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OLR BACKGROUNDER: A GUIDE TO THE STATE PERSONAL INCOME TAX

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This report provides an overview of Connecticut's personal income tax, including the tax rates, exemptions, and credit amounts and thresholds in effect for the 2011 tax year (January 1 through December 31). It presents scenarios to illustrate how these tax features work.

This report updates OLR report [2010-R-0372](#). OLR report [2011-R-0379](#) compares the major features of income taxes in selected states.

OVERVIEW OF THE INCOME TAX STRUCTURE

The Connecticut income tax applies to full-time residents who meet specific income thresholds or conditions and part-time residents and non-residents with income derived from sources within the state. The starting point for calculating the tax is the amount of federal Adjusted Gross Income (AGI) on a taxpayer's federal tax return. Taxpayers make several additions or subtractions to federal AGI to determine the portion of their income subject to Connecticut's income tax. For some filers, this amount is further reduced by a personal exemption. Taxpayers then apply tax rates that depend on the amount of taxable income and vary by filing status. Taxpayers with CT AGI over certain thresholds are also subject to a (1) phase-out of the lowest tax bracket and (2) "benefit recapture" which eliminates the benefits they receive from having a portion of their taxable income taxed at lower marginal rates.

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The amount of tax a person actually pays may be offset by credits, including personal, property, and earned income tax credits that phase out at higher income levels.

WHO MUST FILE?

Connecticut's income tax applies to full-time Connecticut residents who have earned or unearned income and part-time residents and non-residents with Connecticut-source income. Taxpayers must file an income tax return if they:

- have Connecticut income tax withheld from their wages,
- make estimated Connecticut income tax payments,
- meet the gross income test (i.e., reach the filing threshold), or
- have a federal alternative minimum tax liability.

For 2011, the filing threshold is:

- \$12,000 for married people filing separately,
- \$13,000 for single filers,
- \$19,000 for heads of household, and
- \$24,000 for married couples filing jointly or surviving spouses.

HOW IS THE TAX CALCULATED?

Taxable Income

The starting point for calculating Connecticut income tax is the amount of federal AGI on a taxpayer's federal tax return. The taxpayer applies certain modifications to federal AGI to arrive at Connecticut AGI (CT AGI). CT AGI is used to compute Connecticut taxable income, or income subject to the state income tax. For some filers, this amount is further reduced by a personal exemption.

Modifications to a taxpayer's federal AGI can include additions and subtractions, such as the loss or gain on the sale of Connecticut state or local bonds and a deduction for contributions to the college savings plan called the Connecticut Higher Education Trust (CHET). A taxpayer can also deduct (1) 75% or 100% of his or her federally taxable Social Security benefits, depending on federal AGI and filing status; (2) 100% of railroad retirement benefits; and (3) 50% of federally taxable military retirement benefits.

Individuals with incomes below specified thresholds are exempt from filing. Others are eligible to have their taxable income reduced through personal exemptions. The exemption amounts gradually phase out at higher income levels until they are completely eliminated. Table 1 shows the maximum personal exemption by filing status, the threshold for receiving the maximum exemption, and the AGI level above which the exemption is no longer available.

Table 1: Personal Exemptions

Category of Filer	Maximum Personal Exemption	Threshold for Maximum Exemption		No Exemption
		CT AGI Over	But Not Over	CT AGI Over
Single	\$13,000	\$26,000	\$27,000	\$38,000
Married Filing Separately	12,000	24,000	25,000	35,000
Head of Household	19,000	38,000	39,000	56,000
Married Filing Jointly	24,000	48,000	49,000	71,000

Source: [CGS § 12-702 \(a\) \(E\)](#)

Tax Rate

Starting with the 2011 tax year, the income tax has six income brackets and six tax rates. The rates apply to different income brackets and increase as taxable income exceeds specified income thresholds, which vary by filing status. Table 2 shows the brackets and rates by filing status.

Table 2: Tax Rates and Brackets

TAX RATE	CONNECTICUT TAXABLE INCOME							
	Married Filing Jointly		Single		Head of Household		Married Filing Separately	
	Over	But Not Over	Over	But Not Over	Over	But Not Over	Over	But Not Over
3.0%	\$0	\$20,000	\$0	\$10,000	\$0	\$16,000	\$0	\$10,000
5.0%	20,000	100,000	10,000	50,000	16,000	80,000	10,000	50,000
5.5%	100,000	200,000	50,000	100,000	80,000	160,000	50,000	100,000
6.0%	200,000	400,000	100,000	200,000	160,000	320,000	100,000	200,000
6.5%	400,000	500,000	200,000	250,000	320,000	400,000	200,000	250,000
6.7%	Over \$500,000		Over \$250,000		Over \$400,000		Over \$250,000	

Source: PA 11-6; DRS' 2011 Tax Calculation Schedule

3% Tax Rate Phase Out. For taxpayers with CT AGI over certain thresholds, the amount of income taxed at the 3% tax bracket decreases as CT AGI increases, thus subjecting more taxable income to the 5% bracket. The phase-out applies to taxpayers with CT AGI over \$100,500 for joint filers, \$56,500 for singles, \$78,500 for heads of household, and \$50,250 for married couples filing separately. Table 3 shows, for each type of filer, the starting point for the 3% phase-out, the phase-out intervals and amount of additional tax to be added at each interval, and the maximum amount of additional tax a taxpayer must pay as a result of the 3% phase-out.

Table 3: 3% Tax Rate Phase-Out

	<i>Single</i>	<i>Married Filing Jointly</i>	<i>Married Filing Separately</i>	<i>Head of Household</i>
<i>Phase-Out Starting Point: CT AGI Over</i>	\$56,500	\$100,500	\$50,250	\$78,500
<i>Additional Tax</i>	\$20 per \$5,000 of CT AGI over starting point	\$40 per \$5,000 of CT AGI over starting point	\$20 per \$2,500 of CT AGI over starting point	\$32 per \$4,000 of CT AGI over starting point
<i>Maximum Additional Tax</i>	\$200	\$400	\$200	\$320

Source: DRS' 2011 Tax Calculation Schedule

Benefit Recapture. Taxpayers whose annual CT AGI exceeds specified thresholds are also subject to a “benefit recapture” which eliminates the benefits they receive from having a portion of their taxable income taxed at lower marginal rates. These taxpayers must add specified amounts to their tax liability. The amounts phase in until a taxpayer’s CT AGI is effectively taxed at the highest marginal rate (6.7%).

Table 4 shows, for each type of filer, the (1) starting point for the recapture phase-in, (2) phase-in intervals and recapture amount to be added at each interval, and (3) maximum total recapture amount to be added once CT AGI reaches the fully phased-in level.

Table 4: Benefit Recapture Phase-In

	<i>Married Filing Jointly</i>	<i>Single/ Married Filing Separately</i>	<i>Head of Household</i>
<i>Phase-In Starting Point: CT AGI Over</i>	\$400,000	\$200,000	\$320,000
<i>Recapture Amount</i>	\$150 per \$10,000 of CT AGI over starting point	\$75 per \$5,000 of CT AGI over starting point	\$120 per \$8,000 of CT AGI over starting point
<i>Maximum Total Recapture Amount</i>	\$4,500	\$2,250	\$3,600

Source: PA 11-6

Tax Credits

The amount of tax a filer actually pays may be offset by tax credits, including a personal tax credit, property tax credit, earned income tax credit, and credit for income taxes paid to other jurisdictions. The personal, property, and earned income tax credits gradually phase out at higher income levels. Attachment 1 compares the eligibility criteria and credit limits for each of these credits and four additional credits for business-related activities, which this report does not discuss in detail.

Personal Tax Credit. A personal tax credit ranging from 1% to 75% of the tax due is available to all categories of filers up to certain income levels. Like the personal exemption, the personal tax credit phases out at higher income levels until it is completely eliminated. Table 5 shows the CT AGI levels that qualify for the maximum 75% credit and the levels at which the credit phases out. Taxpayers are not charged the full tax rates until their incomes exceed the “no credit” amount.

Table 5: Personal Tax Credits

Category of Filer	Qualifies for the Maximum 75% Credit		No Credit
	CT AGI Over	But Not Over	CT AGI Over
Single	\$13,000	\$16,300	\$56,500
Married Filing Separately	12,000	15,000	52,500
Head of Household	19,000	24,000	78,500
Married Filing Jointly	24,000	30,000	100,500

Source: [CGS § 12-703](#) and DRS' 2011 Tax Calculation Schedule

Property Tax Credit. Connecticut residents may qualify for a credit for property taxes paid on a primary residence and automobile in Connecticut. The amount of the property tax credit depends on the amount of property tax paid and the filer's CT AGI. The percent of property tax paid that can be taken as a credit declines as income increases until it completely phases out. Beginning with the 2011 tax year, the maximum credit allowed, regardless of filing status, is \$300 per return.

Table 6 shows for each filing status the (1) threshold at which the maximum property tax credit starts to phase out and (2) level above which the credit is no longer available.

Table 6: Property Tax Credit

Category of Filer	Maximum Credit Threshold (CT AGI)	No Credit (CT AGI Over)
Single	\$ 56,500	\$ 116,500
Married Filing Separately	\$ 50,250	\$ 80,250
Head of Household	\$ 78,500	\$ 138,500
Married Filing Jointly	\$ 100,500	\$ 160,500

Source: PA 11-6

Earned Income Tax Credit. Beginning with the 2011 tax year, Connecticut residents who qualify for, and claim, the federal earned income tax credit (EITC) may qualify for a refundable state EITC equal to 30% of the federal credit for the same tax year. Under federal law, people who work and earn incomes below certain levels qualify for the EITC. Credit amounts vary according to a taxpayer's income and the number of children he or she has.

For the 2011 tax year, a person qualifies for a federal EITC if he or she has at least \$1 of earned income, investment income (with certain exceptions) of \$3,150 or less, and a maximum federal AGI of:

1. \$13,660 (\$18,740 if married and filing jointly) with no children,
2. \$36,052 (\$41,132 if married and filing jointly) with one child,
3. \$40,964 (\$46,044 if married and filing jointly) with two children, and
4. \$43,998 (\$49,078 if married and filing jointly) with three or more children.

Based on the federal EITC for 2011, the maximum state EITC for the 2011 tax year ranges from \$139 for filers with no children to \$1,725 for filers with three or more children. If the state credit exceeds the taxpayer's state income tax liability, he or she receives the difference as an income tax refund (PA 11-6).

Credit for Income Taxes Paid to Qualifying Jurisdictions.

Connecticut full- and part-time residents may take a credit against their Connecticut income tax for income taxes paid to another state, political subdivision, or the District of Columbia on income that is also subject to Connecticut income taxes. To qualify for the credit, the income tax payments made to other jurisdictions must be (1) derived from or connected with sources within the jurisdiction, (2) reported on an income tax return filed with the jurisdiction, and (3) subject to tax there.

The total credit amount is limited to the lesser of the (1) amount of income tax paid to the qualifying jurisdiction, (2) portion of Connecticut income tax due on the CT AGI income sourced in the qualifying jurisdiction, or (3) taxpayer's Connecticut income tax liability ([CGS § 12-704](#)).

TAX CALCULATION EXAMPLES

The following scenarios and accompanying tables show how the various tax features work.

Scenario 1

Sam is a Connecticut resident, files as single, and has \$27,000 in federal AGI. He paid \$250 in property tax on his car in 2011.

Sam's CT AGI qualifies him for a \$12,000 personal exemption. His CT AGI is below the threshold for the 3% phase-out and benefit recapture, thus he does not need to add additional amounts to his tax liability. He qualifies for a 15% personal tax credit and a property tax credit equal to the total \$250 he paid in property taxes. The credits reduce his initial \$550 income tax liability to \$218.

Single Filer with Federal AGI of \$27,000

	Factor	Amount	Calculation
1	Federal AGI	\$27,000	
2	Modifications to federal AGI	\$0	
3	CT AGI	\$27,000	Add lines 1 and 2
4	Personal exemption	\$12,000	
5	Connecticut taxable income	\$15,000	Subtract line 4 from line 3
6	Tax calculation	\$550	Multiply amount on line 5 up to \$10,000 by 3% ($\$10,000 \times 0.03 = \300) Multiply amount on line 5 above \$10,000 but less than or equal to \$50,000 by 5% ($\$5,000 \times 0.05 = \250) Add both amounts ($\$300 + \$250 = \$550$)
7	3% Phase-out amount	\$0	
8	Benefit recapture amount	\$0	
9	Connecticut income tax	\$550	Add lines 6, 7, and 8
10	Personal tax credit	0.15	
11	Personal credit amount	\$82.50	Multiply amount on line 9 by amount on line 10
12	Income tax	\$468	Subtract line 11 from line 9
13	Property tax credit	\$250	
14	Tax due	\$218	Subtract line 13 and line 14 from line 12

Scenario 2

John and Mary are Connecticut residents, have two children, and file as married filing jointly. In 2011, they had \$37,500 in earned income, paid no property taxes, and received a \$1,700 federal EITC.

They qualify for the maximum personal exemption (\$24,000) which reduces their taxable income to \$13,500. Their CT AGI is below the threshold for the 3% phase-out and benefit recapture. They qualify for a 35% personal tax credit and a state EITC of \$510, which results in a \$247 refund.

Joint Filers with Federal AGI of \$37,500

	Factor	Amount	Calculation
1	Federal AGI	\$37,500	
2	Modifications to federal AGI	\$0	
3	CT AGI	\$37,500	Add lines 1 and 2
4	Personal exemption	\$24,000	
5	Connecticut taxable income	\$13,500	Subtract line 4 from line 3
6	Tax calculation	\$405	Multiply amount on line 5 up to \$20,000 by 3% ($\$13,500 \times 0.03 = \405)
7	3% Phase-out amount	\$0	
8	Benefit recapture amount	\$0	
9	Connecticut income tax	\$405	Add lines 6, 7, and 8
10	Personal tax credit	0.35	
11	Personal credit amount	\$141.75	Multiply amount on line 9 by amount on line 10
12	Income tax	\$263	Subtract line 11 from line 9
13	Property tax credit	\$0	
14	EITC	\$510	Multiply federal EITC by 30% ($\$1,700 \times 0.3 = \510)
15	Tax due	(\$247)	Subtract line 13 and line 14 from line 12

Scenario 3

Jack is a Connecticut resident who files as head of household. In 2011, he had a federal AGI of \$142,000 and paid \$6,500 in property taxes. He also made \$2,000 in contributions to his son's CHET account.

Jack can subtract from his federal AGI the \$2,000 CHET contribution, which makes his CT AGI \$140,000. His income makes him ineligible for a personal exemption. Jack must add an additional \$320 to his tax liability to account for the 3% phase-out, but his income is below the benefit recapture threshold. His income makes him ineligible for the personal, property, or earned income tax credits.

Head of Household Filer with Federal AGI of \$142,000

	<i>Factor</i>	<i>Amount</i>	<i>Calculation</i>
1	Federal AGI	\$142,000	
2	Modifications to federal AGI	(\$2,000)	Deduction for CHET contributions
3	CT AGI	\$140,000	Add lines 1 and 2
4	Personal exemption	\$0	
5	Connecticut taxable income	\$140,000	Subtract line 4 from line 3
6	Tax calculation	\$6,980	Multiply amount on line 5 up to \$16,000 by 3% ($\$16,000 \times 0.03 = \480) Multiply amount on line 5 above \$16,000 but less than or equal to \$80,000 by 5% ($\$64,000 \times 0.05 = \$3,200$) Multiply amount on line 5 above \$80,000 but less than or equal to \$160,000 by 5.5% ($\$60,000 \times 0.055 = \$3,300$) Add amounts ($\$480 + \$3,200 + \$3,300 = \$6,980$)
7	3% Phase-out amount	\$320	
8	Benefit recapture amount	\$0	
9	Connecticut income tax	\$7,300	Add lines 6, 7, and 8
10	Personal tax credit	\$0	
11	Personal credit amount	\$0	Multiply amount on line 9 by amount on line 10
12	Income tax	\$7,300	Subtract line 11 from line 9
13	Property tax credit	\$0	
14	Tax due	\$7,300	Subtract line 13 and line 14 from line 12

Scenario 4

Tom and Kat are Connecticut residents and file as married filing jointly. They have a federal AGI of \$600,000. They paid \$15,300 in property taxes on their house and cars.

Tom and Kat's CT AGI makes them ineligible for a personal exemption, personal credit, or property tax credit. They must add a \$400 phase-out amount and \$3,000 benefit recapture amount to their \$35,500 tax liability, bringing it to \$38,700.

Joint Filers with Federal AGI of \$600,000

	<i>Factor</i>	<i>Amount</i>	<i>Calculation</i>
1	Federal AGI	\$600,000	
2	Modifications to federal AGI	\$0	
3	CT AGI	\$600,000	Add lines 1 and 2
4	Personal exemption	\$0	
5	Connecticut taxable income	\$600,000	Subtract line 4 from line 3
6	Connecticut income tax	\$35,300	<p>Multiply amount on line 5 up to \$20,000 by 3% ($\\$20,000 \times 0.03 = \\$600$)</p> <p>Multiply amount on line 5 above \$20,000 but less than or equal to \$100,000 by 5% ($\\$80,000 \times 0.05 = \\$4,000$)</p> <p>Multiply amount on line 5 above \$100,000 but less than or equal to \$200,000 by 5.5% ($\\$100,000 \times 0.055 = \\$5,500$)</p> <p>Multiply amount on line 5 above \$200,000 but less than or equal to \$400,000 by 6% ($\\$200,000 \times 0.06 = \\$12,000$)</p> <p>Multiply amount on line 5 above \$400,000 but less than or equal to \$500,000 by 6.5% ($\\$100,000 \times 0.065 = \\$6,500$)</p> <p>Multiply amount on line 5 above \$500,000 by 6.7% ($\\$100,000 \times 0.067 = \\$6,700$)</p> <p>Add amounts ($\\$600 + \\$4,000 + \\$5,500 + \\$12,000 + \\$6,500 + \\$6,700 = \\$35,300$)</p>
7	3% Phase-out amount	\$400	
8	Benefit recapture amount	\$3,000	
9	Connecticut income tax	\$38,700	Add lines 6, 7, and 8
10	Personal tax credit	\$0	
11	Personal credit amount	\$0	Multiply amount on line 9 by amount on line 10
12	Income tax	\$38,700	Subtract line 11 from line 9
13	Property tax credit	\$0	
14	Tax due	\$38,700	Subtract line 13 and line 14 from line 12

Attachment 1: Personal Income Tax Credits

Credit	Citation	Eligibility Criteria	Credit Limit	Other Applicable Taxes
Personal Tax Credit	§ 12-703	Any taxpayer, within specified income levels	<ul style="list-style-type: none"> 1% to 75% of the income tax due, depending on CT AGI Credit phases out at higher income levels until it is completely eliminated 	None
Credit for income taxes paid to qualifying jurisdictions	§ 12-704	Connecticut residents or part-year residents	The lesser of the: <ul style="list-style-type: none"> amount of income tax paid to the qualifying jurisdiction, portion of Connecticut income tax due on income sourced in the qualifying jurisdiction, or taxpayer's Connecticut income tax liability 	None
Property tax credit	§ 12-704c	Connecticut residents	<ul style="list-style-type: none"> Maximum credit of \$300 Credit amount depends on the amount of property tax paid and filer's income 	None
Earned income tax credit	PA 11-6	Connecticut residents who qualify for and claim the federal EITC	30% of the federal EITC	None
Qualified small business job creation tax credit	§ 12-217nn	<ul style="list-style-type: none"> Businesses with fewer than 50 employees in Connecticut that create new jobs filled by Connecticut residents New employees must work at least 35 hours per week for at least 48 weeks per calendar year Credit available only for jobs created between May 6, 2010 and January 1, 2013 	<ul style="list-style-type: none"> Three-year, \$200 per month per new employee Total credits for this program and job creation and vocational rehabilitation job credits capped at \$20 million per year 	<ul style="list-style-type: none"> Insurance premium Corporation
Vocational rehabilitation job creation tax credit	§ 12-217oo, as amended by PA 11-1, October Special Session (OSS)	<ul style="list-style-type: none"> Businesses hiring Connecticut residents with disabilities New employees must work at least 20 hours per week for at least 48 weeks per calendar year Credits available only for employees hired between May 6, 2010 and January 1, 2012 	<ul style="list-style-type: none"> Three-year, \$200 per month per new employee Total credits for this program and job creation and qualified small business job credits capped at \$20 million per year 	<ul style="list-style-type: none"> Insurance premium Corporation
Job expansion tax credit	PA 11-1, OSS	<ul style="list-style-type: none"> Businesses with 50 or fewer employees creating at least one new job; those with between 51 and 100 employees must create at least five and those with more than 100 employees must create at least 10 Higher credit amount for businesses hiring Connecticut residents that are (1) receiving unemployment compensation, (2) unemployed after exhausting unemployment benefits, (3) current or past U. S. Armed Forces members, or (4) receiving services from the Bureau of Rehabilitative Services. Credits available only for employees hired between January 1, 2012 and January 1, 2014 	<ul style="list-style-type: none"> Three year credit of \$500 per month per new employee or \$900 per month if the employee meets specified criteria 	<ul style="list-style-type: none"> Insurance premium Corporation Utility Company
Angel investor tax credit	§ 12-704d, as amended by PA 11-1, OSS	Minimum \$25,000 investments in eligible start-up technology-based businesses operating in Connecticut	<ul style="list-style-type: none"> 25% of cash investment up to \$250,000 Total annual credits capped at \$6 million per year in FY 11-13 and \$3 million in FY 14 No new credits may be allocated after June 30, 2014 	None

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