Finance, Revenue and Bonding Committee
JOINT FAVORABLE REPORT

Bill No.: House Bill 5408

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

Vote Date: 4/5/2022

Vote Action: Joint Favorable

PH Date: 3/15/2022

File No.: 599

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The Finance, Revenue and Bonding Committee

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REASONS FOR BILL:

This bill increases, from $100,000 to $150,000, the income threshold under which joint filers qualify for a 100% income tax exemption for their Social Security benefits, and pension and annuity income. The effective date would be July 1, 2022, and applicable to tax years beginning on or after January 1, 2022.

RESPONSE FROM ADMINISTRATION/AGENCY:

None expressed.

NATURE AND SOURCES OF SUPPORT:

House Republican Office, Connecticut General Assembly submitted testimony supporting this bill. They testified that this is twice the qualifying threshold for single filers and would give parity to married couples with retirement income here in the state. Currently, single filers must have a federal adjusted gross income (AGI) of less than $75,000 and joint filers/heads of households must have an AGI of less than $100,000. This change will also help make the state more attractive and affordable for retirees, which make up approximately 40% of the state's population and contribute significantly to state and local taxes. While the state is seeing unprecedented surpluses and a record Budget Reserve Fund, increasing this threshold will send a signal to our state's retirees that we want them to stay here in Connecticut when they retire and not move out of state.

Nora Duncan, State Director, American Association of Retired People (AARP) Connecticut submitted testimony in support of the bill. Making more people eligible for personal income tax deductions for Social Security benefits, pension and annuity income and individual retirement account distributions helps retirees keep more of their hard-earned money in their pockets. AARP believes a reduced tax burden can play a role in making sure our older residents have the financial security they need to age in place.

AARP believes that "tax cliffs," like those created in this proposal, make for bad tax policy. With a "tax cliff," taxpayers who earn a little more income in any given year can lose an entire exemption and have a significantly higher tax liability than their gain in income. This problem can be addressed by slowly phasing out an exemption over some income range, rather than having a sharp cut-off at a distinct income point (e.g., $75,000 or $150,000). We encourage a modification to the language in this proposal to make this change.

Mike Gouzie, Resident, Gales Ferry, Connecticut submitted testimony in support of the bill, and strongly recommended its passage to Governor Lamont. As the budget surplus approaches $2 billion, now is the time to bring realistic tax relief to the average Connecticut pensioner. This encourages them to retain Connecticut residency, and at the same time reduces inequities in pension income tax formulas…specifically AGI limitations imposed on the average pensioner, while allowing an unlimited AGI for the favored others.

Gordon MacKensie, Representative, Fairfield Senior Advocates testified that there is a significant population of senior "snow-birds" who, as non-residents, pay property taxes but not Connecticut income taxes. They might be more willing to become Connecticut resident taxpayers if lower retirement income tax rates make this change viable to them. He testified that Seniors are major "profit contributors" to our town budgets. This is because, as is the case in Fairfield, over 65% of our town budget is from the cost of Education. Seniors generally have no children in the school system, so when they pay their property taxes, (which for many, this is their largest tax category) two-thirds of those taxes "subsidize" our town's education expense. If they leave and sell their house to a family of four, this creates a significant town budget impact. In Fairfield we estimate the expected impact of losing a senior household to approach, on average, $10,000 per year.

Mr. MacKensie's testimony pointed out two other considerations to keep in mind on retirement income legislation. One is the phenomenon called "the Cliff", an extreme example being where one couple's Federal AGI of $99,999 makes them (under current legislation) eligible to save thousands of Connecticut tax dollars on their retirement income, and yet their neighbor who's Federal AGI is at $100,000 would receive zero tax relief. This is unfair and unexplainable to taxpayers. This issue becomes more acute each year as the roll-out plans yield additional tax savings amounts. Some form of "smoothing out" this abrupt ineligibility to many taxpayers needs to be offered. An example of a solution is the approach New Jersey has taken. Along these lines, we know the Committee frequently asks what other states are doing in this area of retirement income taxation. We have done an analysis of six neighboring states (CT, NY, NJ, Mass, RI, and PA) which is shown on a chart attached to this testimony.

NATURE AND SOURCES OF OPPOSITION:

David Godbout, Connecticut Resident opposed the bill on the grounds that the current session of the Connecticut General Assembly is illegal, in breach of Article 3, Section 16 of the State Constitution.

Reported by: Dawn Silveira **Date: 4/21/2022**