* (2019): 109–138 (Capitalized Income Tax Data-Tax Units). See also Emmanuel Saez and Gabriel Zucman, [“Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data.”](#) *Quarterly Journal of Economics* 131 (2016): 519-578.

¹⁸ [“Financial Assets and Income: Net Worth.”](#) and [“Financial Assets and Income: Households with Zero Net Worth.”](#) *Prosperity Now Scorecard* (2016).

¹⁹ It is also notable that Connecticut is routinely ranked as one of the very top states for the number of millionaires and billionaires per capita, which indicates a high concentration of wealth at the top of the distribution. Christobal Young, *The Myth of Millionaire Tax Flight: How Place Still Matters for the Rich* (Stanford: Stanford University Press, 2018), 20 and 32; Robert Frank, “States With the

Most Millionaires Per Capita,” *CNBC* (February 7, 2018); Nicholas Rondinone, “Connecticut Adds Two More Billionaires To The Forbes 400 List,” *Hartford Courant* (October 10, 2018).

²⁰ The wealth estimate is calculated using data from [“Fiscal Year 2016-2017 Annual Report,” Connecticut Department of Revenue Services](#). The DRS does not provide an estimate for the the average wealth of the top 1 percent of taxed estates. However, it does provide the number of taxed estates valued at more than \$25 million as well as the total value of taxes due. Using that data, it’s possible to calculate an estimate for the top 2.9 percent of taxed estates in 2016, which is the \$41.2 million estimate referenced here. Therefore, we know that the average value for the top 1 percent of taxed estates in 2016 is greater than this amount, though we don’t have a more precise estimate. And to be clear, in 2016, Connecticut only taxed estates worth more than \$2 million, meaning the estimate here is for the top 1 percent of estates in this group, not all estates in Connecticut. As support for this estimate, Forbes reported that in the U.S. in 2017 the “top 1% of household net worth starts at \$10,374,030.10.” See Jack Kelly, [“The Number Of Millionaires Has Boomed—Here’s Where Your Net Worth Ranks Compared To Others,” Forbes](#) (2019). Importantly, if net worth for the top 1 percent of households (or estates) in the U.S. starts at about \$10.4 million that means the average level for the top 1 percent is substantially greater. For example, Forbes reports that for income (which has more detailed data) the cutoff is \$515,371 to be in the top 1 percent; \$2,374,937 for top 0.1 percent; \$12,899,070 for the top 0.01 percent; and \$63,430,119 for the top 0.001 percent, meaning the income level increases exponentially at the highest end of the distribution, which highly skews the average income level for the top 1 percent relative to the cutoff to be in the group. The same is the case for the distribution of wealth (because income and wealth are closely connected). Moreover, Connecticut is one of the wealthiest states in the country, meaning the net worth for the top 1 percent is likely significantly greater than in the U.S. as a whole, all of which suggests that using the \$41.2 million estimate for the top 1 percent of taxed estates in Connecticut is useful and appropriate for highlighting wealth inequality in the state.

²¹ [“Financial Assets and Income: Net Worth,” Prosperity Now Scorecard](#) (2016).

²² [“Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances,” Board of Governors of the Federal Reserve System](#) (2017).

²³ [“Financial Assets and Income: Households with Zero Net Worth,” Prosperity Now Scorecard](#) (2016).

²⁴ Data for calculating net worth for the top 1 percent of taxed estates: [“Fiscal Year 2016-2017 Annual Report,” Connecticut Department of Revenue Services](#). Data for median net worth and estimate by race: [“Financial Assets and Income: Net Worth,”](#) and [“Financial Assets and Income: Households with Zero Net Worth,” Prosperity Now Scorecard](#) (2016).

²⁵ Heather Boushey and Carter C. Price, [“How Are Economic Inequality and Growth Connected? A Review of Recent Research,” Washington Center for Equitable Growth](#) (2014).

²⁶ [“Gross Domestic Product: Supplemental Information & Additional Data: Percent change from preceding period,” U.S. Bureau of Economic Analysis](#) (July 30, 2020).

- ²⁷ [“Real Gross Domestic Product Per Capita \(A939RX0Q048SBEA\): Percent Change from a Year Ago.”](#) *Federal Reserve Bank of St. Louis* (July 30, 2020).
- ²⁸ [“Real GDP in chained dollars \(SAGDP9\): Percent Change from Preceding Period.”](#) *U.S. Bureau of Economic Analysis* (July 30, 2020). See also [“Gross Domestic Product by State and Local Area – Supplementary Information.”](#) *U.S. Bureau of Economic Analysis*.
- ²⁹ [“Per capita real GDP \(SAGDP10\): Percent Change from Preceding Period.”](#) *U.S. Bureau of Economic Analysis* (July 30, 2020).
- ³⁰ Patrick R. O’Brien, [“Reforming Connecticut’s Tax System: A Program to Strengthen Working- and Middle-Class Families.”](#) *CT Voices for Children* (2020); Patrick R. O’Brien, [“The State of Working Connecticut: Advancing Economic Justice in the Labor Market.”](#) *CT Voices for Children* (2020).
- ³¹ Emma Garcia and Elaine Weiss, [“Education Inequalities at the School Starting Gate: Gaps, Trends, and Strategies to Address Them.”](#) *Economic Policy Institute* (2017).
- ³² Laudan Y. Aron, Lisa Dubay, Emily Zimmerman, Sarah M. Simon, Derek Chapman, and Steven H. Woolf, “Can Income-Related Policies Improve Population Health?” *Urban Institute* (April 13, 2015), 1.
- ³³ Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Roberta Manduca, and Jimmy Narang, [“The Fading American Dream: Trends in Absolute Income Mobility Since 1940.”](#) *Science* (2017).
- ³⁴ Bradley Hardy and Trevon Logan, [“Race and the Lack of Intergenerational Economic Mobility in the United States.”](#) *Washington Center for Equitable Growth* (2020).
- ³⁵ Data for state and local taxes: [“Annual Survey of State and Local Finance: 2018 State and Local Government Finance Historical Datasets and Tables: U.S. Summary and Alabama-Mississippi, Missouri-Wyoming.”](#) *U.S. Census Bureau* (October 2020). Data for population: [“Regional Data: GDP and Personal Income: SAINC1—Population, 2018.”](#) *US Bureau of Economic Analysis* (October 2020).
- ³⁶ [“Regional Data: GDP and Personal Income: SAINC1—Per Capita Personal Income, 2018.”](#) *US Bureau of Economic Analysis* (October 2020).
- ³⁷ Data for state and local taxes: [“Annual Survey of State and Local Finance: 2018 State and Local Government Finance Historical Datasets and Tables: U.S. Summary and Alabama-Mississippi, Missouri-Wyoming.”](#) *U.S. Census Bureau* (October 2020). Data for state personal income: [“Regional Data: GDP and Personal Income: SAINC1—Personal Income, 2018.”](#) *US Bureau of Economic Analysis* (October 2020).

³⁸ Data for state and local taxes and non-tax revenue sources: [“Annual Survey of State and Local Finance: 2018 State and Local Government Finance Historical Datasets and Tables: U.S. Summary and Alabama-Mississippi, Missouri-Wyoming.”](#) *U.S. Census Bureau* (October 2020).

³⁹ Data for state and local taxes and non-tax revenue sources: [“Annual Survey of State and Local Finance: 2018 State and Local Government Finance Historical Datasets and Tables: U.S. Summary and Alabama-Mississippi, Missouri-Wyoming.”](#) *U.S. Census Bureau* (October 2020). Data for state personal income: [“Regional Data: GDP and Personal Income: SAINC1—Personal Income, 2018.”](#) *US Bureau of Economic Analysis* (October 2020).

⁴⁰ [“Connecticut Tax Incidence.”](#) *Connecticut Department of Revenue Services* (December 2014). Inflation adjustment is based on [“Consumer Price Index for All Urban Consumers \(CPI-U\).”](#) *U.S. Bureau of Labor Statistics*.

⁴¹ [“Connecticut Tax Incidence.”](#) *Connecticut Department of Revenue Services* (December 2014), 8.

⁴² [“Connecticut Tax Incidence.”](#) *Connecticut Department of Revenue Services* (December 2014), 11.

⁴³ The *working class* is defined as the bottom 50 percent of the income distribution and the average effective tax rate is measured here using the data for income decile one, which technically includes the bottom 48.3 percent of the income distribution. The *middle class* is defined as the next 40 percent of the income distribution and the average effective tax rate is measured here using the data for income deciles two through five, which technically includes the middle 43.4 percent of the income distribution. The *upper class* is defined as the next nine percent of the income distribution and the average effective tax rate is measured here using data for income deciles six and seven, which technically includes the next 7.1 percent of the income distribution. The *wealthiest* is defined as the top 1 percent of the income distribution and the average effective tax rate is measured here using data for income deciles eight through 10, which technically includes the top 1.3 percent of the income distribution.

⁴⁴ [“Connecticut Tax Incidence.”](#) *Connecticut Department of Revenue Services* (December 2014). The *working class* is defined as the bottom 50 percent of the income distribution and the average effective tax rate is measured here using the data for income decile one, which technically includes the bottom 48.3 percent of the income distribution. The *middle class* is defined as the next 40 percent of the income distribution and the average effective tax rate is measured here using the data for income deciles two through five, which technically includes the middle 43.4 percent of the income distribution. The *upper class* is defined as the next nine percent of the income distribution and the average effective tax rate is measured here using data for income deciles six and seven, which technically includes the next 7.1 percent of the income distribution. The *wealthiest* is defined as the top 1 percent of the income distribution and the average effective tax rate is measured here using data for income deciles eight through 10, which technically includes the top 1.3 percent of the income distribution. Data to update income levels from 2011 to 2018 dollars: [“Consumer Price Index Historical Tables for U.S. City Average: Consumer Price Index For All Urban Consumers \(CPI-U\).”](#) *U.S. Bureau of Labor Statistics* (October 2020).

⁴⁵ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014), 18-22.

⁴⁶ Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa C. Gee, Dylan Grundman, [“Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, Sixth Edition,”](#) *Institute on Taxation and Economic Policy* (October 2018), 21.

⁴⁷ Data for income: [“Median Income in the Past 12 Months \(in 2018 Inflation-Adjusted Dollars\): Table S1903 \(2018: ACS 5-Year Estimates\),”](#) *U.S. Census Bureau*. Data for mill rates: [“2019 Grand List Year, 2021 Fiscal Year,”](#) *Connecticut Office of Policy and Management*. On the issue of tax-exempt property, see Thomas Breen, [“Exempt Properties Top Taxable By \\$1.6B,”](#) *New Haven Independent* (April 9, 2019); J. Brian Charles, [“For College Towns, Having a World-Famous University is a Mixed Blessing: Just ask New Haven, the home of Yale,”](#) *Governing* (October 2018).

⁴⁸ Data for rent: [“Median Gross Rent as a Percentage of Household Income in the Past 12 Months: Table B25071 \(2019: ACS 1-Year Estimates\),”](#) *U.S. Census Bureau*. Data for homeowners: [“Median Selected Monthly Owner Costs as a Percentage of Household Income in the Past 12 Months: Table B25092 \(2019: ACS 1-Year Estimates\),”](#) *U.S. Census Bureau*.

⁴⁹ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014), 27-31.

⁵⁰ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014), 32-36.

⁵¹ Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa C. Gee, Dylan Grundman, [“Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, Sixth Edition,”](#) *Institute on Taxation and Economic Policy* (October 2018), 18.

⁵² Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa C. Gee, Dylan Grundman, [“Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, Sixth Edition,”](#) *Institute on Taxation and Economic Policy* (October 2018), 19.

⁵³ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014), 37-51; [“Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services* (2020), 48.

⁵⁴ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014), 6.

⁵⁵ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014), 46.

⁵⁶ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014), 41.

⁵⁷ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014), 51.

⁵⁸ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014), 23-26.

⁵⁹ [“Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services* (2020), 48.

⁶⁰ [“Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services* (2020), 47.

⁶¹ [“Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services* (2020), 48.

⁶² [“Earned Income Tax Credit Income and Maximum Credit Amounts: Tax Year 2020,”](#) *U.S. Internal Revenue Service*.

⁶³ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014), 52-54.

⁶⁴ [“Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services* (2020), 44.

⁶⁵ [“Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services* (2020), 44.

⁶⁶ [“Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services* (2020), 41.

⁶⁷ [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014). The *working class* is defined as the bottom 50 percent of the income distribution and the average effective tax rate is measured here using the data for income decile one, which technically includes the bottom 48.3 percent of the income distribution. The *middle class* is defined as the next 40 percent of the income distribution and the average effective tax rate is measured here using the data for income deciles two through five, which technically includes the middle 43.4 percent of the income distribution. The *upper class* is defined as the next nine percent of the income distribution and the average effective tax rate is measured here using data for income deciles six and seven, which technically includes the next 7.1 percent of the income distribution. The *wealthiest* is defined as the top 1 percent of the income distribution and the average effective tax rate is measured here using data for income deciles eight through 10, which technically includes the top 1.3 percent of the income distribution. Moreover, the “other” category includes both the real estate conveyance tax and the discrepancy between the overall average effective tax rate provided in the report and the total for all of the individual tax components.

⁶⁸ Data for calculating income for the top 1 percent of tax filers: [“2018 CT-1040 & CT-1040NR/PY Income Tax Data,”](#) *Connecticut Department of Revenue Services*. Data for median household income: [“Median Income in the Past 12 Months \(in 2018 Inflation-Adjusted Dollars\): Table S1903 \(2018: ACS 5-Year Estimates\),”](#) *U.S. Census Bureau*. Data for tax rates: [“Connecticut Tax Incidence,”](#) *Connecticut Department of Revenue Services* (December 2014).

⁶⁹ Data for calculating income for the top 1 percent of tax filers: [“2018 CT-1040 & CT-1040NR/PY Income Tax Data,”](#) *Connecticut Department of Revenue Services*. Data for median household income: [“Median Income in the Past 12 Months \(in 2018 Inflation-Adjusted Dollars\): Table S1903 \(2018:](#)

[ACS 5-Year Estimates](#)),” U.S. Census Bureau. Data for tax rates: [“Connecticut Tax Incidence,” Connecticut Department of Revenue Services](#) (December 2014).

⁷⁰ Heather Boushey, *Unbound: How Inequality Constricts Our Economy and What We Can Do About It* (Cambridge: Harvard University Press, 2019), 24.

⁷¹ Josh Bivens, [“Inequality is Slowing U.S. Economic Growth: Faster Wage Growth for Low- and Middle-Wage Workers is the Solution,” Economic Policy Institute](#) (December 2017); Patrick R. O’Brien, [“Supporting Connecticut’s Economy: A Program to Manage the Coronavirus Recession and Recovery,” CT Voices for Children](#) (2020).

⁷² [“Consensus Revenue, January 2020,” “Consensus Revenue, April 2020,” “Consensus Revenue, November 2020,” Connecticut Office of Policy and Management and Office of Fiscal Analysis; “Fiscal Accountability Report, FY21-FY24,” Connecticut Office of Fiscal Analysis](#) (November 2020).

⁷³ Shelley Geballe, [“Coping with the Cap: A Primer on Connecticut’s State Spending Cap and Its Impacts,” CT Voices for Children](#) (April 2007); Rachel Silbermann, Sam Whipple, and Jamie Mills, [“Connecticut’s Radical New Budget Rules: Locking in Decreased Investment in our State for the Next Decade,” CT Voices for Children](#) (March 2019).

⁷⁴ Patrick R. O’Brien, [“Supporting Connecticut’s Economy: A Program to Manage the Coronavirus Recession and Recovery,” CT Voices for Children](#) (2020); Charles J. Whalen and Felix Reichling, “The Fiscal Multiplier and Economic Policy Analysis in the United States,” *Congressional Budget Office: Working Paper Series* (February 2015).

⁷⁵ [“Household Pulse Survey,” U.S. Census Bureau](#) (2020). Data are for week 19 (November 11-November 23).

⁷⁶ Patrick R. O’Brien, [“Supporting Connecticut’s Economy: A Program to Manage the Coronavirus Recession and Recovery,” CT Voices for Children](#) (2020); Mark Zandi, “At Last, the U.S. Begins a Serious Fiscal Debate,” *Moody’s Analytics* (April 14, 2011).

⁷⁷ Rute Pinho, [“Issue Brief: Connecticut’s Volatility Cap,” Connecticut Office of Legislative Research](#) (August 2019).

⁷⁸ The 45 percent estimate for withholding revenue as a percent of combined withholding and estimates revenue is based on an analysis of the three most recent years of income tax data: [“2016 Individual Income Tax Data Report,” “2017 Individual Income Tax Data Report,” and “2018 Individual Income Tax Data Report,” Connecticut Department of Revenue Services](#).

⁷⁹ Estimated volatility cap is \$3,404.9 million for FY 2021, \$3,504.7 million for FY 2022, \$3,586.9 for FY 2023. See [“Fiscal Accountability Report, Fiscal Years 2021-2024,” Office of Policy and Management](#) (November 2020). Data for revenue projection: [“Consensus Revenue, November 2020,” Connecticut Office of Policy and Management and Office of Fiscal Analysis](#). Based on the most recent

revenue projection, the estimated additional revenue capacity under the volatility cap is \$90 million in FY 2021, \$202 million in FY 2022, and \$125 million in FY 2023.

⁸⁰ Rute Pinho, [“Issue Brief: Connecticut’s Volatility Cap.”](#) *Connecticut Office of Legislative Research* (August 2019).

⁸¹ Patrick R. O’Brien, [“Supporting Connecticut’s Economy: A Program to Manage the Coronavirus Recession and Recovery.”](#) *CT Voices for Children* (2020).

⁸² Lauren Ruth, Patrick O’Brien, Emily Byrne, Sana Shah, Ryan Wilson, Erin Sheehan, and Susana Barragan, [“Issue Briefing Book 2020-2022.”](#) *CT Voices for Children* (2020).

⁸³ Patrick R. O’Brien, [“The State of Working Connecticut: Advancing Economic Justice in the Labor Market.”](#) *CT Voices for Children* (2020).

⁸⁴ [“FY 2021 Deficit Mitigation Plan.”](#) *Connecticut Office of Policy and Management* (October 2020).

⁸⁵ Revenue estimates from the Institute on Taxation and Economic Policy. Connecticut income tax rates from [“Fiscal Year 2018-2019 Annual Report.”](#) *Connecticut Department of Revenue Services*. Other state and local income tax rates from Katherine Loughead, [“State Individual Income Tax Rates and Brackets for 2020.”](#) *Tax Foundation* (February 2020); Jared Walczak, [“Local Income Taxes in 2019.”](#) *Tax Foundation* (July 2019).

⁸⁶ The 45 percent estimate for withholding revenue as a percent of combined withholding and estimates revenue based on an analysis of three most recent years of income tax data: [“2016 Individual Income Tax Data Report,”](#) [“2017 Individual Income Tax Data Report,”](#) and [“2018 Individual Income Tax Data Report.”](#) *Connecticut Department of Revenue Services*.

⁸⁷ Katherine Loughead, [“State Individual Income Tax Rates and Brackets for 2020.”](#) *Tax Foundation* (February 2020); Jared Walczak, [“Local Income Taxes in 2019.”](#) *Tax Foundation* (July 2019).

⁸⁸ For an overview, see Christobal Young, *The Myth of Millionaire Tax Flight: How Place Still Matters for the Rich* (Stanford: Stanford University Press, 2018).

⁸⁹ [“2008 Personal Income Tax Data,”](#) and [“2018 CT-1040 & CT-1040NR/PY Income Tax Data.”](#) *Connecticut Department of Revenue Services*.

⁹⁰ [“SOI Tax Stats-Migration Data 2017-2018: Gross Migration File.”](#) *U.S. Internal Revenue Service*.

⁹¹ Manisha Srivastava and Michelle Riordan-Nold, [“Connecticut’s Population and Migration Trends: A Multi-Data Source Dive.”](#) *Connecticut Office of Policy and Management*.

⁹² Michael Mazerov, [“State Taxes Have a Negligible Impact on Americans’ Interstate Moves.”](#) *Center on Budget and Policy Priorities* (May 2014).

⁹³ [“SOI Tax Stats-Migration Data 2017-2018: Connecticut.”](#) *U.S. Internal Revenue Service*.

⁹⁴ [“Fiscal Year 2006-2007” through “Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services*.

⁹⁵ Revenue estimates based on an analysis of estate and gift tax data: [“Fiscal Year 2017-2018 Annual Report,”](#) and [“Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services*.

⁹⁶ [“Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services*.

⁹⁷ Elizabeth McNichol, [“State Taxes on Capital Gains,”](#) *Center on Budget and Policy Priorities* (2018); Michael Enseki-Frank, [“Connecticut’s Estate Tax: Addressing Wealth and Income Inequality,”](#) *CT Voices for Children* (2020).

⁹⁸ [“Fiscal Year 2006-2007” through “Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services*.

⁹⁹ Enrico Moretti and Daniel J. Wilson, “Taxing Billionaires: Estate Taxes and the Geographical Location of the Ultra-Wealth,” *Federal Reserve Bank of San Francisco Working Paper Series* (October 2019): 1-37.

¹⁰⁰ Revenue estimates from the Institute on Taxation and Economic Policy. Connecticut income tax rates from [“Fiscal Year 2018-2019 Annual Report,”](#) *Connecticut Department of Revenue Services*.

¹⁰¹ Estimated volatility cap is \$3,404.9 million for FY 2021, \$3,504.7 million for FY 2022, \$3,586.9 for FY 2023. See [“Fiscal Accountability Report, Fiscal Years 2021-2024,”](#) *Office of Policy and Management* (November 2020). Data for revenue projection: [“Consensus Revenue, November 2020,”](#) *Connecticut Office of Policy and Management and Office of Fiscal Analysis*. Based on the most recent revenue projection, the estimated additional revenue capacity under the volatility cap is \$90 million in FY 2021, \$202 million in FY 2022, and \$125 million in FY 2023.

¹⁰² Elizabeth McNichol, [“State Taxes on Capital Gains,”](#) *Center on Budget and Policy Priorities* (2018).

¹⁰³ Andrew W. Mellon, *Taxation: The People’s Business* (New York: Macmillan Co., 1924).

¹⁰⁴ [“TSSN-29: Capital Gains, Dividends & Interest Income Tax For Full-Year and Part-Year Residents,”](#) *Connecticut Department of Revenue Services* (November 1990).

¹⁰⁵ Elizabeth McNichol, [“State Taxes on Capital Gains,”](#) *Center on Budget and Policy Priorities* (December 2018).

¹⁰⁶ Data for number of high-valued properties: [“Owner-occupied housing units: Table B25075 \(2019: ACS 1-Year Estimates\),”](#) *U.S. Census Bureau*. Data for estimated value of mansion tax: Jung Choi, Bhargavi Ganesh, Sarah Stochak, and Bing Bai, [“Exploring the Viability of Mansion Tax Approaches,”](#) *Urban Institute* (May 2018). The UI dataset provides the value of “mansions” in eight states (California, Colorado, District of Columbia, Maine, Massachusetts, Michigan, Nevada, New York). We used this dataset to estimate the average value of a home in Connecticut worth more than

\$2 million. In particular, we developed four estimates (all of which were within \$60,000 of the average estimate) and we selected the estimate based on the following process: we calculated the average ratio of the median home value to the average mansion value in the eight states; using that ratio and the median home value in Connecticut, we calculated the average mansion value in Connecticut; and we updated the estimate for inflation using [“All-Transactions House Price Index for Connecticut.”](#) *Federal Reserve Bank of St. Louis*.

¹⁰⁷ Rute Pinho, [“OLR Backgrounder: Connecticut’s Volatility Cap,”](#) *Connecticut Office of Legislative Research* (2018).

¹⁰⁸ Iris J. Lav and Michael Leachman, [“State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed,”](#) *Center on Budget and Policy Priorities* (July 2018).

¹⁰⁹ Aidan Davis, [“Property Tax Circuit Breakers in 2018,”](#) *Institute on Taxation and Economic Policy* (September 2018).

¹¹⁰ Michael Leachman and Samantha Waxman, [“State ‘Mansion Taxes’ on Very Expensive Homes,”](#) *Center on Budget and Policy Priorities* (October 2019).

¹¹¹ Kenneth R. Gosselin, [“Connecticut Home Sales Heat Up as New Yorkers Flee and At-Home Workers Look for More Space; This Summer’s Real Estate Boom May Just Be the Beginning,”](#) *Hartford Courant* (September 4, 2020).

¹¹² Michael Leachman and Samantha Waxman, [“State ‘Mansion Taxes’ on Very Expensive Homes,”](#) *Center on Budget and Policy Priorities* (October 2019).

¹¹³ [“Earned Income Tax Credit \(EITC\),”](#) *U.S. Internal Revenue Service*. Margot L. Crandall-Hollick, Conor F. Boyle, Gene Falk, [“The Earned Income Tax Credit \(EITC\): How It Works and Who Receives It,”](#) *Congressional Research Services* (October 2020).

¹¹⁴ [“What is the CT EITC,”](#) *Connecticut Department of Revenue Services*.

¹¹⁵ Revenue estimates from the Institute on Taxation and Economic Policy. On expanding the CT EITC to ITIN filers, see Samantha Waxman, [“States Should Follow California and Colorado, Extend EITC to More Immigrants,”](#) *Center on Budget and Policy Priorities* (August 2020).

¹¹⁶ Average pre-tax income is calculated as the average of the income range for the bottom three income groups (working class, middle class, and upper class) and benefits are calculated based on the average income for each group. However, average pre-tax income for the wealthiest is calculated as the average income for the top one percent because the range for that group is unknown.

¹¹⁷ [“Section 12-704e. Earned Income Tax Credit,”](#) *Connecticut General Statutes*.

¹¹⁸ [“Policy Basics: The Earned Income Tax Credit,”](#) *Center on Budget and Policy Priorities* (December 2019).

¹¹⁹ Patrick R. O'Brien, [“Supporting Connecticut’s Economy: A Program to Manage the Coronavirus Recession and Recovery.”](#) *CT Voices for Children* (2020); Mark Zandi, “At Last, the U.S. Begins a Serious Fiscal Debate,” *Moody’s Analytics* (April 14, 2011).

¹²⁰ [“Sec. 12-704c. Credits for taxes paid on primary residence or motor vehicle.”](#) *Connecticut General Statutes*; Rute Pinho, [“Connecticut’s Property Tax Credit Against the State Income Tax.”](#) *Connecticut Office of Legislative Research* (September 2018).

¹²¹ [“2006 Income Tax Data”](#) and [“2018 CT-1040 & CT-1040NR/PY Income Tax Data.”](#) *Connecticut Department of Revenue Services*.

¹²² Revenue estimates from the Institute on Taxation and Economic Policy. Property tax credit data: [“Sec. 12-704c. Credits for taxes paid on primary residence or motor vehicle.”](#) *Connecticut General Statutes*.

¹²³ [“Financial Characteristics: Table S2503 \(2019: ACS 1-Year Estimates\).”](#) *U.S. Census Bureau*. Average pre-tax income is calculated as the average of the income range for the bottom three income groups (working class, middle class, and upper class) and benefits are calculated based on the average income for each group. However, average pre-tax income for the wealthiest is calculated as the average income for the top one percent because the range for that group is unknown. Moreover, this benefit distribution excludes the effect of the property tax credit for vehicles.

¹²⁴ [“Key Elements of the U.S. Tax System: What is the difference between refundable and nonrefundable tax credits.”](#) *Tax Policy Center* (May 2020).

¹²⁵ Chuck Marr, Stephanie Hingtgen, Arloc Sherman, Katie Windham, and Kris Cox, [“Temporarily Expanding Child Tax Credit and Earned Income Tax Credit Would Deliver Effective Stimulus, Help Avert Poverty Spike.”](#) *Center on Budget and Policy Priorities* (July 2020).

¹²⁶ [“Child Tax Credit and Credit for Other Dependents.”](#) *U.S. Internal Revenue Service Publication 972* (2019); [“The Child Tax Credit.”](#) *Congressional Research Services* (January 2019).

¹²⁷ Cost estimates provided by the Institute on Taxation and Economic Policy. Benefit data: [“The Child Tax Credit.”](#) *Congressional Research Services* (January 2019).

¹²⁸ [“The Child Tax Credit.”](#) *Congressional Research Services* (January 2019).

¹²⁹ Average pre-tax income is calculated as the average of the income range for the bottom three income groups (working class, middle class, and upper class) and benefits are calculated based on the average income for each group. However, average pre-tax income for the wealthiest is calculated as the average income for the top one percent because the range for that group is unknown.

¹³⁰ Aidan Davis and Meg Wiehe, [“The Case for Extending State-Level Child Tax Credits to Those Left Out: A 50-State Analysis.”](#) *Institute on Taxation and Economic Policy* (2019).

¹³¹ Matthew Santacroce, [“Making Children Visible in Connecticut’s Tax Code,”](#) *CT Voices for Children* (2014); Jared Walczak and Janelle Cammenga, [“2021 State Business Tax Climate Index,”](#) *Tax Foundation* (October 2020); [“State Tax Credits,”](#) *Tax Credits for Workers and Their Families*; [“The cost of childcare in Connecticut,”](#) *Economic Policy Institute*.

¹³² [“Policy Basics: The Child Tax Credit,”](#) *Center on Budget and Policy Priorities* (December 2019).

¹³³ Patrick R. O’Brien, [“Supporting Connecticut’s Economy: A Program to Manage the Coronavirus Recession and Recovery,”](#) *CT Voices for Children* (2020); Mark Zandi, “At Last, the U.S. Begins a Serious Fiscal Debate,” *Moody’s Analytics* (April 14, 2011).

¹³⁴ Keith M. Phaneuf, [“House Democrats Ready to Expand Borrowing to Protect State Programs Amid Pandemic,”](#) *CT Mirror* (November 10, 2020).

¹³⁵ [“Sec. 4-30a. Transfer of surplus to Budget Reserve Fund, State Employees Retirement Fund and Teachers’ Retirement Fund. Reduction of outstanding state indebtedness. Transfer of funds from Budget Reserve Fund,”](#) *Connecticut General Statutes*.

¹³⁶ Kate Davidson, [“Yellen Will Confront a Cooling Economic Recovery, Uncertain Stimulus Prospects,”](#) *Wall Street Journal* (November 24, 2020).

¹³⁷ Estimated volatility cap is \$3,404.9 million for FY 2021, \$3,504.7 million for FY 2022, \$3,586.9 million for FY 2023. See [“Fiscal Accountability Report, Fiscal Years 2021-2024,”](#) *Office of Policy and Management* (November 2020). Data for revenue projection: [“Consensus Revenue, November 2020,”](#) *Connecticut Office of Policy and Management and Office of Fiscal Analysis*. Based on the most recent revenue projection, the estimated additional revenue capacity under the volatility cap is \$90 million in FY 2021, \$202 million in FY 2022, and \$125 million in FY 2023.

¹³⁸ [“Household Pulse Survey,”](#) *U.S. Census Bureau* (2020). Data are for week 19 (November 11-November 23).