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:

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(B) of subdivision (20) of subsection (a) of section 12-701 of the 2022 supplement to the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2022, and applicable to taxable years commencing on or after January 1, 2022*):

(B) There shall be subtracted therefrom:

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

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

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

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

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

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

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

(viii) Any interest on indebtedness incurred or continued to purchase or carry obligations or securities the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such interest on indebtedness is not deductible in determining federal adjusted gross income and is attributable to a trade or business carried on by such individual;

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

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

(II) For taxable years commencing prior to January 1, 2019, for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or as a married individual filing separately whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income from such taxable year is sixty thousand dollars or more or for a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is sixty thousand dollars or more, an amount equal to the difference between the amount of Social Security benefits includable for federal income tax purposes and the lesser of twenty-five per cent of the Social Security benefits received during the taxable year, or twenty-five per cent of the excess described in Section 86(b)(1) of the Internal Revenue Code;

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

(IV) For the taxable [year] years commencing January 1, 2019, [and each taxable year thereafter] but prior to January 1, 2022, for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is seventy-five thousand dollars or more, or as a married individual filing separately whose federal adjusted gross income for such taxable year is seventy-five thousand dollars or more, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income from such taxable year is one hundred thousand dollars or more or for a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is one hundred thousand dollars or more, an amount equal to the difference between the amount of Social Security benefits includable for federal income tax purposes and the lesser of twenty-five per cent of the Social Security benefits received during the taxable year, or twenty-five per cent of the excess described in Section 86(b)(1) of the Internal Revenue Code;

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

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

<u>or twenty-five per cent of the excess described in Section 86(b)(1) of the Internal Revenue Code;</u>

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

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

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

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

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

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

(xvii) To the extent properly includable in gross income for federal income tax purposes, any income received from the United States government as retirement pay for a retired member of (I) the Armed Forces of the United States, as defined in Section 101 of Title 10 of the United States Code, or (II) the National Guard, as defined in Section 101 of Title 10 of the United States Code;

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

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

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

(xxi) To the extent properly includable in gross income for federal income tax purposes, except for retirement benefits under clause (iv) of this subparagraph and retirement pay under clause (xvii) of this subparagraph, for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is less than seventy-five thousand dollars, or as a married individual filing separately whose federal adjusted gross income for such taxable year is less than seventy-five thousand dollars, or as a head of household whose federal adjusted gross income for such taxable year is less than seventy-five thousand dollars, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income for [such] taxable [year] years commencing prior to January 1, 2022, is less than one hundred thousand dollars and for taxable years commencing on or after January 1, 2022, is less than one hundred fifty thousand dollars, (I) for the taxable year commencing January 1, 2019, fourteen per cent of any pension or annuity income, (II) for the taxable year commencing January 1, 2020, twenty-eight per cent of any pension or annuity income, (III) for the taxable year commencing January 1, 2021, forty-two per cent of any pension or annuity income, (IV) for the taxable year commencing January 1, 2022, fifty-six per cent of any pension or annuity income, (V) for the taxable year commencing January 1, 2023, seventy per cent of any pension or annuity income, (VI) for the taxable year commencing January 1, 2024, eighty-four per cent of any pension or annuity income, and (VII) for the taxable year commencing January 1, 2025, and each taxable year thereafter, any pension or annuity income;

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

(xxiii) To the extent properly includable in gross income for federal income tax purposes, the amount of any financial assistance received from the Crumbling Foundations Assistance Fund or paid to or on behalf of the owner of a residential building pursuant to sections 8-442 and 8-443;

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

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

(xxvi) To the extent properly includable in gross income for federal income tax purposes, for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is less than seventy-five thousand dollars, or as a married individual filing separately whose federal adjusted gross income for such taxable year is less than seventy-five thousand dollars, or as a head of household whose federal adjusted gross income for such taxable year is less than seventy-five thousand dollars, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income for such taxable year is less than one hundred <u>fifty</u> thousand dollars, (I) for the taxable year commencing January 1, 2023, twenty-five per cent of any distribution from an individual retirement account other than a Roth individual retirement account, (II) for the taxable year commencing January 1, 2024, fifty per cent of any distribution from an individual retirement account other than a Roth individual retirement account, (III) for the taxable year commencing January 1, 2025, seventy-five per cent of any distribution from an individual retirement account other than a Roth individual retirement account, and (IV) for the taxable year commencing January 1, 2026, and each taxable year thereafter, any distribution from an individual retirement account other than a Roth individual retirement account.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*July 1, 2022, and applicable to taxable years commencing on or after January 1, 2022*	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)