



House of Representatives

General Assembly

File No. 599

February Session, 2022

Substitute House Bill No. 5408

House of Representatives, April 25, 2022

The Committee on Finance, Revenue and Bonding reported through REP. SCANLON of the 98th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

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

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subparagraph (B) of subdivision (20) of subsection (a) of
2 section 12-701 of the 2022 supplement to the general statutes is repealed
3 and the following is substituted in lieu thereof (*Effective July 1, 2022, and*
4 *applicable to taxable years commencing on or after January 1, 2022*):

5 (B) There shall be subtracted therefrom:

6 (i) To the extent properly includable in gross income for federal
7 income tax purposes, any income with respect to which taxation by any
8 state is prohibited by federal law;

9 (ii) To the extent allowable under section 12-718, exempt dividends
10 paid by a regulated investment company;

11 (iii) To the extent properly includable in gross income for federal
12 income tax purposes, the amount of any refund or credit for
13 overpayment of income taxes imposed by this state, or any other state
14 of the United States or a political subdivision thereof, or the District of
15 Columbia;

16 (iv) To the extent properly includable in gross income for federal
17 income tax purposes and not otherwise subtracted from federal
18 adjusted gross income pursuant to clause (x) of this subparagraph in
19 computing Connecticut adjusted gross income, any tier 1 railroad
20 retirement benefits;

21 (v) To the extent any additional allowance for depreciation under
22 Section 168(k) of the Internal Revenue Code for property placed in
23 service after September 27, 2017, was added to federal adjusted gross
24 income pursuant to subparagraph (A)(ix) of this subdivision in
25 computing Connecticut adjusted gross income, twenty-five per cent of
26 such additional allowance for depreciation in each of the four
27 succeeding taxable years;

28 (vi) To the extent properly includable in gross income for federal
29 income tax purposes, any interest income from obligations issued by or
30 on behalf of the state of Connecticut, any political subdivision thereof,
31 or public instrumentality, state or local authority, district or similar
32 public entity created under the laws of the state of Connecticut;

33 (vii) To the extent properly includable in determining the net gain or
34 loss from the sale or other disposition of capital assets for federal income
35 tax purposes, any gain from the sale or exchange of obligations issued
36 by or on behalf of the state of Connecticut, any political subdivision
37 thereof, or public instrumentality, state or local authority, district or
38 similar public entity created under the laws of the state of Connecticut,
39 in the income year such gain was recognized;

40 (viii) Any interest on indebtedness incurred or continued to purchase
41 or carry obligations or securities the interest on which is subject to tax
42 under this chapter but exempt from federal income tax, to the extent that

43 such interest on indebtedness is not deductible in determining federal
44 adjusted gross income and is attributable to a trade or business carried
45 on by such individual;

46 (ix) Ordinary and necessary expenses paid or incurred during the
47 taxable year for the production or collection of income which is subject
48 to taxation under this chapter but exempt from federal income tax, or
49 the management, conservation or maintenance of property held for the
50 production of such income, and the amortizable bond premium for the
51 taxable year on any bond the interest on which is subject to tax under
52 this chapter but exempt from federal income tax, to the extent that such
53 expenses and premiums are not deductible in determining federal
54 adjusted gross income and are attributable to a trade or business carried
55 on by such individual;

56 (x) (I) For taxable years commencing prior to January 1, 2019, for a
57 person who files a return under the federal income tax as an unmarried
58 individual whose federal adjusted gross income for such taxable year is
59 less than fifty thousand dollars, or as a married individual filing
60 separately whose federal adjusted gross income for such taxable year is
61 less than fifty thousand dollars, or for a husband and wife who file a
62 return under the federal income tax as married individuals filing jointly
63 whose federal adjusted gross income for such taxable year is less than
64 sixty thousand dollars or a person who files a return under the federal
65 income tax as a head of household whose federal adjusted gross income
66 for such taxable year is less than sixty thousand dollars, an amount
67 equal to the Social Security benefits includable for federal income tax
68 purposes;

69 (II) For taxable years commencing prior to January 1, 2019, for a
70 person who files a return under the federal income tax as an unmarried
71 individual whose federal adjusted gross income for such taxable year is
72 fifty thousand dollars or more, or as a married individual filing
73 separately whose federal adjusted gross income for such taxable year is
74 fifty thousand dollars or more, or for a husband and wife who file a
75 return under the federal income tax as married individuals filing jointly

76 whose federal adjusted gross income from such taxable year is sixty
77 thousand dollars or more or for a person who files a return under the
78 federal income tax as a head of household whose federal adjusted gross
79 income for such taxable year is sixty thousand dollars or more, an
80 amount equal to the difference between the amount of Social Security
81 benefits includable for federal income tax purposes and the lesser of
82 twenty-five per cent of the Social Security benefits received during the
83 taxable year, or twenty-five per cent of the excess described in Section
84 86(b)(1) of the Internal Revenue Code;

85 (III) For the taxable [year] years commencing January 1, 2019, [and
86 each taxable year thereafter] but prior to January 1, 2022, for a person
87 who files a return under the federal income tax as an unmarried
88 individual whose federal adjusted gross income for such taxable year is
89 less than seventy-five thousand dollars, or as a married individual filing
90 separately whose federal adjusted gross income for such taxable year is
91 less than seventy-five thousand dollars, or for a husband and wife who
92 file a return under the federal income tax as married individuals filing
93 jointly whose federal adjusted gross income for such taxable year is less
94 than one hundred thousand dollars or a person who files a return under
95 the federal income tax as a head of household whose federal adjusted
96 gross income for such taxable year is less than one hundred thousand
97 dollars, an amount equal to the Social Security benefits includable for
98 federal income tax purposes; [and]

99 (IV) For the taxable [year] years commencing January 1, 2019, [and
100 each taxable year thereafter] but prior to January 1, 2022, for a person
101 who files a return under the federal income tax as an unmarried
102 individual whose federal adjusted gross income for such taxable year is
103 seventy-five thousand dollars or more, or as a married individual filing
104 separately whose federal adjusted gross income for such taxable year is
105 seventy-five thousand dollars or more, or for a husband and wife who
106 file a return under the federal income tax as married individuals filing
107 jointly whose federal adjusted gross income from such taxable year is
108 one hundred thousand dollars or more or for a person who files a return
109 under the federal income tax as a head of household whose federal

110 adjusted gross income for such taxable year is one hundred thousand
111 dollars or more, an amount equal to the difference between the amount
112 of Social Security benefits includable for federal income tax purposes
113 and the lesser of twenty-five per cent of the Social Security benefits
114 received during the taxable year, or twenty-five per cent of the excess
115 described in Section 86(b)(1) of the Internal Revenue Code;

116 (V) For the taxable year commencing January 1, 2022, and each
117 taxable year thereafter, for a person who files a return under the federal
118 income tax as an unmarried individual whose federal adjusted gross
119 income for such taxable year is less than seventy-five thousand dollars,
120 or as a married individual filing separately whose federal adjusted gross
121 income for such taxable year is less than seventy-five thousand dollars,
122 or for a husband and wife who file a return under the federal income tax
123 as married individuals filing jointly whose federal adjusted gross
124 income for such taxable year is less than one hundred fifty thousand
125 dollars or a person who files a return under the federal income tax as a
126 head of household whose federal adjusted gross income for such taxable
127 year is less than one hundred thousand dollars, an amount equal to the
128 Social Security benefits includable for federal income tax purposes; and

129 (VI) For the taxable year commencing January 1, 2022, and each
130 taxable year thereafter, for a person who files a return under the federal
131 income tax as an unmarried individual whose federal adjusted gross
132 income for such taxable year is seventy-five thousand dollars or more,
133 or as a married individual filing separately whose federal adjusted gross
134 income for such taxable year is seventy-five thousand dollars or more,
135 or for a husband and wife who file a return under the federal income tax
136 as married individuals filing jointly whose federal adjusted gross
137 income from such taxable year is one hundred fifty thousand dollars or
138 more or for a person who files a return under the federal income tax as
139 a head of household whose federal adjusted gross income for such
140 taxable year is one hundred thousand dollars or more, an amount equal
141 to the difference between the amount of Social Security benefits
142 includable for federal income tax purposes and the lesser of twenty-five
143 per cent of the Social Security benefits received during the taxable year,

144 or twenty-five per cent of the excess described in Section 86(b)(1) of the
145 Internal Revenue Code;

146 (xi) To the extent properly includable in gross income for federal
147 income tax purposes, any amount rebated to a taxpayer pursuant to
148 section 12-746;

149 (xii) To the extent properly includable in the gross income for federal
150 income tax purposes of a designated beneficiary, any distribution to
151 such beneficiary from any qualified state tuition program, as defined in
152 Section 529(b) of the Internal Revenue Code, established and
153 maintained by this state or any official, agency or instrumentality of the
154 state;

155 (xiii) To the extent allowable under section 12-701a, contributions to
156 accounts established pursuant to any qualified state tuition program, as
157 defined in Section 529(b) of the Internal Revenue Code, established and
158 maintained by this state or any official, agency or instrumentality of the
159 state;

160 (xiv) To the extent properly includable in gross income for federal
161 income tax purposes, the amount of any Holocaust victims' settlement
162 payment received in the taxable year by a Holocaust victim;

163 (xv) To the extent properly includable in gross income for federal
164 income tax purposes of an account holder, as defined in section 31-
165 51ww, interest earned on funds deposited in the individual
166 development account, as defined in section 31-51ww, of such account
167 holder;

168 (xvi) To the extent properly includable in the gross income for federal
169 income tax purposes of a designated beneficiary, as defined in section
170 3-123aa, interest, dividends or capital gains earned on contributions to
171 accounts established for the designated beneficiary pursuant to the
172 Connecticut Homecare Option Program for the Elderly established by
173 sections 3-123aa to 3-123ff, inclusive;

174 (xvii) To the extent properly includable in gross income for federal

175 income tax purposes, any income received from the United States
176 government as retirement pay for a retired member of (I) the Armed
177 Forces of the United States, as defined in Section 101 of Title 10 of the
178 United States Code, or (II) the National Guard, as defined in Section 101
179 of Title 10 of the United States Code;

180 (xviii) To the extent properly includable in gross income for federal
181 income tax purposes for the taxable year, any income from the discharge
182 of indebtedness in connection with any reacquisition, after December
183 31, 2008, and before January 1, 2011, of an applicable debt instrument or
184 instruments, as those terms are defined in Section 108 of the Internal
185 Revenue Code, as amended by Section 1231 of the American Recovery
186 and Reinvestment Act of 2009, to the extent any such income was added
187 to federal adjusted gross income pursuant to subparagraph (A)(xi) of
188 this subdivision in computing Connecticut adjusted gross income for a
189 preceding taxable year;

190 (xix) To the extent not deductible in determining federal adjusted
191 gross income, the amount of any contribution to a manufacturing
192 reinvestment account established pursuant to section 32-9zz in the
193 taxable year that such contribution is made;

194 (xx) To the extent properly includable in gross income for federal
195 income tax purposes, (I) for the taxable year commencing January 1,
196 2015, ten per cent of the income received from the state teachers'
197 retirement system, (II) for the taxable years commencing January 1,
198 2016, to January 1, 2020, inclusive, twenty-five per cent of the income
199 received from the state teachers' retirement system, and (III) for the
200 taxable year commencing January 1, 2021, and each taxable year
201 thereafter, fifty per cent of the income received from the state teachers'
202 retirement system or, for a taxpayer whose federal adjusted gross
203 income does not exceed the applicable threshold under clause (xxi) of
204 this subparagraph, the percentage pursuant to said clause of the income
205 received from the state teachers' retirement system, whichever
206 deduction is greater;

207 (xxi) To the extent properly includable in gross income for federal

208 income tax purposes, except for retirement benefits under clause (iv) of
209 this subparagraph and retirement pay under clause (xvii) of this
210 subparagraph, for a person who files a return under the federal income
211 tax as an unmarried individual whose federal adjusted gross income for
212 such taxable year is less than seventy-five thousand dollars, or as a
213 married individual filing separately whose federal adjusted gross
214 income for such taxable year is less than seventy-five thousand dollars,
215 or as a head of household whose federal adjusted gross income for such
216 taxable year is less than seventy-five thousand dollars, or for a husband
217 and wife who file a return under the federal income tax as married
218 individuals filing jointly whose federal adjusted gross income for [such]
219 taxable [year] years commencing prior to January 1, 2022, is less than
220 one hundred thousand dollars and for taxable years commencing on or
221 after January 1, 2022, is less than one hundred fifty thousand dollars, (I)
222 for the taxable year commencing January 1, 2019, fourteen per cent of
223 any pension or annuity income, (II) for the taxable year commencing
224 January 1, 2020, twenty-eight per cent of any pension or annuity income,
225 (III) for the taxable year commencing January 1, 2021, forty-two per cent
226 of any pension or annuity income, (IV) for the taxable year commencing
227 January 1, 2022, fifty-six per cent of any pension or annuity income, (V)
228 for the taxable year commencing January 1, 2023, seventy per cent of any
229 pension or annuity income, (VI) for the taxable year commencing
230 January 1, 2024, eighty-four per cent of any pension or annuity income,
231 and (VII) for the taxable year commencing January 1, 2025, and each
232 taxable year thereafter, any pension or annuity income;

233 (xxii) The amount of lost wages and medical, travel and housing
234 expenses, not to exceed ten thousand dollars in the aggregate, incurred
235 by a taxpayer during the taxable year in connection with the donation
236 to another person of an organ for organ transplantation occurring on or
237 after January 1, 2017;

238 (xxiii) To the extent properly includable in gross income for federal
239 income tax purposes, the amount of any financial assistance received
240 from the Crumbling Foundations Assistance Fund or paid to or on
241 behalf of the owner of a residential building pursuant to sections 8-442

242 and 8-443;

243 (xxiv) To the extent properly includable in gross income for federal
244 income tax purposes, the amount calculated pursuant to subsection (b)
245 of section 12-704g for income received by a general partner of a venture
246 capital fund, as defined in 17 CFR 275.203(l)-1, as amended from time to
247 time;

248 (xxv) To the extent any portion of a deduction under Section 179 of
249 the Internal Revenue Code was added to federal adjusted gross income
250 pursuant to subparagraph (A)(xiv) of this subdivision in computing
251 Connecticut adjusted gross income, twenty-five per cent of such
252 disallowed portion of the deduction in each of the four succeeding
253 taxable years; and

254 (xxvi) To the extent properly includable in gross income for federal
255 income tax purposes, for a person who files a return under the federal
256 income tax as an unmarried individual whose federal adjusted gross
257 income for such taxable year is less than seventy-five thousand dollars,
258 or as a married individual filing separately whose federal adjusted gross
259 income for such taxable year is less than seventy-five thousand dollars,
260 or as a head of household whose federal adjusted gross income for such
261 taxable year is less than seventy-five thousand dollars, or for a husband
262 and wife who file a return under the federal income tax as married
263 individuals filing jointly whose federal adjusted gross income for such
264 taxable year is less than one hundred fifty thousand dollars, (I) for the
265 taxable year commencing January 1, 2023, twenty-five per cent of any
266 distribution from an individual retirement account other than a Roth
267 individual retirement account, (II) for the taxable year commencing
268 January 1, 2024, fifty per cent of any distribution from an individual
269 retirement account other than a Roth individual retirement account, (III)
270 for the taxable year commencing January 1, 2025, seventy-five per cent
271 of any distribution from an individual retirement account other than a
272 Roth individual retirement account, and (IV) for the taxable year
273 commencing January 1, 2026, and each taxable year thereafter, any
274 distribution from an individual retirement account other than a Roth

275 individual retirement account.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2022, and applicable to taxable years commencing on or after January 1, 2022</i>	12-701(a)(20)(B)

Statement of Legislative Commissioners:

In Subpara. (B)(x)(III) and (IV), "year" was changed to "[year] years" for accuracy.

FIN *Joint Favorable Subst. -LCO*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 23 \$	FY 24 \$
Revenue Serv., Dept.	GF - Revenue Loss	76.8 million	111.8 million

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill, which increases the qualifying income threshold for the pension and annuity, Individual Retirement Account, and 100% Social Security benefit exemptions under the personal income tax, results in a General Fund revenue loss of \$76.8 million and \$111.8 million in FY 23 and FY 24, respectively.

The Out Years

State Impact:

Agency Affected	Fund-Effect	FY 25 \$	FY 26 \$	FY 27 \$
Revenue Serv., Dept.	GF - Revenue Loss	134.4 million	157.2 million	167.8 million

Note: GF=General Fund

Municipal Impact: None

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)