Income Tax Deductions for Retirement Income

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Issue

Briefly explain the state tax deductions for Social Security, pension and annuity, and individual retirement account (IRA) income. This report updates OLR Report 2021-R-0168. This report has been updated by OLR Report 2023-R-0129.

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.)

Taxpayers may deduct 100% of their federally taxable Social Security income if their AGI is below (1) $75,000 for single filers and married people filing separately or (2) $100,000 for joint filers and heads of household. Taxpayers with AGIs equal to or above these thresholds qualify for a partial deduction through which no more than 25% of their total Social Security benefits received is subject to tax (CGS § 12-701(a)(20)(B)(x)(III)).

Pension and Annuity Income

General Pension and Annuity Exemption

The 2022 budget act accelerates the phase-in of the general pension and annuity exemption. Beginning with the 2022 tax year, income-eligible taxpayers may deduct 100% of their qualifying
pension and annuity income from their Connecticut taxable income. Under prior law, the exemption phased-in gradually between 2019 and 2025. By law, taxpayers are eligible for the exemption if their total federal AGI is below (1) $75,000 for single filers, married people filing separately, and heads of household or (2) $100,000 for married people filing jointly. Pension and annuity income is fully taxable for taxpayers with AGIs equal to or greater than these thresholds (CGS § 12-701(a)(20)(B)(xxi)), as amended by HB 5506 (2022), § 414).

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

Beginning with the 2021 tax year, taxpayers may 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 1.

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Percent of IRA Income Exempt</th>
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</thead>
<tbody>
<tr>
<td>2023</td>
<td>25</td>
</tr>
<tr>
<td>2024</td>
<td>50</td>
</tr>
<tr>
<td>2025</td>
<td>75</td>
</tr>
<tr>
<td>2026 and thereafter</td>
<td>100</td>
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</tbody>
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Table 1: Schedule for Deducting Percentage of IRA Income From Connecticut Income Taxes

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