

## Income Tax Deductions for Retirement Income

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### Issue

Explain the state tax deductions for Social Security income, pension and annuity income, and individual retirement account (IRA) income. This report updates OLR Report [2019-R-0098](#). **This report has been updated by OLR Report [2022-R-0099](#).**

### 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\(20\)\(B\)\(x\)](#)). (OLR report [2018-R-0271](#) explains the federal Social Security exemption.)

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 took effect in 2019, rising 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 AGIs at or above these thresholds continue to qualify for a 75% deduction ([CGS § 12-701\(a\)\(20\)\(B\)\(x\)\(III\)](#)).

### Pension and Annuity Income

#### *General Pension and Annuity Exemption*

The income tax on pension and annuity income for taxpayers with AGIs below specified thresholds is scheduled to phase out over six years, from 2019 to 2025. The thresholds are (1) \$75,000 for single filers, married people filing separately, and heads of households and (2) \$100,000 for married people filing jointly ([CGS § 12-701\(a\)\(20\)\(B\)\(xxi\)](#)).

Taxpayers with AGIs below these thresholds may deduct a percentage of their pension and annuity income when calculating their Connecticut AGI according to the schedule shown in Table 1.

**Table 1: Schedule for Deducting Percentage of Pension and Annuity Income From Connecticut Income Taxes**

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 and thereafter	100

### ***Teacher’s Retirement System (TRS) Pension Income***

Beginning with the 2021 tax year, taxpayers can deduct 50% of TRS pension income from their Connecticut taxable income ([CGS § 12-701\(a\)\(20\)\(B\)\(xx\)](#)). For the 2016-2020 tax years, the deduction was 25%.

Taxpayers who are eligible for both the general pension and annuity exemption and the TRS pension exemption may take whichever one is most favorable to them ([CGS § 12-701\(a\)\(20\)\(B\)\(xx\)](#), as amended by [PA 21-2](#), June Special Session, § 433).

### **IRA Income**

The FY 22-23 budget implementer act phases out the income tax on certain taxpayers’ distributions from IRAs, other than Roth IRAs, over four years beginning with the 2023 tax year ([PA 21-2](#), June Special Session, § 433). Taxpayers qualify for the exemption if their income is below the same thresholds that apply to the pension and annuity income exemption (see above). The act exempts an increasing portion of IRA income until the income is fully exempt in the 2026 tax year, as shown in Table 2.

**Table 2: Schedule for Deducting Percentage of IRA Income From Connecticut Income Taxes**

Tax Year	Percent of IRA Income Exempt
2023	25
2024	50
2025	75
2026 and thereafter	100

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