



# OLR RESEARCH REPORT

December 30, 2011

2011-R-0445

## CONNECTICUT ADJUSTED GROSS INCOME

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You asked for an explanation of Connecticut adjusted gross income (CT AGI), which is used as the basis for calculating taxable income subject to Connecticut's income tax. This report summarizes Connecticut's AGI components. OLR Report [2011-R-0383](#) provides a full description of all of the major features of Connecticut's personal income tax.

### SUMMARY

The starting point for determining CT AGI is federal AGI. To calculate Connecticut AGI, a taxpayer modifies his or her federal AGI by adding and subtracting specified income and expenses. Depending on a taxpayer's individual circumstances, CT AGI can be further modified by personal exemptions to determine Connecticut taxable income.

### FEDERAL ADJUSTED GROSS INCOME

To calculate federal AGI, taxpayers list total income they received for the tax year in specified categories. They then apply certain reductions and report the adjusted amount on lines 37 and 38 of federal tax form 1040. This adjusted amount is the basis for calculating CT AGI. The income categories and deductions used to calculate federal AGI for the 2011 tax year are shown in Table 1.

**TABLE 1: FEDERAL ADJUSTED GROSS INCOME**

GROSS INCOME	DEDUCTIONS
<ul style="list-style-type: none"> <li>▪ Wages, salaries, and tips</li> <li>▪ Taxable interest</li> <li>▪ Ordinary and qualified dividends</li> <li>▪ Taxable refunds, credits, or offsets of state and local income taxes</li> <li>▪ Alimony received</li> <li>▪ Business income (or loss)</li> <li>▪ Capital gains (or losses)</li> <li>▪ Other gains (or losses)</li> <li>▪ IRA distributions</li> <li>▪ Pension and annuity income</li> <li>▪ Income from rental real estate, royalties, partnerships, S corporations, trusts, etc.</li> <li>▪ Farm income (or loss)</li> <li>▪ Unemployment compensation</li> <li>▪ Social Security benefits</li> <li>▪ Other taxable income, including, for example:               <ul style="list-style-type: none"> <li>○ Prizes and awards</li> <li>○ Gambling winnings</li> <li>○ Jury duty pay</li> <li>○ Cancelled debts</li> <li>○ Taxable disaster relief payments</li> <li>○ Taxable distributions from a Coverdell education savings account</li> <li>○ Income from not-for-profit activity</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Qualifying educator expenses</li> <li>▪ Certain business expenses of reservists, performing artists, and fee-basis government officials</li> <li>▪ Health savings account deduction</li> <li>▪ Moving expenses</li> <li>▪ Deductible self-employment tax</li> <li>▪ Self-employed SEP, SIMPLE, and qualified plan expenses</li> <li>▪ Self-employed health insurance expenses</li> <li>▪ Penalty on early withdrawal from savings</li> <li>▪ Alimony paid</li> <li>▪ IRA deduction</li> <li>▪ Student loan interest deduction</li> <li>▪ Qualifying tuition and fees</li> <li>▪ Up to 9% of income from qualified domestic production activities</li> <li>▪ Allowable write-in adjustments:               <ul style="list-style-type: none"> <li>○ Archer medical savings account deduction</li> <li>○ Jury duty pay given to an employer because the employer paid the taxpayer's salary while he or she served</li> <li>○ Deductible expenses related to income from rental of personal property for profit</li> <li>○ Reforestation amortization expenses</li> <li>○ Repayment of supplemental unemployment benefits received under the 1974 Trade Act</li> <li>○ Contributions to certain employee-funded pension plans</li> <li>○ Contributions by certain chaplains to 403(b) tax-sheltered annuity plans</li> <li>○ Attorney fees and court costs for actions regarding certain illegal discrimination claims</li> <li>○ Attorney fees and court costs paid in connection with an IRS award for information that helped detect tax law violations</li> </ul> </li> </ul>

Source: U.S. Tax Form 1040 (2011), 2011 Form 1040 Instructions pp. 19-32

To determine federal taxable income, the federal AGI on line 38 must be further reduced by personal exemptions and standard or itemized deductions. These so-called “below-the-line” exemptions and deductions are not included in Connecticut’s state income tax calculation.

## CONNECTICUT ADJUSTED GROSS INCOME

Many types of income are included or excluded from Connecticut income tax calculations without being expressly listed in Connecticut's income tax law, and based solely on whether or not they are included in federal AGI. Connecticut also taxes certain income excluded from, and exempts certain included in, federal AGI. In such cases, it requires taxpayers to add or subtract the specified income from their federal AGI to determine CT AGI.

Unless Connecticut requires an addition for it, any income not included in federal AGI is not subject to Connecticut income tax. Likewise, unless Connecticut expressly requires a subtraction from federal AGI, any income included in that total is automatically included in Connecticut AGI and potentially subject to Connecticut's income tax.

Connecticut's federal AGI modifications are summarized in Table 2.

**TABLE 2: CONNECTICUT INCOME TAX MODIFICATIONS TO FEDERAL AGI**

ADDITIONS	SUBTRACTIONS
<ul style="list-style-type: none"> <li>▪ Interest on non-Connecticut state and local government obligations</li> <li>▪ Exempt-interest dividends from a mutual fund derived from non-Connecticut state and local government obligations</li> <li>▪ Taxable lump-sum distributions from qualified plans not included in federal AGI</li> <li>▪ Taxpayer's share of any Connecticut additions that apply to income from an estate or trust ("fiduciary adjustment")</li> <li>▪ Loss on sales of Connecticut state or local government bonds</li> <li>▪ Federally reportable treaty income</li> <li>▪ Certain losses or deductions of an enrolled member of the Mashantucket Pequot Indian Tribe living in Pequot country</li> <li>▪ Connecticut income tax deducted on federal return to arrive at federal AGI</li> <li>▪ Expenses paid or incurred for production or collection of income exempt from Connecticut income tax that were deducted on federal return to</li> </ul>	<ul style="list-style-type: none"> <li>▪ Interest on federal obligations</li> <li>▪ Dividends from qualifying mutual funds derived from federal obligations</li> <li>▪ Exempt Social Security income (up to 100% depending on income)</li> <li>▪ State and local income tax refunds</li> <li>▪ Tier 1 and 2 railroad retirement benefits and supplemental annuities</li> <li>▪ 50% of income received from military retired pay</li> <li>▪ Taxpayer's share of any Connecticut subtractions that apply to income from an estate or trust</li> <li>▪ Gain on sales of Connecticut state or local government bonds</li> <li>▪ Federally taxable distributions received as a designated beneficiary from the Connecticut Higher Education Trust (CHET)</li> <li>▪ Qualifying contributions to CHET</li> <li>▪ Certain income or gains of an enrolled member of the Mashantucket Pequot Indian Tribe living in Pequot</li> </ul>

ADDITIONS	SUBTRACTIONS
<p>arrive at federal AGI</p> <ul style="list-style-type: none"> <li>▪ Interest expenses on debt incurred or continued to buy or carry obligations or securities whose income is Connecticut tax-exempt</li> <li>▪ Amortizable bond premiums producing interest income exempt from Connecticut income tax, if the premiums were deducted to arrive at federal AGI</li> <li>▪ Interest or dividend income on obligations of a U.S. entity that federal law exempts from federal, but not state, income taxes</li> <li>▪ For income tax years starting January 1, 2002, federally deductible bonus depreciation allowance on certain property acquired between September 10, 2001 and September 10, 2004 and placed in service before January 1, 2005</li> <li>▪ Federally tax-deferred cancellation of debt income (i.e., income realized when a debtor is relieved of the obligation to repay all or part of a debt) realized in 2009 and 2010 and not included in federal AGI</li> <li>▪ Amount of federal tax deduction for income from qualified domestic production activities</li> </ul>	<p>country</p> <ul style="list-style-type: none"> <li>▪ Qualifying, federally taxable, Holocaust settlement payments</li> <li>▪ Federally taxable interest earned on funds deposited in a Connecticut individual development account</li> <li>▪ Interest paid on indebtedness incurred to acquire investments that provide Connecticut taxable but federal tax-exempt income, if not deductible in determining federal AGI and attributable to the taxpayer's trade or business</li> <li>▪ Expenses paid or incurred for the production (including management, conservation, and maintenance of property held for production) or collection of Connecticut taxable but federal tax-exempt income, if not deductible in determining federal AGI</li> <li>▪ Amortizable bond premiums producing interest or Connecticut taxable income, if the premiums are not deductible to determine federal AGI and are attributable to the taxpayer's trade or business</li> <li>▪ Federally taxable interest on Connecticut state bonds or obligations</li> <li>▪ Any interest, dividend, or capital gains earned on accounts established under the Connecticut Homecare Option Program for the Elderly included in federal AGI</li> <li>▪ Federal bonus depreciation allowance for property placed in service between 1/1/2001 and 12/31/2004 and included in federal AGI</li> <li>▪ Federally tax-deferred cancellation of debt income realized in 2009 and 2010 and included in federal AGI</li> <li>▪ Any income from an estate or trust, or any Connecticut fiduciary adjustment that applies to such income</li> </ul>

Sources: CGS § 12-701 (20); 2011 CT 1040 Instructions, pp. 22-26

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