

# How Can You Soak the Rich When They're Already Sopping Wet?

## *A Look At Who Pays Connecticut's Income Tax*

*A Policy Briefing from*

The Yankee Institute for Public Policy  
by Fergus Cullen, MPA, Executive Director

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### ***EXECUTIVE SUMMARY:***

As Governor M. Jodi Rell and the General Assembly seek to close the existing state budget deficit and adopt a balanced budget for the next fiscal biennium, various proposals call for increasing taxes on the affluent. Several groups argue the wealthy aren't paying their "fair share" of taxes.

However, a new Yankee Institute study of who pays Connecticut's state income tax reveals that:

- The top 20 percent of Connecticut income earners – those who make more than \$100,000 a year – already pay 80 percent of state income tax receipts.
- The top 6 percent of filers – those over \$250,000 – pay half of all state income taxes.
- The top 1.3 percent of taxpayers – those earning more than \$1 million – pay 35 percent of total income tax receipts, or more than \$2.1 billion in 2007.

The bottom 60 percent of Connecticut taxpayers – those with incomes under about \$60,000 – paid less than 10 percent of state income taxes, and the bottom 40 percent of all filers – those with incomes of less than \$35,000 – effectively paid no state income taxes.

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**METHODOLOGY:**

This report is something of a rebuttal to an April, 2009 study published by the advocacy group Connecticut Voices for Children calling on “those who can best afford it to contribute a greater share” of taxes to pay for state government. Voices complains Connecticut’s income tax is “not progressive enough” and seeks to raise rates from 5 percent to as high as 8 percent on the rich.<sup>1</sup>

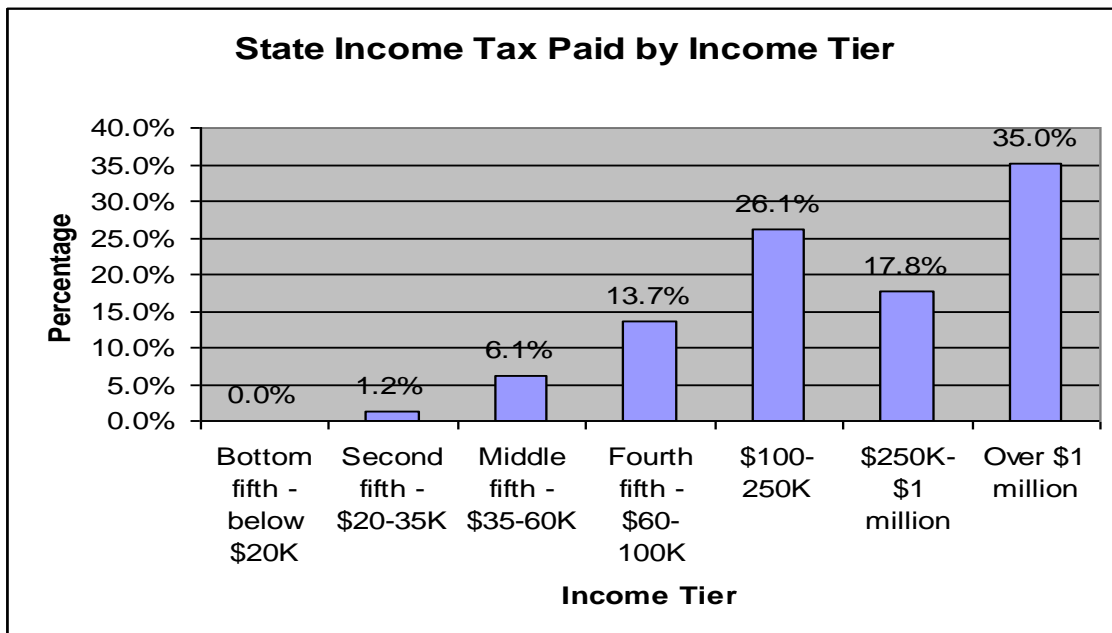
The Yankee Institute used 2007 income tax data – the most recent available – that is posted on the Connecticut Department of Revenue Services’s website<sup>2</sup> to complete this study. DRS provides data for CT-1040, CT-1040-EZ, and CT-1040 NR/PY (non-resident and partial-year resident) filings, including those who file single, joint, married separate, and head of household returns. The data covers 29 separate income tiers, from less than \$5,000 to more than \$2 million in annual income. The Yankee Institute combined all the data from all the different types of filings in each income tier, using total taxes paid after deductions from federal tax returns.

**FINDINGS:**

The state income tax is Connecticut’s single biggest source of revenue, raising more than 50 percent of all General Fund revenue collected directly by the state (excluding Federal grants), or \$7.5 billion in the fiscal year ending June 30, 2008.<sup>3</sup> This was a 22 percent increase in total income tax revenue from just two years before.<sup>4</sup> According to DRS, more than 1.7 million Connecticut taxpayers filed income tax returns in 2007. They paid nearly \$6.2 billion in income taxes that year.

The story of who pays the state income tax is an example of the “80/20” rule: The bottom 80 percent of taxpayers – those filing at under \$100,000 – accounted for 20 percent of income tax revenues, while the top 20 percent of income earners paid 80 percent of income tax receipts.

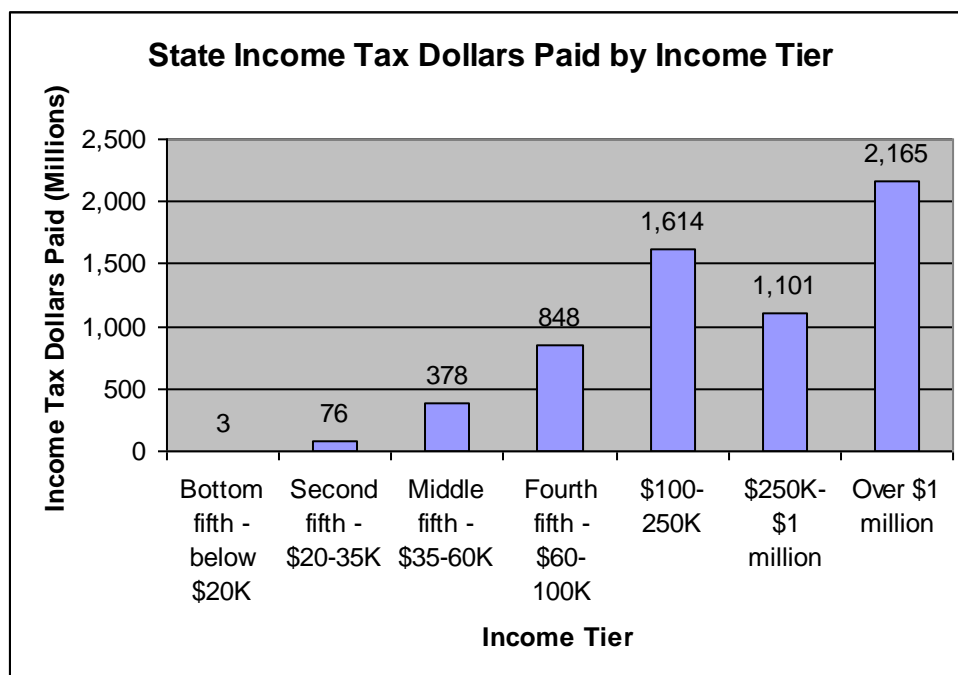
The top 6 percent of taxpayers – those earning more than \$250,000 annually – paid over half of all income taxes. And the top 1.3 percent of taxpayers – those earning more than \$1 million per year – paid 35 percent of all income taxes.



Connecticut has a progressive income tax rate, ranging from 3 to 5 percent. But after exemptions and deductions, the 40 percent of Connecticut taxpayers who earned less than \$35,000 effectively paid no state income taxes. Collectively this group accounted for only 1.3 percent of all income tax receipts. The average taxpayer in this category paid just \$117 in state income taxes in 2007.

But wealthy filers? The top 1.3 percent, comprised of 23,067 filers earning more than \$1 million a year, paid \$2.1 billion in income taxes in 2007. Their average income tax bill came to \$93,865.

Put another way: The wealthiest 1.3 percent paid more in state income taxes alone than nearly 80 percent of the state's population earned.



***FURTHER DISCUSSION:***

Although outside the scope of this study, it is worth noting that the rich also pay disproportionate shares of state sales taxes, inheritance and estate taxes, and real estate conveyance taxes.

Also, when considering tax hikes on the rich, it is important to remember that the rich can – and do – move from higher-tax states to lower-tax places. An American Legislative Exchange Council study<sup>5</sup> published in March, 2009 found that 1,100 people a day move from the nine highest income tax states to the nine states without an income tax.

Others choose not to move to high-tax states in the first place. The Manhattan Institute's E.J. McMahon found that Connecticut ranked 50<sup>th</sup> in the nation in terms of the rate of increase in the number of wealthy filers (those with Adjusted Gross Incomes of \$200,000 or higher) between the years 2002-2005 – despite these being years of historic gains on nearby Wall Street. Connecticut raised its top marginal tax rate from 4.5 to 5 percent in 2003. Connecticut appears to be losing the competition for the nation's biggest taxpayers.

If five percent of all Connecticut millionaires – or just three of them a day for a year – moved out of the state in response to higher taxes, Connecticut’s budget deficit would grow by over \$100 million just due to lost income tax revenue alone.

These same affluent people who move away or never migrate also tend to be employers, compounding the effect of their decisions to pay less in taxes elsewhere.

***CONCLUSION:***

Contrary to Connecticut Voices for Children’s supposition that Connecticut’s wealthiest pay little in state taxes, in fact the wealthy pay a hugely disproportionate share of state taxes. Rather than giving this coveted group of taxpayers reasons to leave or never come, Connecticut should consider retaining and attracting them by having tax rates that are lower than competing states, not raising those rates.

- The bottom 40 percent of Connecticut taxpayers who earn less than \$35,000 effectively pay no state income taxes.
- The top 20 percent of Connecticut income earners – those who make more than \$100,000 a year – pay 80 percent of state income taxes.
- The top 6 percent of filers – those over \$250,000 – pay half of all state income taxes.
- The top 1.3 percent of taxpayers – those earning more than \$1 million – pay 35 percent of total income tax receipts.

***ABOUT THE YANKEE INSTITUTE FOR PUBLIC POLICY:***

The Yankee Institute is a think tank that develops and advocates free-market and private sector solutions to public policy issues. Founded in 1984, Yankee has offices on the campus of Trinity College in Hartford, Connecticut. The Yankee Institute is nonpartisan research and educational organization and is classified by the IRS as a 501 (c) (3) non-profit.

***ABOUT THE AUTHOR:***

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## THE DATA:

This is the aggregated data for all 2007 Connecticut income tax filers. Spaces have been inserted to distinguish between the approximate quintile tiers

Income Tier	# Filers	Tax Paid	% of Filers	% of Tax	Agg Filers	Agg Tax	Agg Tax
01) Less than \$5000	86,852	82,308	5.0%	0.0%	5.0%	82,308	0.0%
02) \$5,000 to \$10,000	94,985	61,016	5.5%	0.0%	10.5%	143,324	0.0%
03) \$10,000 to \$12,000	36,942	36,304	2.1%	0.0%	12.6%	179,628	0.0%
04) \$12,000 to \$15,000	60,106	208,303	3.5%	0.0%	16.1%	387,931	0.0%
05) \$15,000 to \$19,000	82,953	1,736,992	4.8%	0.0%	20.9%	2,124,923	0.0%
06) \$19,000 to \$20,000	20,693	963,015	1.2%	0.0%	22.1%	3,087,938	0.0%
07) \$20,000 to \$24,000	82,210	6,469,295	4.7%	0.1%	26.8%	9,557,233	0.2%
08) \$24,000 to \$25,000	20,410	2,461,973	1.2%	0.0%	28.0%	12,019,206	0.2%
09) \$25,000 to \$30,000	98,297	23,366,126	5.7%	0.4%	33.7%	35,385,332	0.6%
10) \$30,000 to \$34,000	73,818	33,503,677	4.3%	0.5%	37.9%	68,889,009	1.1%
11) \$34,000 to \$35,000	17,459	9,999,840	1.0%	0.2%	38.9%	78,888,849	1.3%
12) \$35,000 to \$40,000	81,412	56,608,651	4.7%	0.9%	43.6%	135,497,500	2.2%
13) \$40,000 to \$44,000	60,714	53,033,025	3.5%	0.9%	47.1%	188,530,525	3.0%
14) \$44,001 to \$45,000	13,979	13,857,952	0.8%	0.2%	47.9%	202,388,477	3.3%
15) \$45,001 to \$48,000	40,356	43,430,497	2.3%	0.7%	50.3%	245,818,974	4.0%
16) \$48,001 to \$50,000	26,174	30,519,589	1.5%	0.5%	51.8%	276,338,563	4.5%
17) \$50,000 to \$60,000	120,957	180,393,974	7.0%	2.9%	58.8%	456,732,537	7.4%
18) \$60,000 to \$74,000	138,125	296,436,692	8.0%	4.8%	66.7%	753,169,229	12.2%
19) \$74,000 to \$75,000	8,757	21,899,812	0.5%	0.4%	67.2%	775,069,041	12.5%
20) \$75,000 to \$96,000	152,751	444,212,099	8.8%	7.2%	76.1%	1,219,281,140	19.7%
21) \$96,000 to \$100,000	24,411	85,435,353	1.4%	1.4%	77.5%	1,304,716,493	21.1%
22) \$100,001 to \$150,000	183,393	854,718,933	10.6%	13.8%	88.0%	2,159,435,426	34.9%
23) \$150,001 to \$200,000	72,106	475,710,243	4.2%	7.7%	92.2%	2,635,145,669	42.6%
24) \$200,001 to \$250,000	34,413	283,196,393	2.0%	4.6%	94.2%	2,918,342,062	47.2%
25) \$250,001 to \$350,000	32,976	339,864,107	1.9%	5.5%	96.1%	3,258,206,169	52.7%
26) \$350,001 to \$500,000	21,671	296,751,359	1.3%	4.8%	97.3%	3,554,957,528	57.5%
27) \$500,000 to \$1,000,000	22,953	464,352,020	1.3%	7.5%	98.7%	4,019,309,548	65.0%
28) \$1,000,001 to \$2,000,000	10,926	367,902,158	0.6%	5.9%	99.3%	4,387,211,706	70.9%
29) \$2,000,001 and over	12,141	1,797,272,413	0.7%	29.1%	100.0%	6,184,484,119	100.0%
<b>Total</b>	<b>1,732,940</b>	<b>6,184,484,119</b>	<b>100.0%</b>	<b>100.0%</b>			

<sup>1</sup> Press release, Connecticut Voices for Children, April 15, 2009

<sup>2</sup> <http://www.ct.gov/drs/cwp/view.asp?a=1445&q=434872&drsPNavCtr=|49946|49968|#50233>

<sup>3</sup> Department of Revenue Services Annual Report, 2007-2008, page 8; Office of Policy and Management, Governor's Budget Plan, page A-8.

<sup>4</sup> Department of Revenue Services Annual Report, 2007-2008, page 35.

<sup>5</sup> [http://www.alec.org/AM/Template.cfm?Section=Rich\\_States\\_Poor\\_States](http://www.alec.org/AM/Template.cfm?Section=Rich_States_Poor_States)