

## Some State Income Tax Snapshots

Each spring we report on the most recent Connecticut income tax returns. We do this not because the income tax is so significant in itself, though it grows more important each year (see page 5), but because reliable income data, particularly town level data, are hard to come by in Connecticut. Unlike employment numbers, which are mere estimates (and especially crude ones at the town level), income tax figures come from the 1.3 million returns filed by state residents each year. These data provide reliable snapshots of economic activity across towns and over time. Let's view the final tallies for 1997.

### State Income Taxes in 1997

Fueled by a bull market that would not quit and a state economy in its fifth year of expansion, state income tax revenue roared ahead in 1997. The number of returns from year-round residents increased by 3.0%, and adjusted gross income (AGI) jumped by 13.5%. Despite tax rate cuts and expanded tax credits, income tax receipts still climbed 11.0% in 1997, the fastest growth so far.

The median AGI for the 1.28 million Connecticut filers was about \$40,000, up from \$38,000 in 1996. The half of filers who reported an AGI below the median paid an average of \$230 in Connecticut income taxes, or \$4.43 per week, a drop of one-fifth from the previous year. Their state income tax in 1997 averaged 1.1% of their AGI, down from 1.3% in 1996. Taxes paid by the bottom half fell because the new, lower, tax rate of 3.0% was applied to a broader range of taxable income and because the property tax credit increased.

The half of filers reporting an AGI above the median paid an average of \$3,540 in Connecticut income taxes, or about \$68 per week. Their state income tax amounted to 3.2% of their AGI. Filers above the median AGI contributed 94.2% of the \$2.6 billion collected from Connecticut filers in 1997. This was up slightly from the 93.9% share for 1996 and 92.4% in 1995. Put another way, those below the median contributed only 5.8% of the total in 1997, down slightly from 6.1% in 1996 and 7.6% in 1995.

Filers with an AGI of at least \$100,000 accounted for only 11.8% of all returns, but contributed 60.2% of all state income taxes in 1997, up from 53.3% of the total in 1996. Finally, the 1% of all filers reporting an AGI in excess of \$500,000 paid 26.7% of all state income taxes in 1997, up from 20.6% in 1996.

### Property Tax Credit Expanded

The share paid by low income filers declined because of (1) a cut in the tax rate from 4.5% to 3.0% at low income levels and (2) the credit offered for property taxes against income tax liability. That credit increased to \$215 for the 1997 tax year. The accompanying bar chart shows the average tax credit taken on 1997 returns based on adjusted gross income. For example, the bottom bracket, those with an AGI between \$0 and \$20,000, had an average property tax credit of \$39. That doesn't seem like much, but it cut the average 1997 income tax liability in that group from \$50 to \$11, or by 78%. This bottom group's pre-credit income tax liability was too low to take full advantage of the credit, thus, explaining why the property tax credit is not higher.

The bar chart shows that the property tax credit increased with AGI, peaking at \$194 for filers with an AGI between \$75,000 and \$100,000. The value of the credit declined

after that because the state denies high income filers all but \$100 of the credit.

The lower tax rate of 3.0% and the higher property tax credit erased the income tax for about 143 thousand low-income filers in 1997 who would have otherwise paid state income taxes. The property tax credit increased to \$350 in 1998 and will probably jump again for 1999. Also the taxable income subject to a 3.0% instead of 4.5% rate rises this year as well. All of this means that more lower-income Connecticut filers will pay no income tax and high income filers will pay an even greater share of the total.

Although higher-income filers pay the overwhelming share of Connecticut's income tax burden, a share that increased in recent years, our April poll of 500 Connecticut residents indicates that support for the tax is weaker at low income levels than at high income levels. Go figure. (For details, see page 5 and page 8).

### Rich Towns, Poor Towns

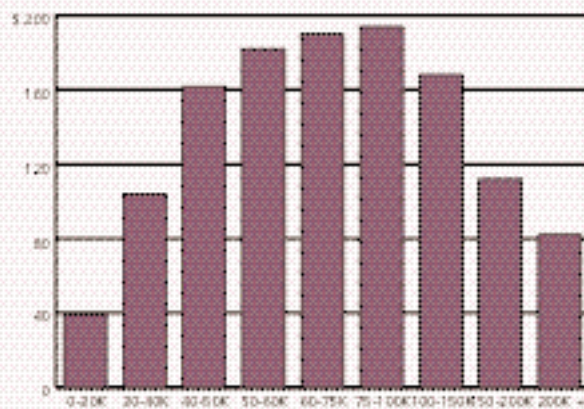
Our centerfold (pages 10-11) reports Connecticut income taxes by town for 1997, the most recent year available. The state's five poorest towns, in terms of average tax payments per return in 1997, were Hartford, Bridgeport, Thompson, Sterling, and Killingly. Four of the five also ranked among the bottom five in 1992, the first full year of the income tax. Bridgeport, the exception, ranked sixth in 1992.

The top five towns in income taxes paid per return in 1997 were New Canaan, Greenwich, Darien, Weston, and Westport. These wealthy towns also topped the list in 1992. In fact, New Canaan has been number one every year since the tax was introduced; its average climbed 18.6% between 1996 and 1997.

Thus the town rankings have been remarkably stable during the 1990s, at least at the extremes of the distribution. But the lead of the top towns has grown. In 1992 income tax payments by filers from the top five towns averaged 6.7 times those made by filers in the bottom five towns. An increase in AGI at the top combined with tax cuts at the lower end of the distribution stretched this multiple to 11.1 by 1997.

Geography plays an obvious roll in the average tax liability by town. The five towns with the largest average tax liability are in the southwest corner of the state; the five towns with the lowest average liability divide between the two largest central cities and three towns bordering Rhode Island.

### Average Property Tax Credit on 1997 Connecticut Income Tax Returns Based on Adjusted Gross Income



Filers' Adjusted Gross Income

Source: Developed by *The Connecticut Economy* based on figures from the Connecticut Department of Revenue Services

## Tax History By Town

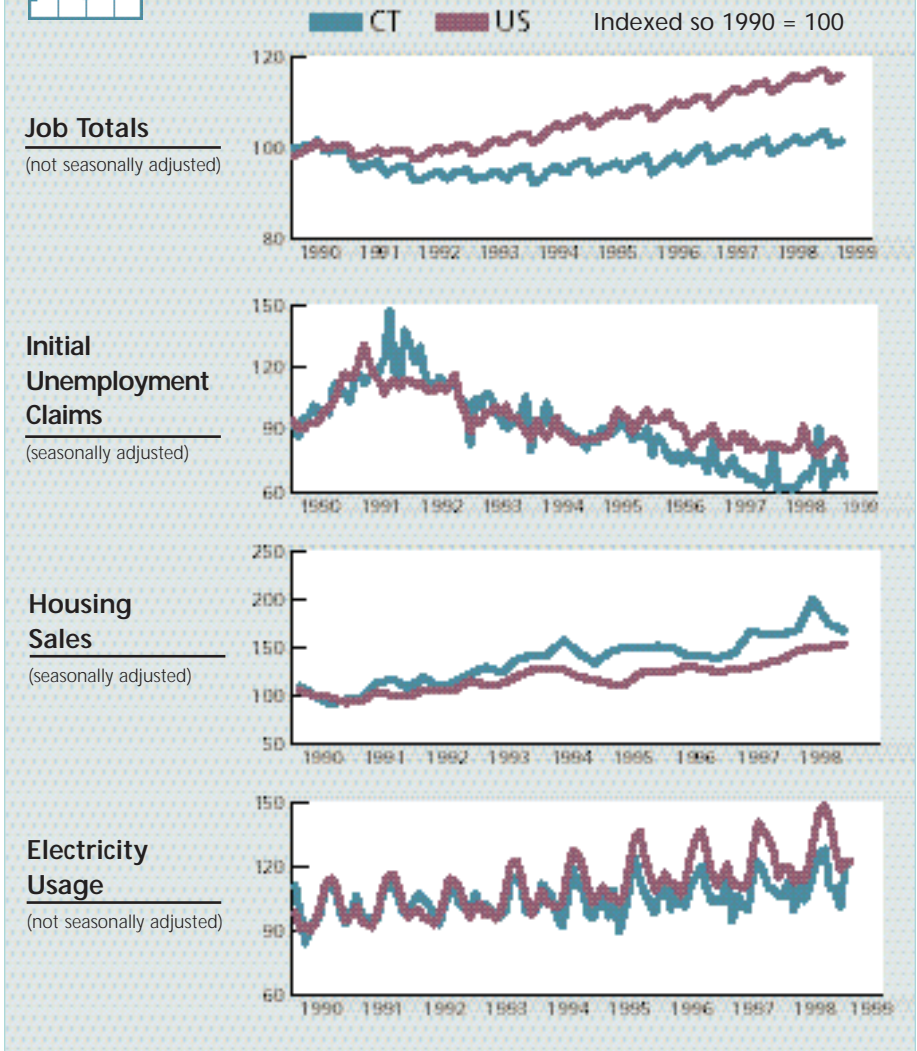
Consider the brief history of the income tax in Connecticut. The average tax per return declined in ten towns between 1992 and 1997: Bridgeport (-10.5%), Hartford (-9.8%), New London (-9.2%), Union (-6.6%), East Hartford (-4.3%), Sprague (-1.5%), Brooklyn (-1.4%), Waterbury (-1.4%), Windham (-1.4%), and New Haven (-1.3%). Half are troubled central cities; the rest are East of the River. Three towns in the state saw a decline in the number of income tax filers between 1992 and 1997: Stafford (-5.0%), Vernon (-3.9%), and Hartford (-1.8). All three are in the Hartford labor market area.

The ten fastest growing towns in average tax payments per return between 1992 and 1997 were Greenwich (104.2%), Colebrook (86.9%), Darien (83.0%), Sharon (82.8%), Warren (78.2%), Weston (64.5%), Ridgefield (61.2%), New Canaan (59.5%), Washington (55.3%), and Wilton (55.1%). All these super-achievers either border New York State or lie within 15 miles of that border.

Here's one final point to consider: filers from the fastest growing town, Greenwich, collectively paid \$223.6 million in state income taxes in 1997. This exceeded the total paid by all residents of Bridgeport, Bristol, East Hartford, Hartford, Meriden, New Britain, New London, New Haven, Norwich, and Waterbury put together. Greenwich had 25,200 filers and the other towns had a total of 250,500 filers



## INDEX OF ECONOMIC INDICATORS



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## Connecticut Travel and Tourism Index

The overall index decreased 2.1% in the first quarter compared to the same quarter the year before. The index consists of hotel-motel revenues, hotel-motel occupancy rates, attendance at six major tourist attractions, and traffic on five tourist roads.

Hotel/Motel Rev.	H	11.6%
Occupancy Rate	H	0.9%
Attendance	P	-18.8%
Traffic	P	-2.1%
Overall	P	-2.1%

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