

Eliminating CT State Income Tax on Social Security Benefits

Cost/Benefit Analysis by Fairfield Senior Advocates

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EXECUTIVE SUMMARY

Fairfield Senior Advocates (FSA) has evaluated the cost vs. benefits associated with proposed legislation to repeal the Connecticut (“CT” or “State”) income tax on Social Security. Currently, this income tax applies to Social Security recipients whose income exceeds \$50,000 as individuals or \$60,000 for those filing married/joint returns.

Our analysis of a series of offsetting financial benefits leads us to conclude that repeal - in addition to promoting senior retention - could result in a significant net savings to the State and its towns. **We estimate elimination of the tax to cost \$40 million to \$50 million in annual State tax revenues. However, the overall offsetting net benefits to the State and towns could exceed \$70 million to \$90 million annually.** Our analysis assumes that subsequent actions would be taken to sustain this momentum to retain seniors.

FSA believes that elimination of this tax represents a major first step in (1) stemming the exodus of seniors from the State, and (2) positioning the State to improve its economic profile.

APPROACH

In our work we first quantified the annual tax revenue loss associated with elimination of the tax. We estimate this to be between \$40 million and \$50 million annually. This is consistent with the official State Government estimate of \$45 million.

We then evaluated otherwise improved tax revenues and accrued savings to CT taxpayers that can be associated with retention of seniors who are being driven away by this type of tax. We specifically addressed:

- Preserved income tax revenues derived from non-Social Security retirement income;
- Preserved senior gas tax revenues;
- Preserved senior sales tax revenues;
- Other tax revenues associated with economic activity generated by senior spending (a.k.a., multiplier effect); and

- Lower municipal expenditures that can be attributed to the retention of seniors, resulting in lower property taxes for all residents. (Seniors as a group pay a disproportionately higher share of town costs as their households commonly do not make use of schools. Educational costs constitute the majority of towns' spending.)

Our estimate is that these revenue generating and tax savings sources could accumulate to **more than \$70 million to \$90 million annually.**

We also considered two other key sources of offsetting revenue:

- Preserved estate tax revenues; and
- Inducement to prospective residents to migrate to a CT presenting an improved profile - as a more favorable, lower-tax environment. This would yield important long term benefits in the form of increased demand for housing and enhanced CT property values.

While significant, these benefits from retaining seniors and attracting other potential lifelong residents to CT were less readily quantifiable.

Our analysis incorporated demographic data and relevant assumptions, including:

- State household data;
- The portion of State residents eligible for Social Security;
- The percentage of seniors affected by the income tax on Social Security benefits;
- The average combined Social Security payment for households that currently pay the income tax on Social Security benefits;
- Family income data for these households;
- Marginal tax rates for such households;
- The estimated portion of income subject to sales or related taxes;
- Senior driving patterns (to estimate gas tax revenues);
- Consumption (spending) patterns;
- Senior re-domestication assumptions (including "snowbirds" who spend a majority of the year outside of CT);
- Senior opt-out assumptions; and
- The presumption that this would be the first of a series of measures taken to induce seniors to remain in the State.

CONCLUSION

Elimination of the State personal income tax on Social Security income should be viewed as a key first step toward retaining tax revenues and savings generated by seniors as well as giving all residents hope for a better CT. Our analysis assumed that subsequent actions would be taken to sustain this momentum to retain seniors.

Elimination of the tax serves the following purposes:

1. Retains otherwise lost income tax revenues on seniors' other retirement earnings.
2. Retains otherwise lost senior sales and related tax revenues.
3. Retains otherwise lost senior gasoline tax revenues.
4. Retains otherwise lost economic activity (and resulting tax revenues) generated by senior spending for goods and services.
5. Retains otherwise lost estate taxes.
6. Motivates seniors to remain in CT, thereby lessening pressures on Town budgets and property taxes. Senior property owners consume fewer services (especially education) than do families with children in school.
7. Gives potential snowbirds pause in re-establishing residency outside of CT.
8. Helps seniors with previously prepared exit strategies to reassess what appeared to be compelling financial advantages in relocating.
9. Lessens CT's label as "unfriendly" to seniors; this is especially important in that neighboring states do not apply an income tax on Social Security.
10. Serves as part of a multi-faceted program to attract businesses, families and senior relatives toward life-long moves to CT.