

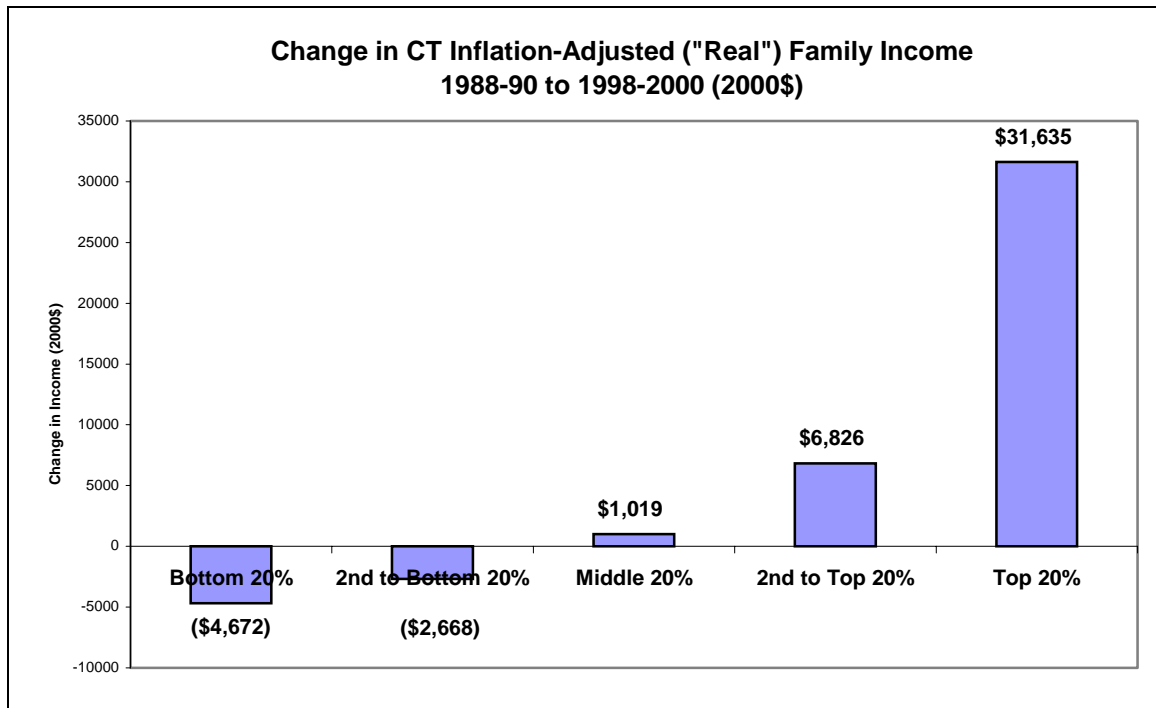


**One Connecticut**

the campaign to fight poverty and build economic security

## **CT's Wealthiest Families Benefited Most From The Strong Economy. Now, When Times Are Tough, It's Fair For Them To Pay A Little Extra in State Income Tax.**

**Over the 1990s, the real income of CT's wealthiest families grew by far the most.** As seen in the chart below, over the 1990s the average inflation-adjusted ("real") income of Connecticut's (CT) wealthiest 20% of families grew by \$31,635 (from \$149,558 to \$181,194, or 21.2%). This increase far exceeded the income growth of CT's middle and second-to-top 20% of families. Over this period, the bottom 40% of CT families (families with income *less than* \$54,228/year) actually *lost* real income; these families now have an even harder time making ends meet.



[*Pulling Apart 2002* (A forthcoming report by CT Voices for Children, the Economic Policy Institute and the Center on Budget and Policy Priorities).]

**CT's growth in income inequality over the 1990s exceeded all other states.** CT was one of only two states in the nation where, over the 1990s, the bottom 20% of families (CT families with income under \$32,000/year) lost income while the top 20% of families (CT families with incomes over \$111,825) gained. The other state was Massachusetts (MA). But even in MA, the changes in income were not as extreme as in CT. In MA, the bottom 20% of families lost \$1,190 in real income (about 1/3 the income lost by CT's bottom 20%), while MA's top 20% gained \$19,713 in real income (about 2/3 the gain of CT's top 20%). [ *Pulling Apart 2002* (A forthcoming report by CT Voices for Children, the Economic Policy Institute and the Center on Budget and Policy Priorities). ]

**A 1% state income tax surcharge on Adjusted Gross Income over \$1 million would affect only the wealthiest of CT's top 20% of families.** Fewer than one-half of 1% of CT taxpayers, or about 6,500 filers, would have additional tax liability if this surtax were passed. About 2,600 of these filers (those whose Adjusted Gross Income (AGI) is \$2 million/year or more) enjoy an *average* income of *more than \$7 million* per year. [CT Department of Revenue Services, *1999 Personal Income Tax Statistics*, March 2001]

**A 1% rate increase keeps CT competitive with neighboring states.** A 1% increase on our very highest income taxpayers would still keep CT's top marginal rate below the top income tax rates in our neighboring states: New York (6.85%), New Jersey (6.37%), Massachusetts (5.3% with a 12% rate on certain capital gains income). [*FY 2002-2003 Midterm Economic Report of the Governor*, p. 118] Also, this increase to 5.5% would be less than the CT tax rate on interest income (7%) and dividends and capital gains income (1-14%) that many of these taxpayers paid *before* the state income tax was adopted, repealing these other taxes. [OFA, *Connecticut Revenue and Budget Data*, March 2002]

**The federal government would subsidize the tax increase.** CT taxpayers subject to this higher tax rate can deduct the additional state income tax they pay on their federal tax return, thereby reducing their federal income taxes. Therefore, the *net cost* to a wealthy CT taxpayer of each additional dollar of state income tax is actually *less than a dollar*. Rather, each dollar increase in state income tax costs these taxpayers a little more than sixty cents. Thus, a state income tax rate increase on CT's wealthiest taxpayers triggers a significant *federal subsidy* to CT – a kind of “revenue sharing” to CT's advantage.

**The increase makes good economic sense.** The 2001 Nobel Laureate in Economics, Joseph Stiglitz, writes that in times of recession and state budget deficits, a state's decision to balance its budget by increasing taxes on its highest income taxpayers is a *smarter choice* than a decision to reduce government spending on goods and services or cut transfer payments. [P. Orszag & J. Stiglitz, *Spending Cuts Vs. Tax Increases at the State Level: Is One More Counter-Productive Than the Other During a Recession?* Center on Budget & Policy Priorities, 2001] Cuts in government spending can exacerbate the recession and send consumers a wrong message about confidence in the economy. By comparison, a modest rate increase on the state's highest income taxpayers, particularly one like this for a single year, will have little harmful effect on the economy.

**The increase is fair.** Though CT's highest income taxpayers pay a large share of the CT income tax now (the top 1% of taxpayers – those with AGI over \$500,000/year – paid about 32% of the total CT income tax in 1999), they also have the lion's share of income (about 28% of all AGI in 1999). [CT Department of Revenue Services, *1999 Personal Income Tax Statistics*, March 2001] In balancing the burdens the Governor's proposed cuts in programs and services would impose on CT families against the burdens imposed by a 1% increase in state income tax on the top one-half of 1% of CT taxpayers, it is evident that the tax increase places burdens on those state residents best able to bear them.