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ResearchReport

2017 Changes to Income Tax Exemptions for Social Security and Pension Income

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January 9, 2018 | 2018-R-0005

Federal Adjusted Gross Income (AGI)

Connecticut and several other states base their personal income taxes on the amount of income subject to federal income taxes (i.e., federal AGI) and subtract specified income and expenses from that amount to compute the state's AGI.

By adopting the federal AGI, states exclude federal tax-exempt income from the state AGI. Federal tax-exempt income includes a portion of Social Security income.

Issue

Explain how the legislature changed the conditions under which taxpayers may claim state tax deductions for Social Security and pension and annuity income.

Summary

PA 17-2, June Special Session (JSS) (§ 641) increases the income thresholds below which taxpayers may deduct Social Security income that is subject to federal income tax and, beginning in 2019, imposes a six-year phase-out of pension and annuity income. The phase-out, which is an annual deduction, ends after 2025.

Social Security Income

By law, Connecticut exempts from its income tax (1) Social Security income the federal government exempts from the federal income tax and (2) depending on a taxpayer's filing status and federal adjusted gross income (AGI), some or all of the Social Security income the federal government taxes (CGS § 12-701(20)(B)(x)).

In 2017, the legislature raised the income thresholds below which taxpayers can deduct 100% of their federally taxable Social Security income, thus extending this deduction to more taxpayers. The new thresholds take effect in 2019, when the threshold rises from (1) $50,000 to $75,000 for single filers and married people filing separately and (2) $60,000 to $100,000 for joint filers and heads of household. As under existing law, taxpayers with incomes at or above these thresholds continue to qualify for a 75% deduction (PA 17-2, JSS (§ 641), as amended by PA 17-4, JSS (§ 18)).

Pension and Annuity Income

In 2017, the legislature authorized a six-year phase-out, from 2019 to 2025, of the state income tax on pension and annuity income for taxpayers with federal AGIs below specified thresholds. The thresholds are (1) $75,000 for single filers, married people filing separately, and heads of households and (2) $100,000 for joint filers. Taxpayers with incomes below these thresholds may deduct a percentage of their pension and annuity income when calculating their state AGI. The deduction is 14% in 2019 and, as Table 1 shows, increases annually until it reaches 100% in 2025, after which it ends.

Table 1: Phase-in of the Pension and Annuity Income Tax Exemption

Tax Year	Percent of Pension and Annuity Income Exempt from Income Tax
2019	14%
2020	28
2021	42
2022	56
2023	70
2024	84
2025	100

In authorizing the pension and annuity income tax exemption, the legislature also made a conforming change to the existing teacher pension exemption by allowing taxpayers to claim either that exemption or the pension and annuity exemption.

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