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OLR Backgrounder: A Guide to Connecticut's Personal Income Tax

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Issue

This report provides an overview of Connecticut's personal income tax, including the tax rates, exemptions, credit amounts, and thresholds in effect for the 2024 tax year. It updates OLR Report 2022-R-0108.

Summary

The Connecticut income tax applies to full-time residents who meet specific income thresholds or conditions and part-time residents and nonresidents with income derived from sources within the state. The starting point for calculating the tax is the amount of federal adjusted gross income (AGI) on a taxpayer's federal tax return. Taxpayers make several additions or subtractions to federal AGI to determine the portion of their income subject to Connecticut's income tax (CT AGI). For some filers, this amount is further reduced by a personal exemption. Taxpayers then apply tax rates based on the tax bracket income thresholds for their filing status. Taxpayers with CT AGI over certain thresholds are also subject to a (1) phase-out of the lowest tax bracket and (2) "benefit recapture" which eliminates the benefits they receive from having a portion of their taxable income taxed at lower marginal rates.

The amount of tax a person actually pays may be offset by credits, including personal, property, and earned income tax credits (EITC), that phase out at higher income levels.

Who Must File?

Connecticut's income tax applies to full-time Connecticut residents who have earned or unearned income and part-time residents and non-residents with Connecticut-source income. Taxpayers must file an income tax return if they:

- have Connecticut income tax withheld from their wages;
- make estimated Connecticut income tax payments;
- had a pass-through entity (PE) tax credit;
- meet the gross income test (i.e., reach the filing threshold);
- have a federal alternative minimum tax liability; or
- are claiming the Connecticut EITC.

The filing threshold is:

- $12,000 for married people filing separately;
- $15,000 for single filers;
- $19,000 for heads of household; and
- $24,000 for married couples filing jointly or qualifying surviving spouses.

How is Taxable Income Calculated?

Overview

The starting point for calculating Connecticut income tax is the amount of federal AGI on a taxpayer's federal tax return. The taxpayer applies certain modifications to federal AGI to arrive at CT AGI. CT AGI is then reduced by a personal exemption, if applicable, to arrive at Connecticut taxable income.

CT AGI

Taxpayers modify their federal AGI with additions and subtractions (deductions), as applicable, to arrive at CT AGI. These include an addition for the interest income derived from state and municipal government obligations (other than Connecticut state or local bonds) and a deduction for contributions to the college savings plan called the Connecticut Higher Education Trust (CHET) (see

CT Form 1040, *Schedule 1*). Taxpayers can also deduct all or part of qualifying retirement income, as described below.

Social Security Income. Taxpayers may deduct 100% of the Social Security benefits included in their federal AGI if their AGI is less than (1) $75,000 for single filers and married people filing separately and (2) $100,000 for joint filers and heads of household. Taxpayers with federal AGIs at or above these thresholds qualify for a partial deduction. Under this partial deduction, no more than 25% of total Social Security benefits received is subject to state income tax.

By law, the partial deduction equals the difference between the:

1. amount of Social Security benefits includable for federal income tax purposes and

2. lesser of 25% of the (a) Social Security benefits received during the taxable year or (b) "excess of base amount" for federal tax purposes (CGS § 12-701(a)(20)(B)(x); see the Department of Revenue Service's (DRS) *Social Security Benefit Calculator*).

Teachers' Retirement System (TRS) Income. Taxpayers may deduct 50% of their TRS income. Those who also qualify for the general pension and annuity exemption described below may take the higher exemption (CGS § 12-701(a)(20)(B)(xx), as amended by PA 23-117, § 8).

Pension and Annuity Income. Taxpayers with federal AGIs below $75,000 for single filers (including married filing separately and head of household filers) and $100,000 for joint filers may deduct 100% of their qualifying pension and annuity income when calculating their CT AGI. Beginning with the 2024 tax year, the exemption gradually phases out for taxpayers with incomes that exceed these eligibility thresholds, as Table 1 shows. It fully phases out at $100,000 and $150,000, as applicable (CGS § 12-701(a)(20)(B)(xxi)-(xxiii), as amended by PA 23-204, § 377).

Table 1: General Pension and Annuity Exemption and Individual Retirement Account Exemption Phase-Out Schedule, Beginning With 2024 Tax Year

Federal AGI ($)		
Single, Married Filing Separately, or Head of Household	**Married Filing Jointly**	**Deduction (%)**
< 75,000	< 100,000	100.0
75,000 to 77,499	100,000 to 104,999	85.0
77,500 to 79,999	105,000 to 109,999	70.0
80,000 to 82,499	110,000 to 114,999	55.0
82,500 to 84,999	115,000 to 119,999	40.0

Table 1 (continued)

Federal AGI ($)		
Single, Married Filing Separately, or Head of Household	Married Filing Jointly	Deduction (%)
85,000 to 87,499	120,000 to 124,999	25.0
87,500 to 89,999	125,000 to 129,999	10.0
90,000 to 94,999	130,000 to 139,999	5.0
95,000 to 99,999	140,000 to 149,999	2.5
≥ 100,000	≥ 150,000	0.0

Certain Individual Retirement Account (IRA) Distributions. Taxpayers may deduct a portion of their distributions from IRAs, other than Roth IRAs. The deduction is 50% for 2024, 75% for 2025, and 100% beginning in 2026. The qualifying income thresholds and phase-out schedule for this exemption are the same as those for the pension and annuity exemption shown in Table 1 above. Unlike the pension and annuity exemption, however, for the 2024 and 2025 tax years, the deduction percentage listed in Table 1 applies only to the portion of IRA income that is deductible for that year (i.e., 50% or 75%, as applicable). For example, a single filer with $80,000 in federal AGI and $50,000 in IRA income could deduct $13,750 of that income in the 2024 tax year (i.e., 50% of $50,000, multiplied by 55%) (CGS § 12-701(a)(20)(B)(xxvi), as amended by PA 23-117, § 8, and PA 23-204, § 377; renumbered as CGS § 12-701(a)(20)(B)(xxvii)-(xxx)).

Other Retirement Income. Taxpayers may deduct 100% of their (1) tier I and tier II railroad retirement benefits (which are generally exempt from state and local income tax under the federal Railroad Retirement Act of 1974 (45 U.S.C. § 231m) and (2) military retirement pay (CGS § 12-701(a)(20)).

Personal Exemptions

Individuals with incomes below specified thresholds are exempt from filing. Others are eligible to have their taxable income reduced through personal exemptions. The exemption amounts gradually phase out at higher income levels until they are completely eliminated. Table 2 below shows the maximum personal exemption by filing status, the threshold for receiving the maximum exemption, and the AGI level above which the exemption is no longer available.

Table 2: Personal Exemptions

Filing Status	Maximum Personal Exemption ($)	Maximum Exemption Threshold ($) CT AGI ≤	No Exemption ($) CT AGI >
Single	15,000	30,000	44,000
Married Filing Separately	12,000	24,000	35,000
Head of Household	19,000	38,000	56,000
Married Filing Jointly	24,000	48,000	71,000

Source: CGS § 12-702

What is the Tax Rate?

Tax Brackets

Connecticut's income tax has seven tax brackets. Starting with the 2024 tax year, the rates range from 2.00% to 6.99%. (A 2023 law decreased the bottom two rates from (1) 3% to 2% and (2) 5% to 4.5%.) The rates are marginal, meaning that only the income that falls within the corresponding range is subject to tax at the specified rate. The income ranges for each tax bracket vary by filing status. For example, a single filer with $55,000 in taxable income is subject to a 2% tax on the first $10,000; 4.5% tax on income from $10,001 to $50,000; and 5.5% tax on the remaining income from $50,001 to $55,000.

Table 3 below shows the brackets and rates and the income thresholds by filing status. A flat 6.99% rate applies to trusts and estates.

Table 3: Tax Brackets for 2024 Tax Year and After

Tax Rate	Connecticut Taxable Income ($)		
	Single and Married Filing Separately	Heads of Household	Married Filing Jointly
2%	0 to 10,000	0 to 16,000	0 to 20,000
4.5%	10,001 to 50,000	16,001 to 80,000	20,001 to 100,000
5.5%	50,001 to 100,000	80,001 to 160,000	100,001 to 200,000
6%	100,001 to 200,000	160,001 to 320,000	200,001 to 400,000
6.5%	200,001 to 250,000	320,001 to 400,000	400,001 to 500,000
6.9%	250,001 to 500,000	400,001 to 800,000	500,001 to 1,000,000
6.99%	> 500,000	> 800,000	> 1,000,000

Source: CGS § 12-700(a)(10) as amended by PA 23-204, § 376

Phase-Out of Lowest Tax Rate

For taxpayers with CT AGI over certain thresholds, the amount of income taxed at the lowest tax rate (2% beginning in 2024) decreases as CT AGI increases, thus subjecting more taxable income to the next highest rate (4.5% beginning in 2024). The phase-out applies to taxpayers with CT AGI over $56,500 for single filers, $100,500 for joint filers, $50,250 for married couples filing separately, and $78,500 for heads of household. Table 4 below shows, for each type of filer, the starting point for the phase-out, the phase-out intervals and amount of additional tax to be added at each interval, and the maximum amount of additional tax a taxpayer must pay as a result of the phase-out.

Table 4: 2% Tax Rate Phase-Out

	Single	Married Filing Jointly	Married Filing Separately	Head of Household
Phase-Out Starting Point: CT AGI >	$56,500	$100,500	$50,250	$78,500
Additional Tax	$25 per $5,000 of CT AGI over starting point	$50 per $5,000 of CT AGI over starting point	$25 per $2,500 of CT AGI over starting point	$40 per $4,000 of CT AGI over starting point
Maximum Additional Tax	$250	$500	$250	$400

Source: CGS § 12-700(a)(10) as amended by PA 23-204, § 376

Benefit Recapture

Taxpayers whose CT AGI exceeds specified thresholds are also subject to two “benefit recapture” provisions that require them to add specified amounts to their tax liability. The first provision eliminates the benefit of the tax rate reductions enacted in 2023 (and first taking effect in the 2024 tax year) for taxpayers with taxable incomes exceeding $105,000 (single or married filing separately), $210,000 (married filing jointly), or $168,000 (head of household). As Table 5 below shows, the benefit recapture increases incrementally as CT AGI increases until taxpayers pay up to an additional $250, $500, or $400, respectively (i.e., when their incomes exceed $150,000, $300,000, or $240,000, respectively).

Table 5: Benefit Recapture for Rate Reductions Enacted in 2023

	Single/ Married Filing Separately	Married Filing Jointly	Head of Household
Starting Point: CT AGI	> $105,000	> $210,000	> $168,000

Table 5 (continued)

	Single/ Married Filing Separately	Married Filing Jointly	Head of Household
Recapture Amount	$25 per $5,000 of CT AGI over starting point	$50 per $10,000 of CT AGI over starting point	$40 per $8,000 of CT AGI over starting point
Maximum Total Recapture Amount	$250	$500	$400

Source: CGS § 12-700(a)(10) as amended by PA 23-204, § 376

The second benefit recapture provision eliminates the benefit of having a portion of taxable income taxed at lower rates. The amounts phase in until a taxpayer's CT AGI is effectively taxed at the highest marginal rate (6.99%).

Table 6 below shows, for each type of filer, the (1) starting point for the recapture phase-in, (2) phase-in intervals and recapture amount to be added at each interval, and (3) maximum total recapture amount to be added once CT AGI reaches the fully phased-in level.

Table 6: Benefit Recapture for Lower Marginal Rates

	Single/ Married Filing Separately	**Married Filing Jointly**	**Head of Household**
Phase-In Starting Point: CT AGI	> $200,000	> $400,000	> $320,000
Recapture Amount	$90 per $5,000 of CT AGI over starting point, up to $2,700, plus $50 per $5,000 of CT AGI over $500,000, up to $450	$180 per $10,000 of CT AGI over starting point, up to $5,400, plus $100 per $10,000 of CT AGI over $1,000,000, up to $900	$140 per $8,000 of CT AGI over starting point, up to $4,200, plus $80 per $8,000 of CT AGI over $800,000, up to $720
Maximum Total Recapture Amount	$3,150	$6,300	$4,920

Source: CGS § 12-700(a)(10) as amended by PA 23-204, § 376

What Tax Credits Apply to the Income Tax?

The amount of tax a filer actually pays may be offset by tax credits, including a personal tax credit, property tax credit, EITC, and credit for income taxes paid to other jurisdictions. The personal, property, and earned income tax credits gradually phase out at higher income levels. Taxpayers may also apply specified business-related tax credits against the income tax, including the PE and angel investor tax credits. We describe below the various credits that may be applied against the income tax.

Personal Tax Credit

A personal tax credit ranging from 1% to 75% of the tax due is available to all categories of filers up to certain income levels. Like the personal exemption, the personal tax credit phases out at higher income levels until it is completely eliminated. Table 7 shows the CT AGI levels that qualify for the maximum 75% credit and the levels at which the credit phases out.

Table 7: Personal Tax Credit

Category of Filer	Qualifies for the Maximum 75% Credit		No Credit
	CT AGI >	CT AGI ≤	CT AGI >
Single	$15,000	$18,800	$64,500
Married Filing Separately	12,000	15,000	52,500
Head of Household	19,000	24,000	78,500
Married Filing Jointly	24,000	30,000	100,500

Source: CGS § 12-703

Credit for Income Taxes Paid to Qualifying Jurisdictions

Connecticut full- and part-time residents may take a credit against their Connecticut income tax for income taxes paid to another state, political subdivision, or the District of Columbia on income that is also subject to Connecticut income taxes. To qualify for the credit, the income tax payments made to other jurisdictions must be (1) derived from or connected with sources within the jurisdiction and (2) subject to tax there.

The total credit amount is limited to the lesser of the (1) amount of income tax paid to the qualifying jurisdiction; (2) portion of Connecticut income tax due on the CT AGI sourced in the qualifying jurisdiction (or, for part-time residents, the amount of Connecticut income tax due on the portion of CT AGI sourced in the qualifying jurisdiction and earned during the taxpayer's residency portion of the tax year); or (3) taxpayer's Connecticut income tax liability (CGS § 12-704).

Property Tax Credit

Connecticut residents may qualify for a credit of up to $300 for property taxes paid on a primary residence or automobile in Connecticut. The property tax credit amount depends on the amount of property tax paid and the filer's CT AGI. The percent of property tax paid that can be taken as a credit declines as income increases until it completely phases out (CGS § 12-704c).

Table 8: Property Tax Credit

Category of Filer	Maximum Credit (CT AGI ≤)	No Credit (CT AGI >)
Single	$49,500	$109,500
Married Filing Separately	35,250	65,250
Head of Household	54,500	114,500
Married Filing Jointly	70,500	130,500

Source: CGS § 12-704c and *2023 CT Form-1040 Instructions*, p. 26

Table 8 above shows for each filing status the income threshold (1) at which taxpayers may claim the maximum property tax credit and (2) above which the credit is no longer available.

Real Estate Conveyance Tax Credit

Resident taxpayers who paid the real estate conveyance tax at the rate of 2.25% may claim a tax credit against their income tax liability that is based on the amount of conveyance tax paid at that rate. (The 2.25% conveyance tax rate applies to any portion of a residential dwelling's sales price that exceeds $2.5 million. It has been in effect since July 1, 2020.) This credit is in lieu of the property tax credit that eligible taxpayers would otherwise be eligible to claim.

Eligible taxpayers may claim the credit over a three-year period, beginning in the third tax year after the tax year in which they paid the conveyance tax. The credit in each year cannot exceed 33.3% of the amount of conveyance tax the taxpayer paid at the 2.25% rate. Taxpayers may carry the unused portion forward for up to six successive tax years and are not eligible to receive a refund of any unused credit (CGS § 12-704c(d)).

EITC

Connecticut residents who qualify for, and claim, the federal EITC may qualify for a refundable state EITC equal to 40% of the federal credit for the same tax year. Under federal law, people who work and earn incomes below certain levels qualify for the EITC. Credit amounts vary according to a taxpayer's income and the number of children he or she has.

Based on the federal EITC for 2024, the maximum state EITC for the 2024 tax year ranges from $253 for filers with no children to $3,132 for filers with three or more children. If the state credit exceeds the taxpayer's state income tax liability, he or she receives the difference as an income tax refund (CGS § 12-704e, as amended by PA 23-204, § 378).

Credit for Stillbirths

Taxpayers may claim a $2,500 tax credit for the birth of a stillborn child if the child would have been claimed as the taxpayer's dependent on his or her federal income tax return. Taxpayers may claim the credit for the tax year for which the Department of Public Health's State Vital Records Office issued a stillbirth certificate. The credit amount applies regardless of the taxpayer's filing status (CGS § 12-704i).

Historic Homes Rehabilitation Tax Credit

Historic homes rehabilitation tax credits may be claimed against the personal income tax beginning with the 2024 tax year. Under this program, qualifying property owners (people and nonprofits) may receive a tax credit for 30% of the construction costs they incur in rehabilitating a historic home. This credit is refundable when applied against the personal income tax (CGS § 10-416, as amended by PA 23-204, § 357; PA 24-109; and PA 24-151, § 128).

Credits for Business-Related Activities and Investments

Accredited Theater Productions. Beginning with the 2024 tax year, the law establishes a new tax credit for production companies of eligible pre- and post-Broadway productions and live theatrical tours performed at qualified facilities in Connecticut. The credit equals 30% of the production's eligible expenditures and may be applied against the personal income tax or specified business taxes (PA 23-204 § 372; codified as CGS § 10-419).

Angel Investor Tax Credit. Certain investors may qualify for income tax credits for investments they make in eligible businesses in Connecticut. To qualify, they must invest at least $25,000 in a business that meets eligibility criteria (e.g., is principally located in the state, has been in operation less than seven years, and has less than $1 million in annual gross revenue) and is approved to receive credit-eligible investments by Connecticut Innovations, Inc., which administers the credit program. Each credit generally equals 25% of the cash investment, up to $500,000. The total amount of angel investor credits that may be awarded each fiscal year is capped at $5 million. The program sunsets in FY 28 (CGS § 12-704d, as amended by PA 23-204, § 355).

Insurance Reinvestment Fund. Although this tax credit program has been closed since July 1, 2010, taxpayers may still be claiming these 10-year credits against their personal income tax liability. Taxpayers qualified for the credits for making eligible investments through a fund manager in an insurance business. The credit equals 100% of the investment and is claimed over 10 years, beginning in the fourth year after the investment was made (10% per year in years four through seven and 20% per year in years 8 through 10) (CGS § 38a-88a(b)).

PE Tax Credit. The PE tax previously applied to all pass-through entities (partnerships, S corporations, limited liability companies that are treated as partnerships, or S corporations for federal income tax purposes) that carry on business in Connecticut or have income derived from Connecticut sources. Starting with the 2024 tax year, the tax is optional.

Partners or members of a pass-through entity that elect to pay the PE tax are allowed a PE tax credit for their share of the PE tax imposed on the pass-through entity. The credit amount is equal to the 87.5% of the taxpayer's direct and indirect pro-rata share of the PE tax paid by the pass-through entity. If the credit exceeds the taxpayer's Connecticut income tax liability, the excess is considered an overpayment and is refunded without interest (CGS § 12-699, as amended by PA 23-204, § 360).

Workforce Housing Opportunity Developments. Starting in the 2025 tax year, the law establishes a tax credit administered by the Department of Housing for people and entities making cash contributions to eligible developers building or rehabilitating qualifying "workforce housing opportunity development projects" in federally designated opportunity zones. The credit may be applied against the personal income tax or specified business taxes (PA 23-207, § 28, as amended by PA 24-86; codified as CGS § 8-395a).

What is the Connecticut Alternative Minimum Tax (AMT)?

Taxpayers who had federal AMT liability may also owe Connecticut AMT in addition to regular income tax. The Connecticut AMT is calculated based on a percentage of a taxpayer's federal AMT or federal alternative minimum taxable income, after applying certain Connecticut modifications. Taxpayers whose Connecticut AMT exceeds their regular Connecticut income tax liability must pay the difference (CGS § 12-700a; see DRS's *Q&A: The Connecticut Alternative Minimum Tax*, IP 2005(31)).

Do Taxpayers Have to Pay Use Tax With Their Income Tax?

Taxpayers generally owe use tax on purchases of taxable goods or services when Connecticut sales tax is not paid to the retailer at the time of purchase. Although the use tax is separate from the state income tax, taxpayers may report and pay their use tax liability on their state income tax returns. Use tax rates are the same as sales tax rates (i.e., 6.35% for most taxable goods and services) (CGS § 12-411 et seq.; see DRS's *Q&A on the Connecticut Individual Use Tax*, IP 2016(19)).

How Much Revenue Does the State Receive From the Tax?

According to DRS, there are approximately 1.7 million income tax filers each year (DRS *FY 23 Annual Report*, p. 48). As Table 9, right, shows, Connecticut collected $11.2 billion in income tax revenue in FY 23, down from $12.1 billion in FY 22 and up from $10.3 billion in FY 21.

Table 9: Connecticut Income Tax Revenue, FYs 21-23

FY	Revenue
23	$11,231,163,886
22	12,130,517,104
21	10,273,322,918

Source: DRS *FY 23 Annual Report*

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