

# State Income Tax Treatment of Federal COVID-19 Economic Impact Payments

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## Issue

Are the federal COVID-19 economic impact payments subject to Connecticut income tax?

## Connecticut's Tax Treatment of Economic Impact Payments

The Coronavirus Aid, Relief, and Economic Stimulus (CARES) Act provides economic impact payments to eligible taxpayers of up to \$1,200 for individuals (\$2,400 for joint filers) and \$500 per child age 16 or under. Taxpayers receive the full amount if their incomes are equal to or less than \$75,000 for single filers, \$112,500 for heads of household, and \$150,000 for joint filers. Payments for those with incomes that exceed these thresholds are reduced by \$5 for every \$100 of income above the applicable threshold. (The [IRS Economic Impact Payment Information Center](#) provides more information on the payments.)

These payments are not subject to Connecticut income tax because of the way Connecticut adjusted gross income (AGI) is calculated. The starting point for calculating Connecticut income tax is the amount of federal AGI on a taxpayer's federal tax return. Connecticut taxpayers adjust this amount by adding back certain income or federal deductions and subtracting additional amounts, as specified by state law, to arrive at Connecticut AGI. (For more information on calculating Connecticut AGI, see OLR Report [2016-R-0186](#).)

Economic impact payments are treated as refundable federal income tax credits and are not included in federal AGI. There is no provision in existing state law that requires taxpayers to add

back federal tax credits to arrive at Connecticut AGI. Thus, economic impact payments are not subject to Connecticut income tax.

Tax experts have noted that economic impact payments are likely not taxable in most states because federal tax credits generally do not flow through to state taxable income. Payments could, however, affect state tax liability in select states that allow income tax deductions for federal taxes paid. Because the payments are structured as tax credits, they effectively reduce federal tax liability, thereby reducing the deduction taxpayers can claim on their state returns (“Some States May View Stimulus Checks as Reportable Credits,” *State Tax Notes*, Apr. 13, 2020). This will not be the case in Connecticut, which does not allow a deduction for federal taxes paid.

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