CONNECTICUT VOICES FOR CHILDREN

Stagnant Tax Threshold Hurts Connecticut Families

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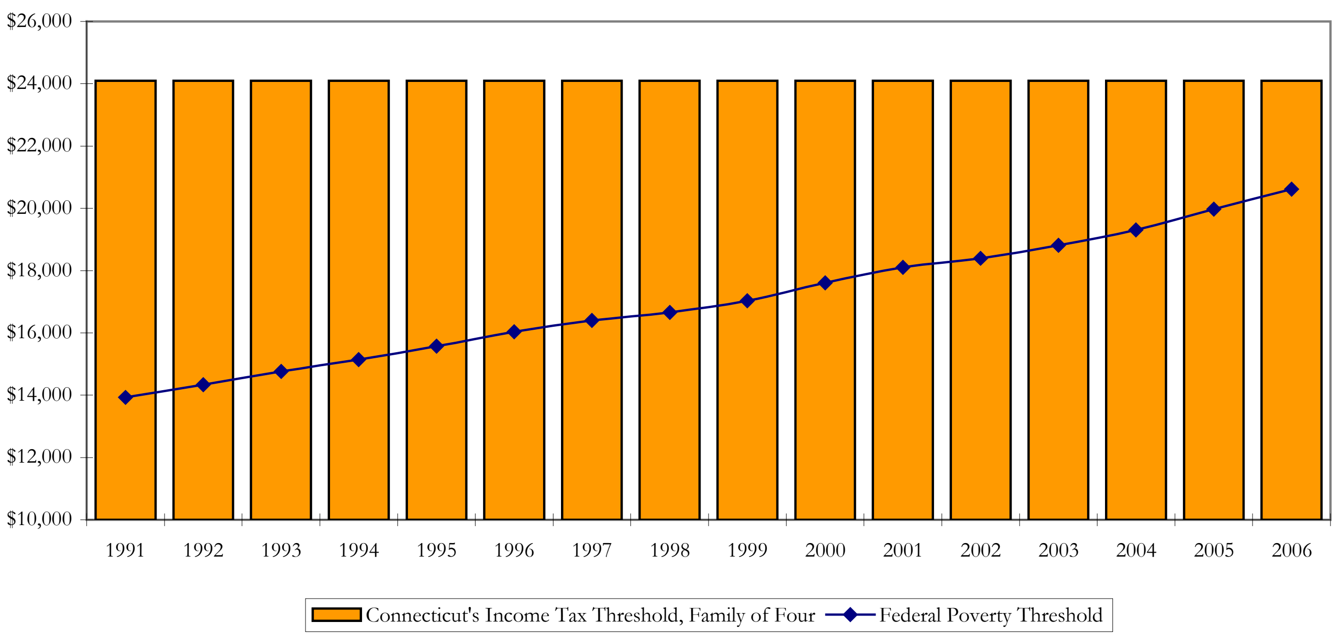
Connecticut's tax threshold has been frozen for over 15 years.[1] The "tax threshold" is defined as the income level at which a taxpayer first owes income tax, taking into account exemptions, credits and deductions that are *universally* available. Connecticut's tax threshold for families has not been increased since the enactment of the personal income tax in 1991. This means that each year, an increasing number of low-wage families are becoming subject to the state's income tax. A family of four earning just $24,100 can owe the state some income tax.[2] Connecticut is only one of two states with an income tax that has not adjusted its tax threshold upward since 1991.

Compared to the federal poverty level, Connecticut's tax threshold has plunged in the past 16 years. In 1991, Connecticut's tax threshold was 73% over the federal poverty line. Since the state has not moved its threshold and the federal poverty line increases annually with inflation, our threshold today is just 17% over the federal poverty line. Without legislative action, Connecticut will soon be taxing families with poverty-level incomes. This 56 percentage point drop is by far the largest in the nation. It stands in stark contrast to national averages, where the tax threshold has increased by 25% relative to the federal poverty line. The federal poverty line has increased by 48% since 1991. If Connecticut's threshold were the same amount above the federal poverty line as in 1991, the tax threshold today would be $35,664. Our income tax threshold has fallen well below where it was originally placed 16 years ago.

Erosion of Connecticut's Income Tax Threshold for a Family of Four Compared to the Federal Poverty Threshold, 1991-2006



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Connecticut, once a leader in appropriately targeting the income tax, now watches as other states create more supportive conditions for low-wage working families. When Connecticut's income tax was enacted, the state provided the highest threshold in the nation. That is no longer the case. In 1997, two states had a higher threshold. In 2000, seven states had passed Connecticut. By 2006, 16 states and Washington DC had higher thresholds.

The overall regressivity of Connecticut's tax system could be reduced with a higher tax threshold. Poorer families spend a higher percentage of their incomes on state and local taxes than do high income earners. The Connecticut General Assembly's Program Review and Investigations Committee noted that Connecticut's personal income tax "does not offset the regressivity of the state's sales, excise and property taxes." Increasing the tax threshold would make our tax system fairer.

Other changes to the income tax could make it more equitable. A refundable state Earned Income Tax Credit (EITC) would benefit our low-wage families; Connecticut is the only New England state with an income tax that does not also have a state EITC. Increasing income tax rates for higher income earners would also make the system fairer. Our wealthiest 1% of taxpayers (with average income of $2.4 million) in 2002 paid just 4.4% of their income in state and local taxes (taking into account federal income tax deductions), compared to the 9.5% of the income of taxpayers in our middle quintile (average income of $47,800) and the 10.2% of the income of our poorest quintile families (average income $13,800).[3]

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[1] This brief relies on a recent analysis by the Center on Budget and Policy Priorities. (J. Levitis, "The Impact of State Income Taxes on Low-Income Families in 2006.")

[2] For example, since some, but not all, families are eligible for the property tax credit against the income tax, this credit is not included when calculating the tax threshold. For families who are able to claim the credit, the point at which they are liable for income taxes is obviously higher.

[3] Institute on Taxation and Economic Policy, *Who Pays?* (January 2003), available at: www.itepnet.org/whopays.htm. Note, this report relies on data that pre-dates various tax changes enacted beginning in FY 02 to address our deficit. ITEP expects to release updated numbers in the near future.