
OLR Bill Analysis

HB 5408

AN ACT CONCERNING THE QUALIFYING INCOME THRESHOLDS FOR CERTAIN PERSONAL INCOME TAX DEDUCTIONS FOR MARRIED INDIVIDUALS FILING JOINTLY.

SUMMARY

Beginning with the 2022 tax year, this bill increases the income threshold for joint filers to qualify for the (1) 100% Social Security income tax exemption and (2) pension and annuity income tax exemption. Under current law, joint filers with federal adjusted gross incomes (AGI) of less than \$100,000 may, when calculating their income for state income tax purposes, deduct (1) 100% of their federally taxable Social Security income and (2) a specified portion of their qualifying pension and annuity income (56% for 2022). This bill increases this threshold to \$150,000. The bill also makes a conforming change allowing joint filers with incomes equal to or greater than this threshold to qualify for a partial Social Security exemption (see BACKGROUND).

The bill similarly increases, from \$100,000 to \$150,000, the income threshold for joint filers to qualify for the individual retirement account (IRA) income exemption allowed beginning in the 2023 tax year.

As under existing law, the threshold for single filers and married people filing separately remains at \$75,000 for all three income tax exemptions. For heads of households, the threshold remains at \$100,000 for the Social Security exemption and \$75,000 for the pension and annuity and IRA income exemptions.

EFFECTIVE DATE: July 1, 2022, and applicable to tax years beginning on or after January 1, 2022.

BACKGROUND

Partial Social Security Income Deduction

By law, taxpayers with a federal AGI at or above the thresholds for

the 100% Social Security exemption 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. Specifically, the 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.

Pension and Annuity and IRA Exemptions

By law, the income tax on qualifying pension and annuity income for taxpayers with AGIs below specified thresholds phases out over six years, from 2019 to 2025. The exemption is 56% for 2022, 70% for 2023, 84% for 2024, and 100% beginning in 2025.

The income tax on distributions from IRAs, other than Roth IRAs, is scheduled to phase out over four years beginning with the 2023 tax year. The exemption is 25% for 2023, 50% for 2024, 75% for 2025, and 100% beginning in 2026. The qualifying income thresholds for this exemption are the same as those for the pension and annuity exemption.

Related Bill

sSB 11 (§ 2), favorably reported by the Finance, Revenue and Bonding Committee accelerates the phase-in of the pension and annuity income tax exemption by allowing qualifying taxpayers to deduct 100% of their eligible income beginning with the 2022 tax year.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 51 Nay 0 (04/05/2022)