Connecticut

Highlights

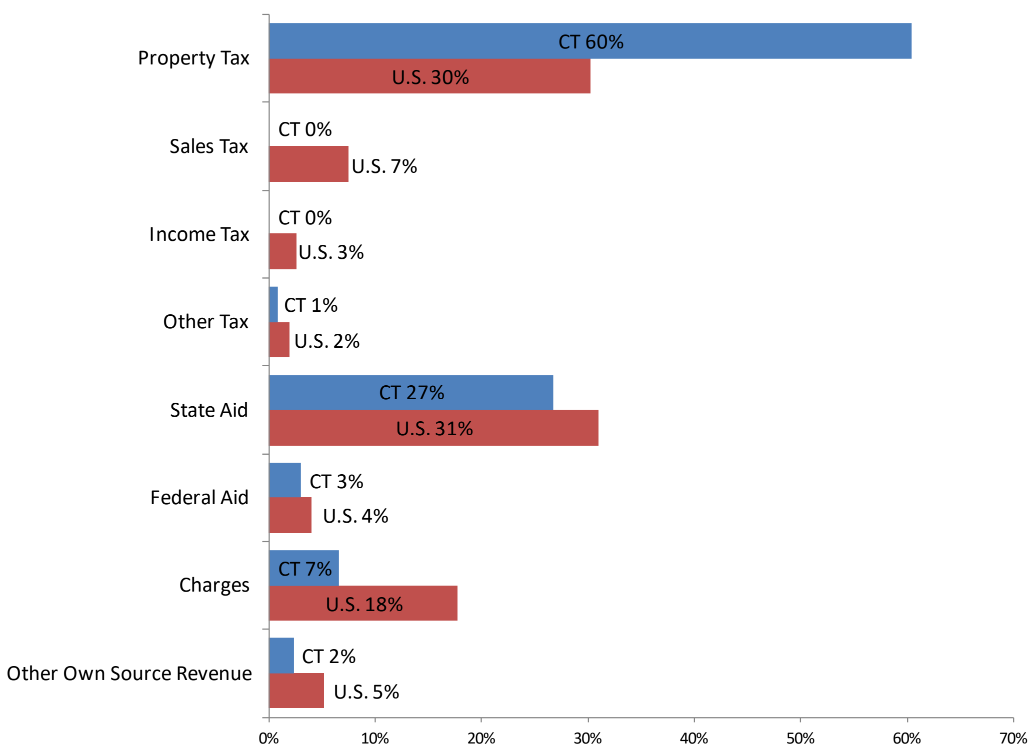
Connecticut ranks as the state with the second highest degree of income inequality among all U.S. states (U.S. Census Bureau). Given this degree of income inequality, it may not be surprising that there are significant fiscal disparities among Connecticut municipalities, mostly driven by an uneven distribution of the property tax base (Zhao 2015).

Local governments in Connecticut rely very heavily on the property tax, which constituted 60 percent of local government revenue in 2018 (figure CT-1).

Connecticut is one of very few states that have considered split-rate property taxation (higher rates on land than buildings).

Connecticut is also unusual in that it is one of only two states (Rhode Island is the other) that reimburses municipalities for revenue foregone because of the property tax exemption afforded to colleges and hospitals. Connecticut terms this a PILOT program (Kenyon and Langley 2010).

Figure CT-1
Sources of Local General Revenue, Connecticut and U.S., 2018



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

State and local governments in Connecticut rely on the property tax for a greater share of state and local revenue than do all but two other states. In 2018, the median real estate taxes paid for owner-occupied homes in Connecticut ranked second highest among all states (table CT-1).

Table CT-1
Selected Connecticut Property Tax Statistics, 2018[1]

	Connecticut	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$3,112	$1,667	*4*
Property tax percentage of personal income	4.2%	3.1%	*8*
Total property tax as percentage of state-local revenue	25.4%	16.6%	*3*
Median owner-occupied home value[2]	$275,400	$217,500	*12*
Median real estate taxes paid for owner-occupied home[2]	$5,898	$2,471	*2*
Effective tax rate, median owner-occupied home[3]	2.1%	1.1%	*4*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2015-2019.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

Assessments are conducted at the local level (table CT-2). Real property is assessed at 70 percent of market value. With some exceptions, the state does tax personal property. Real property is on a five-year assessment cycle, but personal property and motor vehicles are valued annually.

Limits on Property Taxation

Connecticut places no statewide limit on property tax rates or levies. However, municipalities have the option to phase in assessment increases or decreases over a period of five years or less.

Property Tax Relief and Incentives

A property tax circuit breaker program in Connecticut provides relief to homeowners who are either completely disabled or at least age 65 and have incomes below specified limits. To be eligible for the tax relief in 2021, 2020 income must not exceed $37,600 for individuals and $45,800 for married couples for a credit of up to $1,000 and $1,250, respectively. A second circuit breaker program for homeowners who are 65 or older or can claim a dependent on their federal income tax return provides income tax credits ranging from $20 to $200 for single homeowners with income up to $109,500 and for married couples with income up to $130,500.

Connecticut provides only three types of property tax incentives for encouraging economic development. One is the Enterprise Zone Program, which allows for 80 percent property tax abatement on eligible property for a period of five years. Seventeen municipalities are considered part of enterprise zones, and four municipalities are part of an additional enterprise zone near Bradley International Airport, all of which are eligible for the incentives with the Enterprise Zone Program. Second, individual municipalities are authorized to offer property tax credits. The third type of economic development property tax incentive is a tax increment financing program.

Table CT-2
Connecticut Property Tax Features, 2019

Feature	Connecticut	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	No	45
Limits on the rate of growth of assessed value	Yes	18
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

The State of Connecticut was one of the first U.S. states to have its school finance system challenged because of its property tax system. In 1977, the state's highest court found that the Connecticut constitution required the state to "provide a substantially equal educational opportunity" for each student and that the current school financing system was unconstitutional because it was based on local property taxes without sufficient state support to equalize disparities in the property tax base. In response, the legislature modified its system of state education grants (SchoolFunding.Info).

In 2005, another school funding lawsuit, *Connecticut Coalition for Justice in Education Funding, Inc. (CCJEF) v. Rell*, was filed, arguing that Connecticut's system of education funding falls short on both equity and adequacy grounds. That case went up to the Supreme Court, which sent the case back for a trial. In a September 2016 ruling, the trial judge, Superior Court Judge Thomas Moukawsher, held that "major components of Connecticut's K-12 educational system were so 'irrational' that they were denying students, especially those in low wealth districts, their constitutional right to an adequate education" (SchoolFunding.Info).

In January 2018, the Connecticut Supreme Court overturned Superior Court Judge Moukawsher's school funding ruling, "declaring that the state had met its minimal constitutional obligations and beyond that, it is up to the legislature to set educational policy." This ruling brought the end to more than a decade of school finance litigation (Kauffman and Mahony 2018).

An alternative method of encouraging local economic development entails levying a split-rate tax on land and buildings, where the tax rate on improvements is lowered and lost revenue is made up by raising the tax rate on land. This approach was considered in Connecticut in 2008, when the City of New London was classified as a distressed municipality and was authorized to implement a split-rate tax (Cohen and Fedele 2012). Although New London chose not to pursue this option, subsequent legislation in 2013 authorized up to three municipalities in the state to apply for consideration in a land value taxation pilot program (Cohen and Fedele 2015). Currently, no Connecticut cities are actively pursuing this option.

In 2014, the legislature began a two-year study of the state's tax system, including the property tax. In December 2015, the tax study panel recommended changes in the property tax, including a move from a five-year reassessment cycle to annual assessment. The panel also recommended folding most local property tax exemptions into an expanded circuit breaker run through the personal income tax and enacting a 1 percent local sales tax to reduce reliance on the property tax.

Recent Developments

The Tax Cuts and Jobs Act of 2017 capped the federal income tax deduction for state and local taxes (SALT) at $10,000. In 2018, Connecticut joined New York, Maryland, and New Jersey in a legal challenge to the SALT cap, arguing it interferes with state sovereignty (Civil Action No. 18-cv-6427). A federal judge dismissed the lawsuit, ruling that "[t]he States have cited no constitutional principle that would bar Congress from exercising its otherwise plenary power to impose an income tax without a limitless SALT deduction" (Reitmeyer 2019). The average amount of the deduction claimed by Connecticut taxpayers in 2015 was $19,655, almost twice the new limit (Tax Policy Center 2017).

The Connecticut legislature attempted to work around the cap by authorizing municipalities to establish charities to support local services and issue property tax credits for the value of fully deductible charitable donations, but in August 2018 the IRS proposed new rules blocking this approach (Public Act No. 18-49; Federal Register 2018). In June 2019, the IRS set new rules effective in August 2019 that blocked workarounds by requiring the reduction of any tax credit from the value of a charitable deduction. Any amount donated exceeding the value of the tax credit, the IRS recognizes as a charitable deduction (Federal Register 2019). In 2018, Connecticut adopted another measure to work around the SALT deduction cap, imposing a passthrough entity-level tax and allowing the entity members to claim individual income tax credit on their Connecticut income tax. Other states have adopted similar workarounds, but Connecticut is the only state in which entity-level tax is mandatory instead of optional (McLoughlin 2021). In 2020, the IRS released proposed regulations that left the door open for entity-level workarounds (Walczak 2020).

Senate Bill 171, introduced in January 2021, proposes a new statewide "mansion tax" on residential and commercial real properties with assessed value over $300,000. The measure would exempt the first $300,000 in assessed value and the rate would be one mill—or $1 for every $1,000 of assessed value. Because Connecticut assesses property at 70 percent of market value, properties with a market value of about $430,000 or more would be subject to the tax (Phaneuf 2021).

The Connecticut legislature has proposed a bill (Senate Bill 873) to increase state funding to struggling cities with high concentration of tax-exempt properties, such as New Haven, where 60 percent of property is tax-exempt. The bill would restructure the existing PILOT program by creating three new tiers of cities and distribute payments based on financial needs of the cities (Breen 2021).

Resources

Bell, Michael E., and John E. Anderson. 2017. "Connecticut Tax Study Panel: Bold Property Tax Recommendations." *State Tax Today*. (February 1).

Breen, Thomas. 2021. "New Haven Issues PILOT Pleas." *New Haven Independent*, February 16. https://www.newhavenindependent.org/index.php/archives/entry/pilot_hearing.

Cohen, Jeffrey P., and Michael J Fedele. 2015. "Connecticut's Land Value Taxation Public Act: Can It Be Progressive?" Manuscript.

Cohen, Jeffrey P., and Michael J. Fedele. 2012. "Where in Connecticut Is the Best Location for a Split Rate Tax? An Analysis of Land Assessment Equity in Several Cities." Working paper. Cambridge, MA: Lincoln Institute of Land Policy. www.lincolninst.edu/pubs/dl/2133_1455_Cohen_WP12JC1.pdf.

Connecticut State Tax Panel. 2015. "Connecticut State Tax Panel, Final Report." (December). www.cga.ct.gov/fin/tfs%5C20140929_State%20Tax%20Panel%5C20151208/Property%20Tax%20Findings%20and%20Policy%20Options%20Text%2012-3%20meb.pdf.

Hamilton, Billy. 2017. "What's the Matter with Connecticut?" *State Tax Notes*. (June 12).

Internal Revenue Service. 2018. "Contributions in Exchange for State or Local Tax Credits." *Federal Register* 83, no. 166 (August 27). www.govinfo.gov/content/pkg/FR-2018-08-27/pdf/2018-18377.pdf.

Kauffman, Matthew, and Edmund H. Mahony. 2018. "Sweeping Education Ruling Overturned by Connecticut Supreme Court." *Governing*. January 19. www.governing.com/topics/education/tns-connecticut-supreme-court-education-funding.html.

Kenyon, Daphne A., and Adam H. Langley. 2010. *Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests*. Cambridge, MA: Lincoln Institute of Land Policy. www.lincolninst.edu/publications/policy-focus-reports/payments-lieu-taxes.

McLoughlin, Jennifer. 2021. "Panelist Highlights Revenue-Raising Tweak in SALT Cap Workaround." *Tax Notes Today State*. (January 28). https://www.taxnotes.com/tax-notes-today-state/tax-cuts-and-jobs-act/panelist-highlights-revenue-raising-tweak-salt-cap-workaround/2021/01/28/2l7rl.

Phaneuf, Keith M. 2021. "Senate Leader Pitches New State Property Tax on High-Value Homes." *Hartford Courant*, January 26. https://www.courant.com/politics/hc-pol-connecticut-statewide-property-tax-20210126-47nabplmizfgzhww6thzi5xxwm-story.html.

Reitmeyer, John. 2019. "Judge Rules Against NJ, Other States in Case Against Federal SALT Cap." *NJ Spotlight News*, October 1. https://www.njspotlight.com/2019/10/judge-rules-against-nj-other-states-in-case-against-federal-salt-cap.

SchoolFunding.Info. "Connecticut." http://schoolfunding.info/litigation-map/connecticut.

Significant Features of the Property Tax. www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax. Lincoln Institute of Land Policy and George Washington Institute of Public Policy.

State of Connecticut, Department of Revenue Services. 2017. "Guide to Connecticut Business Tax Credits." www.cga.ct.gov/2017/rpt/pdf/2017-R-0287.pdf.

State of Connecticut, Office of Policy and Management. "Homeowners' Elderly/Disabled (Circuit Breaker) Tax Relief Program." www.ct.gov/opm/cwp/view.asp?q=383136.

State of Connecticut, Office of Policy and Management. "Questions and Answer Booklet for the Homeowners, Totally Disabled and Additional Veterans' Tax Relief Programs 2021." https://portal.ct.gov/-/media/OPM/IGPP-Data-Grants-Mgmt/IGPP-Forms/OWNERS-Disabled-Add-Vets-QA-2021.pdf.

State of Connecticut, Office of Policy and Management. "Statutes Governing Property Assessment and Taxation." www.ct.gov/opm/cwp/view.asp?q=383128.

State of Connecticut, Office of Policy and Management. *Municipal Fiscal Indicators*. www.ct.gov/opm/cwp/view.asp?a=2984&q=383170&opmNav_GID=1807.

Tax Policy Center. 2017. "State and Local Tax Deduction by State, Tax Year 2015." (October 12). www.taxpolicycenter.org/statistics/state-and-local-tax-deduction-state.

U.S. Census Bureau; American Community Survey, 2013-2017 American Community Survey 5-Year Estimates, Table 19083 Gini Index of Income Inequality.

Walczak, Jared. 2020. "IRS Signals Approval of Entity-Level SALT Cap Workaround, But States Should Still Think Twice." Tax Foundation. (November 11). https://taxfoundation.org/irs-salt-cap-workaround.

Zhao, Bo, and Jennifer Weiner. 2015. "Measuring Municipal Fiscal Disparities in Connecticut." New England Public Policy Center. Research Report 15-1. (May). www.bostonfed.org/economic/neppc/researchreports/2015/neppcrr1501.pdf.

Publication Date

May 2021