



P.O. Box 260660  
Hartford, CT 06126-0660  
(860) 297-4271 (phone)  
(860) 987-6218 (facsimile)  
[www.yankeeinstitute.org](http://www.yankeeinstitute.org)

# *FISCAL FOCUS*

May 18, 2007

## **A Primer On Connecticut's Tax Burden**

Connecticut's residents bear the heaviest tax burden in the nation. As a share of total income, the combined federal-state-local tax bite in Connecticut is 38.3 percent. In 2007, the Nutmeg State's "Tax Freedom Day"—the date on which residents stop working for the public sector and start earning money they can keep for themselves—falls on May 20.<sup>1</sup>

### **FEDERAL TAXES**

Connecticut has the highest burden of federal taxation in the nation. Over 26 percent of the personal income earned in the state is sent to the federal treasury.<sup>2</sup> According to the Tax Foundation, "Connecticut residents have led the region in federal taxes paid since 1997, and have been either first or second in the region since 1991."<sup>3</sup>

For every dollar Connecticut sends to Washington, D.C., it gets back only 66¢. Only one state, New Jersey, fares worse.<sup>4</sup> Robert Genuario, Governor Rell's top budget official, is satisfied with this arrangement. In 2005 he told *The (Stamford) Advocate*: "We send a lot more money to Washington than we get back ... and that's how it ought to be."<sup>5</sup>

### **STATE TAXES**

Per capita, state tax receipts in Connecticut in 2004 were the 3<sup>rd</sup> highest in the nation.<sup>6</sup>

#### *Personal Income Tax*

Connecticut's tax on wages, salaries, and investment income -- which did not exist until 1991 -- is projected to extract over \$6.4 billion from workers and investors in the 2007 fiscal year.<sup>7</sup>

Connecticut's income tax drove the state's combined state-local tax burden substantially upward. According to the Tax Foundation: "In a ranking of combined state-local tax burdens, Connecticut jumped from 33<sup>rd</sup> highest in 1991 to 16<sup>th</sup> highest in 1992 after the

new income tax kicked in. The state has ranked between 7<sup>th</sup> and 14<sup>th</sup> ever since. None of the other nine states [without income taxes in 1991] have followed Connecticut's lead to enact an income tax."<sup>8</sup>

Connecticut has over 80,000 non-corporation business entities (sole proprietorships, partnerships, S corporations) that file their tax obligation under the income tax. Thus, "a significant portion of the state's personal income tax comes from taxes on businesses."<sup>9</sup>

### *Sales Tax*

As part of the compromise that produced Connecticut's income tax, the sales-tax rate was cut from 8 percent to 6 percent. But since 1991, the sales-tax base had been broadened to include hundreds of goods and services not previously subject to the tax.

Connecticut is a "participating state" in the "Streamlined Sales Tax Project," an effort to "develop measures to design, test and implement a sales and use tax system that radically simplifies sales and use taxes."<sup>10</sup> Adopting the project's "Streamlined Sales and Use Tax Agreement" will require the Nutmeg State to eliminate sales-tax exemptions with specific dollar amounts. Connecticut's \$50 exemption for clothes currently "saves ... consumers an estimated \$140 million annually."<sup>11</sup>

### *Corporate Income Tax*

Connecticut's corporation tax is the larger of either 7.5 percent of net revenue or 3.1 mills of a corporation's "capital base." Even corporations that do not earn a profit must pay a minimum tax of \$250.<sup>12</sup>

According to the Cato Institute's Chris Edwards, "State corporate income taxes might be the most inefficient taxes in the nation, because they create large burdens on businesses but raise little revenue."<sup>13</sup> In the 2007 fiscal year, only 4.4 percent of the state's revenue is generated by the corporation business tax.<sup>14</sup>

### *Death Tax*

In 2005 Connecticut adopted a state death tax. Decedents with assets in excess of \$2 million are taxed at escalating rates, starting at 5 percent and rising to 16 percent. In 2004, National Bureau of Economic Research found that "states lose as many as one of three dollars from their estate taxes because 'wealthy elderly people change their state of residence to avoid high state taxes.'"<sup>15</sup>

### *Energy Taxes*

Drivers in the Nutmeg State pay a gasoline tax of 25¢ per gallon. (Diesel is taxed at 26¢ per gallon, up from 18¢ in 2002.) A tax on the gross receipts of petroleum wholesalers adds another burden. Lawmakers and Governor Rell adopted a phased-in hike in the petroleum gross-receipts tax in 2005. At its current rate of 6.72 percent, the tax "adds about 14.5 cents to the price at the pump." On July 1, the tax's rate is scheduled to rise to 7 percent.<sup>16</sup>

Metering, billing, transmission, and distribution charges on electricity consumers' bill are arguably not "taxes." But several fees, including the "Competitive Transition Assessment" (imposed to cover the costs of the state's restructuring of its electricity market in the 1990s) and the "Combined Public Benefits" charge (imposed to fund the state's Energy Conservation and Load Management and Renewable Energy Investment Funds) qualify. These two taxes add \$9.36 to the bill of a customer who uses 700 kilowatt hours per month.<sup>17</sup>

### *Cigarette Tax*

State lawmakers and Governor Rell have agreed to raise the cigarette tax to \$2.00 per pack.<sup>18</sup> This hike would tie Connecticut with several other states for the fourth highest cigarette tax in the nation.<sup>19</sup>

### *Alcohol Taxes*

According to legislative researchers, among the Northeast states, "Connecticut's liquor tax is 2<sup>nd</sup> highest, its beer tax is the 3<sup>rd</sup> highest, and its wine tax is about in the middle (the same or lower than four states and higher than three.)"<sup>20</sup>

### *Telecommunications Taxes*

Connecticut imposes a 5 percent gross-receipts tax on cable-television providers, and is one of the few states that extends this tax to satellite-television providers. The taxes generate "approximately \$30 million per year from cable TV companies and ... about \$3 million per year from satellite TV companies."<sup>21</sup> Phone companies are also subject to the 5 percent gross-receipts tax, and the state imposes two taxes on customers' bills: one designed to subsidize low-income households and another to "fund the development and administration of the enhanced emergency 911 program."<sup>22</sup>

## **LOCAL TAXES**

### *Property Tax*

Per capita, Connecticut's property-tax burden is the 2<sup>nd</sup> highest in the nation. Expressed as a share of personal income, Connecticut's property-tax burden is 7<sup>th</sup> highest in the nation.<sup>23</sup>

Between 1991 and 2005, inflation-adjusted revenue collected from the property tax grew by 27.6 percent. The state's population growth was 6.4 percent.<sup>24</sup>

### *Conveyance Tax*

In 2003, lawmakers and Governor Rowland approved a "temporary" hike in the conveyance tax, a levy imposed when properties are sold. The tax's rate was raised from 0.11 percent to 0.25 percent. ("Distressed" municipalities were allowed to raise the rate to 0.50 percent.) The tax hike's sunset date has been extended several times, and Democratic legislative leaders intend to make the tax hike permanent.<sup>25</sup>

## Notes

1. Curtis S. Dubay and Scott A. Hodge, "America Celebrates Tax Freedom Day," Special Report No. 152, Tax Foundation, April 2007.
2. See [www.taxfoundation.org/taxdata/show/445.html](http://www.taxfoundation.org/taxdata/show/445.html).
3. Chris Atkins and Curtis Dubay, "Improving the Connecticut Business Tax Climate," Special Report No. 144, Tax Foundation, July 2006.
4. Curtis S. Dubay, "Federal Tax Burdens and Expenditures by State," Special Report No. 139, Tax Foundation, March 2006.
5. Tobin A. Coleman, "Legislative panel backs Genuario for budget post," *The (Stamford) Advocate*, January 19, 2005.
6. Associated Press, "State tax burdens jump in Connecticut and across the country," February 8, 2006.
7. "Connecticut State Budget, 2005-2007 Revision," Office of Fiscal Analysis, Connecticut General Assembly, July 2006.
8. Chris Atkins and Curtis Dubay, "Improving the Connecticut Business Tax Climate," Special Report No. 144, Tax Foundation, July 2006.
9. "Business Share of Taxes and Fees in Connecticut," Special Report for Connecticut State Legislators, Connecticut Business & Industry Association, February 2005.
10. See [www.streamlinedsalestax.org/oprules.html](http://www.streamlinedsalestax.org/oprules.html).
11. "Keep exemption on clothing sales" (editorial), *Connecticut Post*, April 19, 2007.
12. Judith Lohman, "Corporation Business Tax," Research Report 0397, Office of Legislative Research, Connecticut General Assembly, April 28, 2003.
13. Chris Edwards, "Golden Opportunity for Every State," *Investor's Business Daily*, January 27, 2004.
14. "Connecticut State Budget, 2005-2007 Revision," Office of Fiscal Analysis, Connecticut General Assembly, July 2006.
15. "Estates of Pain" (editorial), *Wall Street Journal*, August 1, 2005.
16. David Krechevsky, "Senator wants state to return portion of gas tax to public," (Waterbury) *Republican-American*, April 12, 2007.
17. See [www.cl-p.com/companyinfo/avgbill.asp](http://www.cl-p.com/companyinfo/avgbill.asp).
18. Gregory B. Hladky, "Rell, Dems search for common ground," *New Haven Register*, April 16, 2007.
19. "Economic Report of the Governor, FY 2008 - FY 2009 Biennium," February 7, 2007.
20. "Connecticut's Tax System," Legislative Program Review and Investigations Committee, Connecticut General Assembly, January 2006.
21. Kevin E. McCarthy, "Gross Earnings Tax on Cable and Satellite TV Companies," Research Report 0755, Office of Legislative Research, Connecticut General Assembly, October 23, 2003.
22. Kevin E. McCarthy, "Line Charges on Telephone Bills," Research Report 1070, Office of Legislative Research, Connecticut General Assembly, November 1, 1999.
23. "Connecticut's Tax System," Legislative Program Review and Investigations Committee, Connecticut General Assembly, January 2006.
24. Yankee Institute estimate, based on revenue statistics from the Office of Policy and Management and U.S. Census Bureau population data.
25. Christopher Keating, "Democrats' Tax Plan Advances," *Hartford Courant*, April 17, 2007.