OFFICE OF LEGISLATIVE RESEARCH
Objective Research for Connecticut's Legislature

ResearchReport

OLR Backgrounder: A Guide to Connecticut's Personal Income Tax

By: Rute Pinho, Chief Analyst
August 20, 2020 | 2020-R-0191

Issue

This report provides an overview of Connecticut's personal income tax, including the tax rates, exemptions, credit amounts, and thresholds in effect for the 2019 and 2020 tax years.

This report updates OLR Report 2011-R-0383.

Summary

The Connecticut income tax applies to full-time residents who meet specific income thresholds or conditions and part-time residents and nonresidents 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 (CT AGI). For some filers, this amount is further reduced by a personal exemption. Taxpayers then apply tax rates based on the tax bracket income thresholds for their 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.

The amount of tax a person actually pays may be offset by credits, including personal, property, and earned income tax credits (EITC) 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,
- had a pass-through entity (PE) tax credit,
- meet the gross income test (i.e., reach the filing threshold),
- have a federal alternative minimum tax liability, or
- are claiming the Connecticut EITC.

For 2019, the filing threshold is:

- $12,000 for married people filing separately,
- $15,000 for single filers,
- $19,000 for heads of household, and
- $24,000 for married couples filing jointly or surviving spouses.

How is Taxable Income Calculated?

Overview

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 then reduced by a personal exemption, if applicable, to arrive at Connecticut taxable income.

Connecticut AGI

Taxpayers modify their federal AGI with additions and subtractions (deductions), as applicable, to arrive at CT AGI. These include an addition for the interest income derived from state and municipal government obligations (other than Connecticut state or local bonds) and a deduction for contributions to the college savings plan called the Connecticut Higher Education Trust (CHET) (see CT Form 1040, *Schedule 1*). Taxpayers can also deduct all or part of qualifying retirement income as we describe below.

Social Security Income. Taxpayers may deduct 100% of the Social Security benefits included in their federal AGI if such AGI is less than (1) $75,000 for single filers and married people filing separately and (2) $100,000 for joint filers and heads of household (CGS § 12-701(a)(20)(B)(x)). Taxpayers with federal AGIs at or above these thresholds qualify for a partial deduction. Under this partial deduction, no more than 25% of total Social Security benefits received is subject to state income tax.

By law, the partial deduction equals the difference between the:

1. amount of Social Security benefits includable for federal income tax purposes and
2. lesser of 25% of the (a) Social Security benefits received during the taxable year or (b) "excess of base amount" for federal tax purposes (CGS § 12-701(a)(20)(B)(x)) (see DRS's *Social Security Benefit Adjustment Worksheet*).

Teachers' Retirement System (TRS) Income. For the 2019 and 2020 tax years, taxpayers may deduct 25% of their TRS income. (This deduction is scheduled to increase to 50% beginning with the 2021 tax year.)

Pension and Annuity Income. Taxpayers with federal AGIs below specified thresholds may, for the 2019 tax year, deduct 14% of their qualifying pension and annuity income when calculating their CT AGI. The deduction applies to taxpayers with federal AGIs below (1) $75,000 for single filers, married people filing separately, and heads of households and (2) $100,000 for married people filing jointly. This deduction is scheduled to increase to 28% for 2020, 42% for 2021, 56% for 2022, 70% for 2023, 84% for 2024, and 100% for 2025 and thereafter (CGS § 12-701(a)(20)(B)(xxi)).

Other Retirement Income. Taxpayers may deduct 100% of their (1) tier I and tier II railroad retirement benefits (which are generally exempt from state and local income tax under the federal Railroad Retirement Act of 1974 (45 USC § 231m) and (2) military retirement pay (CGS § 12-701(a)(20), as amended by PA 19-117, § 332).

Personal Exemptions

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

Filing Status	Maximum Personal Exemption	Maximum Exemption Threshold	No Exemption
		CT AGI ≤	CT AGI >
Single	$15,000	$30,000	$44,000
Married Filing Separately	12,000	24,000	35,000
Head of Household	19,000	38,000	56,000
Married Filing Jointly	24,000	48,000	71,000

Source: CGS § 12-702 and DRS *2019 Tax Calculation Schedule*

What is the Tax Rate?

Tax Brackets

Connecticut income tax has seven tax brackets with rates ranging from 3.00% to 6.99%. The income ranges for each tax bracket vary by filing status. The rates are marginal, meaning that only the income that falls within the corresponding range is subject to tax at the specified rate. For example, a single filer with $55,000 in taxable income is subject to a 3% tax on the first $10,000, 5% tax on income from $10,001 to $50,000, and 5.5% tax on the remaining income from $50,001 to $55,000.

Table 2 shows the brackets and rates and the income thresholds by filing status. A flat 6.99% rate applies to trusts and estates.

Table 2: Tax Brackets

Tax Rate	Connecticut Taxable Income		
	Single and Married Filing Separately	Heads of Household	Married Filing Jointly
3%	$0 to $10,000	$0 to $16,000	$0 to 20,000
5%	$10,001 to $50,000	$16,001 to $80,000	$20,001 to $100,000
5.5%	$50,001 to $100,000	$80,001 to $160,000	$100,001 to $200,000
6%	$100,001 to $200,000	$160,001 to $320,000	$200,001 to $400,000
6.5%	$200,001 to $250,000	$320,001 to $400,000	$400,001 to $500,000
6.9%	$250,001 to $500,000	$400,001 to $800,000	$500,001 to $1,000,000
6.99%	> $500,000	> $800,000	> $1,000,000

Source: CGS § 12-700(a)(9)

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

	Single	*Married Filing Jointly*	*Married Filing Separately*	*Head of Household*
Phase-Out Starting Point: CT AGI >	$56,500	$100,500	$50,250	$78,500
Additional Tax	$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
Maximum Additional Tax	$200	$400	$200	$320

Source: CGS § 12-700(a)(9) and DRS *2019 Tax Calculation Schedule*

Benefit Recapture

Taxpayers whose 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 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 (6.99%).

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, (3) maximum total recapture amount to be added once CT AGI reaches the fully phased-in level and (4) income level at which the benefit recapture is fully phased-in.

Table 4: Benefit Recapture Phase-In

	Single/ Married Filing Separately	*Married Filing Jointly*	*Head of Household*
Phase-In Starting Point: CT AGI	> $200,000	> $400,000	> $320,000
Recapture Amount	$90 per $5,000 of CT AGI over starting point plus $50 per $5,000 of CT AGI over $500,000	$180 per $10,000 of CT AGI over starting point plus $100 per $10,000 of CT AGI over $1,000,000	$140 per $8,000 of CT AGI over starting point plus $80 per $8,000 of CT AGI over $800,000
Maximum Total Recapture Amount	$3,150	$6,300	$4,920
Income Level at which Recapture is Fully Phased-In	≥ $540,000	≥ $1,080,000	≥ $864,000

Source: CGS § 12-700(a)(9) and DRS *2019 Tax Calculation Schedule*

What Tax Credits Apply to the Income Tax?

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 (EITC), and credit for income taxes paid to other jurisdictions. The personal, property, and earned income tax credits gradually phase out at higher income levels. We describe below the credits that may be applied against the income tax.

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.

Table 5: Personal Tax Credits

Category of Filer	Qualifies for the Maximum 75% Credit		No Credit
	CT AGI >	CT AGI ≤	CT AGI >
Single	$15,000	$18,800	$64,500
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 *2019 Tax Calculation Schedule*

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 and (2) 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 sourced in the qualifying jurisdiction (or, for part-time residents, the amount of Connecticut income tax due on the portion of CT AGI sourced in the qualifying jurisdiction and earned during the taxpayer's residency portion of the tax year), or (3) taxpayer's Connecticut income tax liability (CGS § 12-704).

Property Tax Credit

Connecticut residents may qualify for a credit of up to $200 for property taxes paid on a primary residence or automobile in Connecticut. For the 2017 through 2020 tax years, eligibility for the

credit is limited to people who (1) were age 65 or older before the end of the tax year or (2) validly claimed at least one dependent on their federal income tax return for that year.

Table 6: Property Tax Credit

Category of Filer	Maximum Credit (CT AGI ≤)	No Credit (CT AGI >)
Single	$49,500	$109.500
Married Filing Separately	35,250	65,250
Head of Household	54,500	114,500
Married Filing Jointly	70,500	130,500

Source: CGS § 12-704c and DRS Property Tax Credit Table (pg. 32)

The property tax credit amount 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. (CGS § 12-704c, as amended by PA 19-117, § 335).

Table 6 shows for each filing status the income threshold (1) at which taxpayers may claim the maximum property tax credit and (2) above which the credit is no longer available.

EITC

Connecticut residents who qualify for, and claim, the federal EITC may qualify for a refundable state EITC equal to 23% 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.

Based on the federal EITC for 2019, the maximum state EITC for the 2019 tax year ranges from $122 for filers with no children to $1,508 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.

Angel Investor Tax Credit

Certain investors may qualify for income tax credits for investments they make in eligible businesses in Connecticut. To qualify, they must invest at least $25,000 in a business that meets eligibility criteria (e.g., is principally located in the state, has been in operation less than seven years, and has less than $1 million in annual gross revenue) and is approved to receive credit-eligible investments by Connecticut Innovations, Inc. (CI), which administers the credit program. Each credit equals 25% of the cash investment, up to $500,000. The total amount of angel investor credits that may be awarded each fiscal year is capped at $5 million through FY 24 (CGS § 12-704d, as amended by PA 19-117, §347).

Insurance Reinvestment Fund

Although this tax credit program has been closed since July 1, 2010, taxpayers may still be claiming these 10-year credits against their personal income tax liability. Taxpayers qualified for the credits for making eligible investments through a fund manager in an insurance business. The credit equals 100% of the investment and is claimed over 10 years, beginning in the fourth year after the investment was made (10% per year in years four through seven and 20% per year in years eight through 10) (CGS § 38a-88a(b)).

PE Tax Credit

Pass-through entities (partnerships, S corporations, limited liability companies that are treated as partnerships, or S corporations for federal income tax purposes) that carry on business in Connecticut or have income derived from Connecticut sources are subject to the PE tax.

Partners or members of a pass-through entity required to pay the PE Tax are allowed a PE Tax Credit for their share of the PE tax imposed on the pass-through entity. The credit amount is equal to the taxpayer's direct and indirect pro-rata share of the PE Tax paid by the pass-through entity multiplied by 87.5%. If the credit exceeds the taxpayer's Connecticut income tax liability, the excess is considered an overpayment and is refunded without interest (CGS § 12-699, as amended by PA 19-117, § 333, and PA 19-186, § 1).

What is the Connecticut Alternative Minimum Tax (AMT)?

Taxpayers who had federal AMT liability may also owe Connecticut AMT in addition to regular income tax. The Connecticut AMT is calculated based on a percentage of a taxpayer's federal AMT or federal alternative minimum taxable income, after applying certain Connecticut modifications. Taxpayers whose Connecticut AMT exceeds their regular Connecticut income tax liability must pay the difference (CGS § 12-700a; see DRS's *Q&A: The Connecticut Alternative Minimum Tax*, IP 2005(31)).

Do Taxpayers Have to Pay Use Tax with Their Income Tax?

Taxpayers generally owe use tax on purchases of taxable goods or services when Connecticut sales tax is not paid to the retailer at the time of purchase. Although the use tax is separate from the state income tax, taxpayers may report and pay their use tax liability on their state income tax returns. Use tax rates are the same as sales tax rates (i.e., 6.35% for most taxable goods and services) (CGS § 12-411 et seq.; see DRS's *Q&A on the Connecticut Individual Use Tax*, IP 2016(19)).

How Much Revenue Does the State Receive from the Tax?

According to DRS, there were approximately 1.84 million income tax filers in FY 19 (DRS *2019 Annual Report*, pg. 49). As Table 7 shows, Connecticut collected $9.64 billion in income tax revenue in FY 19, down from $10.77 billion in FY 18 but up from $8.99 billion in FY 17.

Table 7: Connecticut Income Tax Revenue, FYs 17-19

FY	Revenue
19	$9,640,161,331
18	10,769,830,624
17	8,988,607,484

Source: DRS *2019 Annual Report*

RP:kc