

Taxation In Connecticut

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Introduction and Tax Terminology

Every April, you may hear people complain, or perhaps you complain yourself, about taxes. Another thing you may hear people question is “how much am I really paying, and is it the same across all incomes in the state and nation?” By looking at statistics and information gathered by the Institute on Taxation and Economic Policy, the questions of state tax rates can be examined more closely.

Before examining the data, it is important to understand some basic terminology, such as the difference between a regressive and a progressive tax. A regressive tax is one that takes a greater percentage of total income from lower- and middle-income families than from higher-income families. A progressive tax is one that takes a greater percentage of income from high-income families. Generally, sales taxes and property taxes are regressive, and income taxes are progressive. Most state tax systems in the U.S. are regressive.

There are three types of taxes that are included in this article’s definition of “total tax.” They are the sales and excise tax, the property tax and the income tax. The sales and excise tax, also known as the consumption tax, is a tax on consumer goods such as food, clothing or gasoline. It is also the most regressive tax out of the three. Property tax consists of taxes on homes and business real estate, and in some states, cars and other business properties. This is also a regressive tax, but not to the degree that the sales and excise tax is. Income tax is exactly what it sounds like—a tax on personal income. This tax is the only one out of the three that is generally progressive, although the degree of progressivity varies from state to state.

Also important to take into consideration is the difference between the absolute value of the dollars spent on taxes versus the percentage spent on taxes. In terms of per capita state and local tax revenue, it is true that Connecticut ranks first for the taxes paid per capita, with an average amount of \$3,092 in 2001.ⁱ However, we have to take into account how much this is as a percentage of total income. Connecticut has the highest average absolute tax, yes, but it also has the highest per capita income in the U.S. Since 1995, Connecticut taxes as a percentage of personal income have decreased almost 5%, and the state is ranked 29th out of 50 states in terms of taxes paid as a share of personal income.ⁱⁱ

Before reviewing the data it is also essential to see how families are proportioned into income groups, since the following data look at tax rates by these income groups. The Institute of Taxation and Economic Policy uses the following guidelines in their study:ⁱⁱⁱ

<u>Income Group</u>	<u>Range</u>	<u>Average Income in Group</u>
Lowest 20%	Less than \$13,000	\$8,300
Second 20%	\$13,000-\$21,000	\$16,000
Middle 20%	\$21,000-\$36,000	\$27,600
Fourth 20%	\$36,000-\$58,000	\$46,000
Next 15%	\$58,000-\$108,000	\$76,400

Next 4%	\$108,000-\$229,000	\$146,000
Top 1%	\$229,000+	\$682,000

National Comparisons

Many people believe that Connecticut's tax rates are much higher compared to the rest of the states, but is this truly the case? The states that make their lowest 20% income group pay the highest and the lowest shares of total tax are:

<u>Rank</u>	<u>State</u>	<u>Percentage</u>
1	Washington	17.6%
2	Florida	14.4%
3	Michigan	13.3%
4	Illinois	13.1%
5	Rhode Island	13.1%
46	South Carolina	7.9%
47	Wyoming	7.6%
48	Montana	6.1%
49	Delaware	4.7%
50	Alaska	3.8%

Connecticut is ranked 27th in the U.S. on this list. The state's lowest 20% income group pays an average of 10.3% of their total income in taxes. This puts Connecticut right in the middle of the 50 states, and we are able to see that it is not among the states with the highest tax rates.

In terms of the top 1% income group, the states that make them pay the highest and the lowest percentages of their incomes for total tax are:

<u>Rank</u>	<u>State</u>	<u>Percentage</u>
1	California	10.6%
2	Vermont	9.7% (tie)
2	Maine	9.7% (tie)
2	Ohio	9.7% (tie)
5	Minnesota	9.3% (tie)
5	Nebraska	9.3% (tie)
46	Alaska	2.8%
47	New Hampshire	2.4%
48	South Dakota	2.4%
49	Nevada	2.0%
50	Wyoming	1.7%

Connecticut is ranked 35th with a tax rate of 6.4%—yet again nowhere near being the highest-taxing state.

The Northeast

How does Connecticut compare to other Northeastern states? As we see from Figure 1, New Hampshire is the state that has their lowest-income group paying the least in total taxes, and Rhode Island is that state that has them paying the most. We can also see that Connecticut is right in the middle, neither the highest- nor the lowest-paying state.

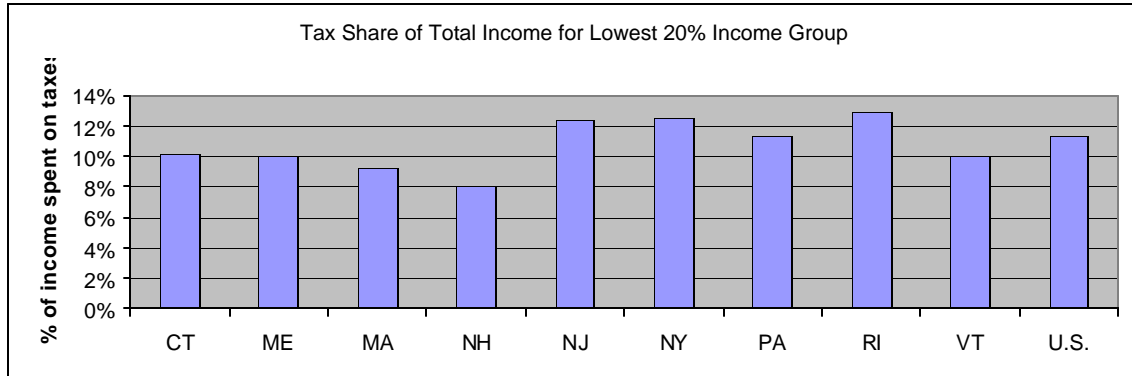


Figure 1

Now, as we see in Figure 2, New Hampshire is the state that makes their top income group pay the smallest percentage of their total income, and Vermont is the state that makes them pay the most. Connecticut is once again in the middle—neither the highest- nor the lowest-paying state.

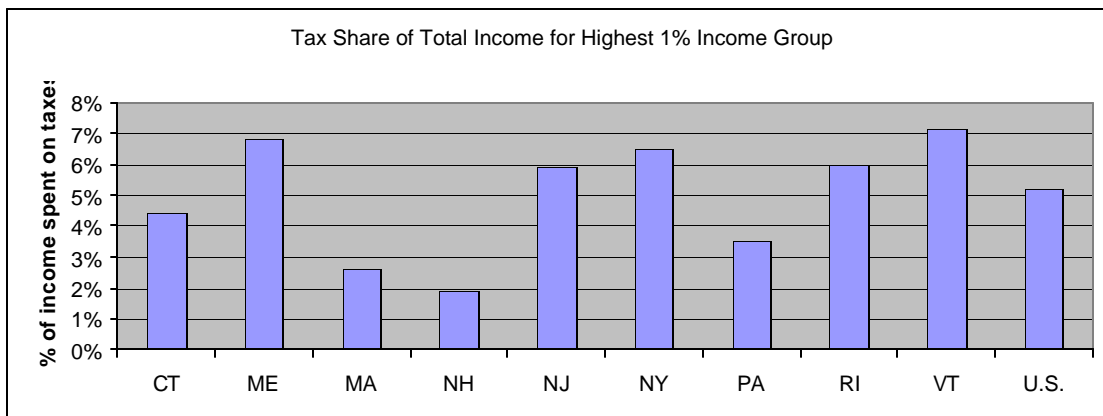


Figure 2

So how does Connecticut really compare? After deductibles, Connecticut is ranked fifth out of nine states for the lowest-income group, and sixth for the highest. Even when compared to only the Northeast, Connecticut is still nowhere near the highest-taxing state.

Connecticut Profile

For a more detailed comparison between Connecticut and the U.S., we break the total tax back into its three components—sales and excise taxes, property taxes and income taxes. As far as sales and excise taxes go, Connecticut is below the U.S. average in every income group, as seen in Figure 3. We can also see in Figure 3 the regressive nature of this tax.

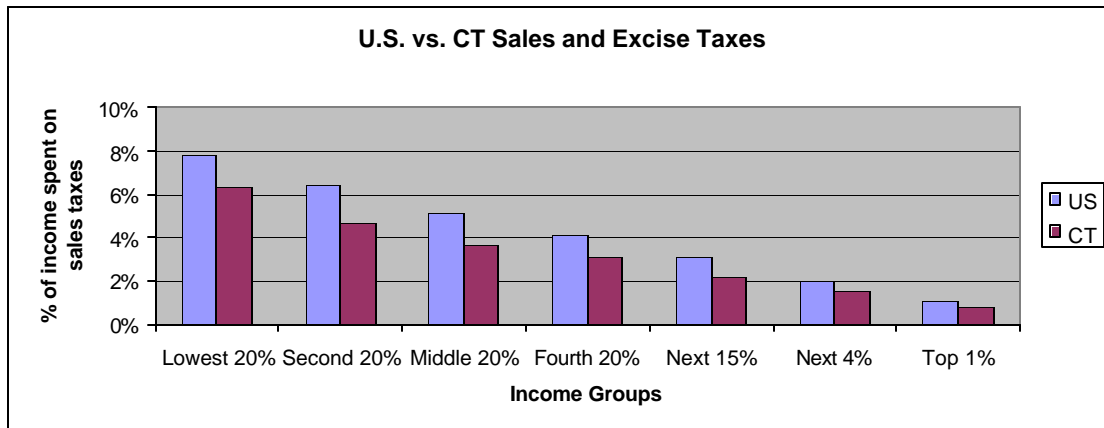


Figure 3

As we can see in Figure 4 with property taxes, Connecticut pays more on average, except for the top 1% of the population who pay less. There are still signs of regressivity, but they are not as well-defined as with the sales and excise tax.

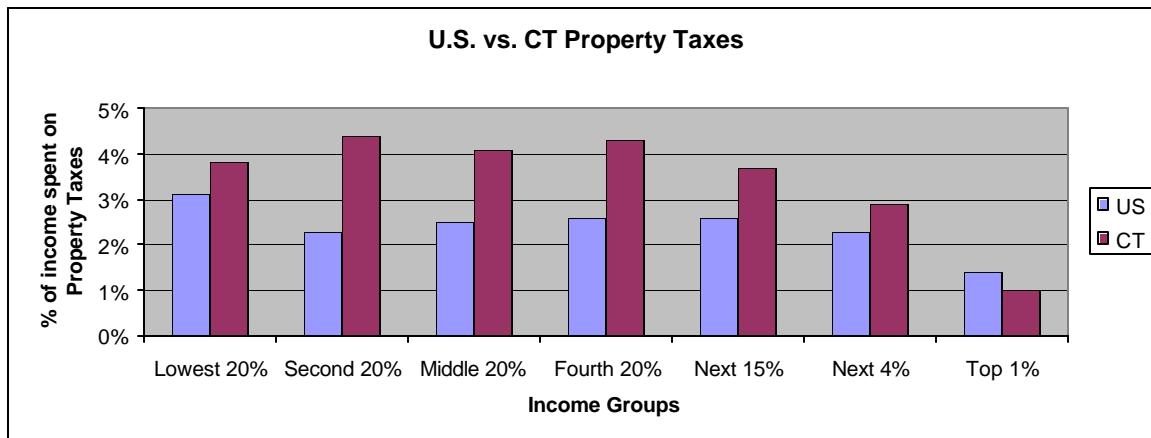


Figure 4

Connecticut's income tax structure generally follows the U.S. average, with low- and high-income families paying slightly less than the U.S. average, and middle income families paying slightly more. Shown in Figure 5, out of the three tax components, the income tax is the one that is progressive.

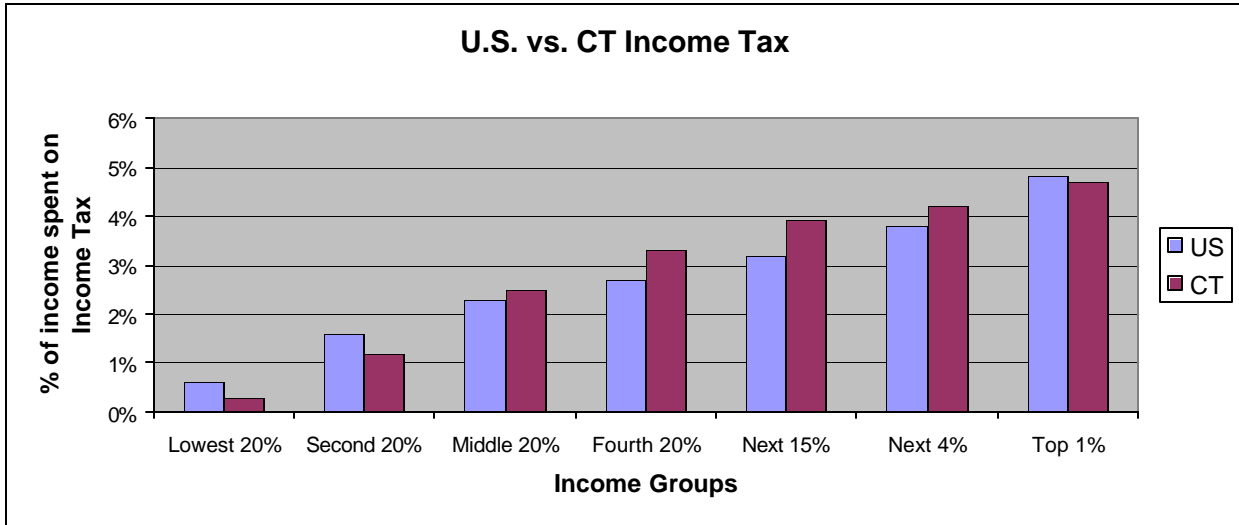


Figure 5

The previous charts depicted total tax before deductibles. The following chart compares taxes after the federal deduction, where Connecticut's rates are almost exactly the same as the U.S. averages, give or take a mere tenth of a percent.

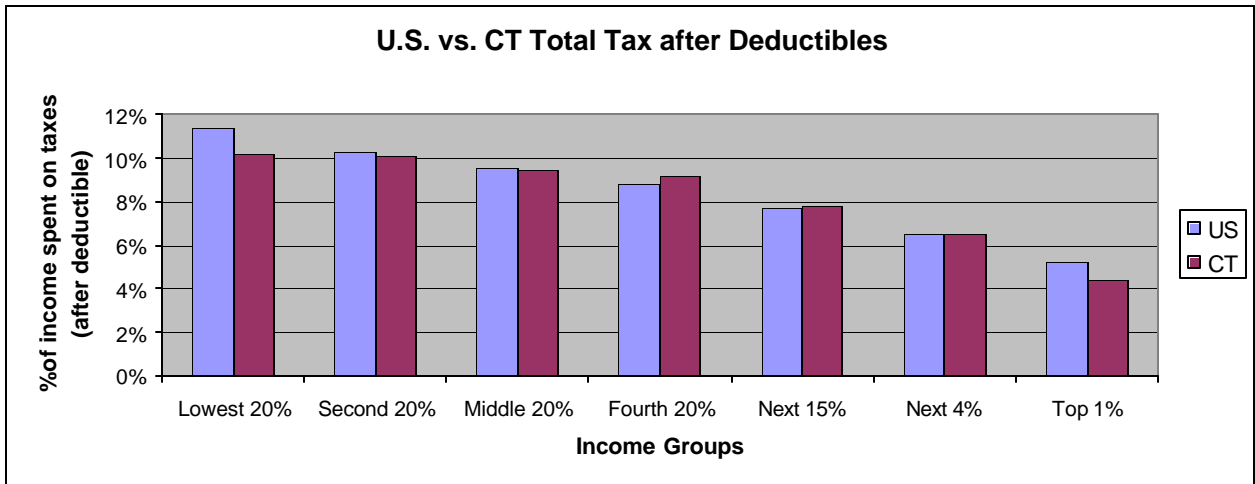


Figure 6

Summing Up: Connecticut's Tax Share

So how high are Connecticut's taxes in reality? Of course, in absolute terms, Connecticut residents pay a relatively large share. According to tax rates, however, Connecticut is ranked in the middle nationally, ranked in the middle for the Northeast, and follows national progressive and regressive trends for each of the total tax components. Connecticut is nowhere near the lowest-taxing state, but at the same time, it is also nowhere near being the highest. By looking at this evidence, we see that Connecticut's tax system is in line with national trends.

ⁱ www.census.gov/govs/statetax/01staxrank.html, U.S. Census Bureau.

ⁱⁱ Hovey, Kendra A. and Hovey, Harold A., *Rankings Across America: CQ's State Fact Finder 2003*, Washington D.C., Congressional Quarterly, Inc., 2003

ⁱⁱⁱ *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States 2nd Edition*, <http://www.ctj.org/html/whopay.htm>, The Institute on Taxation and Economic Policy, Washington D.C. , January 2003