



## Where Does Connecticut Really Stand on State Spending and State Revenues?<sup>1</sup>

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### Where Connecticut *Really* Stands on Taxes and Revenues

#### On Connecticut's Overall Tax Revenues

- Connecticut's overall state and local tax revenues in 2002 were 10.2% of state personal income, right at the national average and slightly lower than in the mid 1990s.

#### On Who Pays State and Local Personal Taxes

- Our wealthiest residents pay a far smaller share of their income in state and local taxes (4.4%) than do lower-income residents (10%) and middle-income residents (9.5%)<sup>2</sup>.
- Connecticut's top income tax rate is lower than any of the other Northeast states except New Hampshire, which has no income tax.
- State and local taxes for the wealthiest 1% of earners in Connecticut are 6.4% of income, much less than in New York (9.1%), New Jersey (8.4%), and slightly less than Massachusetts (6.8%).
- Connecticut's personal income tax is mildly progressive, but not sufficiently progressive to offset the regressivity of the state's sales, excise and property taxes.

#### On Connecticut's Unbalanced Tax System

- Connecticut ranks seventh highest in the nation in property taxes paid as a percentage of personal income.
- The statewide business proportion of the property tax base has declined from 23% to 16% since 1989, while the residential portion of the property tax base has increased from 58% to 67%.
- Connecticut families contribute a greater share of General Fund revenues than they did a decade ago, and businesses a smaller share. For example, between 1995 and 2005, the share of General

Fund revenue from the personal income tax increased from 28.7% to 36.6%, while the share from various business taxes (corporate income tax, insurance companies tax, public service tax, oil companies tax) decreased from 15.1% to 7.2%.

#### On Business Taxes in Connecticut

- The corporate income tax rate in Connecticut (7.5%) is among the lowest in the Northeast.
- Connecticut saw a 77 percent reduction in the share of corporate income tax revenue as a percent of gross state product (a measure of the size of the state economy) from 1989-2003. This was the 2<sup>nd</sup> largest decrease of all states.
- Connecticut businesses recently ranked 40<sup>th</sup> *lowest* in business share of state and local taxes; 40<sup>th</sup> in business taxes as a percent of business profits; and 28<sup>th</sup> in business taxes as a percent of personal income, according to an analysis of total business taxes in each state by the Council on State Taxation, a business association.
- Of the 100 largest businesses headquartered in Connecticut (based on total sales for 2003), 18 were corporations that paid only the minimum corporate income tax of \$250. Eighteen others were pass-through entities (e.g., LLCs, LLPs) that do not pay corporate income tax at all, but paid the business entity tax of \$250.

#### On Connecticut's "Fiscal Comfort"

- A recent Federal Reserve Bank of Boston report found Connecticut has a high level of "fiscal comfort," meaning that -- relative to other states -- Connecticut has "high revenue capacity and low fiscal need."<sup>3</sup>

## On Connecticut's Looming Budget Shortfalls

- According to Office of Policy and Management, Office of Fiscal Analysis *and* Legislative Program Review and Investigations Committee projections, the expenditures needed to maintain current state services will exceed projected state revenues “by significant amounts” beginning in FY 2008. That is, Connecticut has a “structural deficit.”

## On the Volatility of Connecticut's Tax Base

- Connecticut's state tax revenues are more volatile than both the state economy and the national average for state revenue systems because of our increasing reliance on the personal income tax.
- Research in other states indicates that the least disruptive and most effective volatility reduction strategy is a large reserve (“rainy day”) fund. Connecticut's Budget Reserve Fund, by state law, is intended to have reserves equal to 10% of net General Fund appropriations for any given year. Currently, the Fund is only at 4.3% of net General Fund appropriations, or about \$808 million *short*.

## Where Connecticut Really Stands on Spending, as a Percentage of Total State Personal Income<sup>4</sup>

- On investing in **infrastructure through state and local capital spending**, Connecticut ranks 46<sup>th</sup> (5<sup>th</sup> *lowest*).
- On the **size of government as measured by the wages and salaries of state and local government employees**, Connecticut ranks 48<sup>th</sup> (3<sup>rd</sup> *lowest*).
- On investing in **human capital through total spending on education**, Connecticut ranks 49<sup>th</sup> (2<sup>nd</sup> *lowest*).
- On investing in **Connecticut's children through primary and secondary education spending**, Connecticut ranks 45<sup>th</sup> (6<sup>th</sup> *lowest*).
- On investing in the **future of our workforce through spending on higher education**, Connecticut ranks 49<sup>th</sup> (2<sup>nd</sup> *lowest*).
- On assistance to **Connecticut's most vulnerable populations**, Connecticut ranks 42<sup>nd</sup> (9<sup>th</sup> *lowest*)

on social services spending and 44<sup>th</sup> on public welfare spending (7<sup>th</sup> *lowest*).

- On investment in **transportation infrastructure through state and local spending**, Connecticut ranks last (50<sup>th</sup>).
- On **addressing Connecticut's shortfalls in affordable housing, and protecting Connecticut's environment, through state and local spending on Housing and the Environment**,<sup>5</sup> Connecticut ranks 49<sup>th</sup> (second *lowest*).

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<sup>1</sup> Unless otherwise indicated, spending data are taken from the United States Census Bureau, as reported in Jeff McLynch, *Measuring Up: Taxes and Spending in Massachusetts in FY 02*. (Massachusetts Budget and Policy Center, 2005). Tax and revenue data from Legislative Program Review & Investigations Committee, Connecticut General Assembly, *Connecticut's Tax System: Staff Findings and Recommendations* (Connecticut General Assembly, 2006).

<sup>2</sup> Figures are for the wealthiest 1<sup>st</sup> of taxpayers, the middle 20%, and the lowest 20%, taking into account the federal deduction against the federal personal income tax for state and local taxes paid.

<sup>3</sup> Legislative Program Review & Investigations Committee, *Connecticut's Tax System*, p. 17.

<sup>4</sup> Ranking states based on their spending as a share of their total personal income adjusts for the economic *capacity* of the state to make public investments and so is a preferred basis for comparison than spending per capita. These expenditure rankings are based on the percent of aggregate personal income accounted for by each expenditure category.

<sup>5</sup> This United States Census Bureau categorization includes spending for the conservation and development of state and local natural resources, parks and recreation, housing and community development, and sewers and solid waste management, all critical components