FAQs: Proposal to Shift a Portion of CT's Income Tax to a Payroll Tax

July 30, 2019

Q: What is the payroll tax proposal?
A: Payroll taxes are taxes employees and/or employers must pay based on wages and tips earned and salaries paid to employees.[1] Unlike personal income taxes, which are directly paid by the individual who earned income, payroll taxes are paid by employers to the government.[2] The payroll tax proposed and designed by the Connecticut School Finance Project would serve as a partial replacement for the state income tax and help reduce individual and business tax burdens as well as mitigate the impact of recent federal tax changes on Connecticut taxpayers. More information about the background of the proposal and its structure can be found in the Connecticut School Finance Project's January 2019 policy briefing titled, *Payroll Tax in Response to Federal Tax Changes*. This policy briefing is available at www.ctstatefinance.org/assets/uploads/files/Payroll-Tax-in-Response-to-Federal-Changes.pdf.

Q: How would Connecticut taxpayers benefit from the payroll tax?
A: In short, this plan gives Connecticut wage earners and employers a tax break, paid for by the federal government, by reducing their net state and federal tax liability. Connecticut wage earners would be positively impacted by shifting a portion of the income tax to payroll tax. This would positively impact Connecticut wage earners by limiting increases in their adjusted gross incomes for federal tax purposes, including federal income taxes and FICA (federal social security and Medicare taxes), resulting in a reduction in federal tax liability for Connecticut taxpayers. The implementation of the payroll tax would be paired with a reduction in state income tax rates on wages. The implementation of a payroll tax would also help to mitigate the impact of the SALT deduction cap on taxpayers who itemize deductions on their federal tax returns. Reducing or eliminating the amount of state personal income tax that is paid by residents to the State means Connecticut residents will be able to devote less of their SALT deduction to personal income taxes and potentially have room under the deduction cap to deduct all or a larger portion of their local property taxes.

Connecticut employers would be positively impacted by limiting increasing in their federal FICA tax liability on wages paid to employees. Additionally, the payroll tax

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[1] Bankrate. (n.d.). Glossary: Payroll taxes. Retrieved from https://www.bankrate.com/glossary/p/payroll-taxes/.
[2] U.S. Department of the Treasury, Internal Revenue Service. (2018, April 23). Understanding Employment Taxes. Retrieved from https://www.irs.gov/businesses/small-businesses-self-employed/understanding-employment-taxes.

would be deductible by businesses as an expense on their federal tax returns, reducing their profits for purposes of federal taxation.

Please note the estimates of tax savings modeled by the Connecticut School Finance Project only include those tax savings that are the result of savings from reduced federal income tax and FICA liability. Because estimating the savings from mitigating the SALT deduction cap, as well as the savings from the reduction of corporate profits for federal tax purposes, accurately requires individual taxpayer data, those additional savings have not been included in these estimates. As a result, these savings estimates are conservative estimates.

Q: What are the total estimated savings for Connecticut taxpayers if the payroll tax were to be enacted?

A: The total **estimated savings on federal taxes to Connecticut taxpayers (individuals and businesses) is, conservatively, $2 billion.** Under this proposal, approximately $1 billion in federal savings would accrue to Connecticut residents as a result of reduced federal income tax and FICA liability (much of which would likely be reinvested in the Connecticut economy), $600 million in federal tax savings would accrue to Connecticut businesses as a result of reduced FICA liability, and $400 million in federal tax savings would be "recaptured" by the State of Connecticut as increased revenue. Examples of how these savings would accrue to Connecticut residents and businesses are outlined in the tables below.

Impact on Take Home Pay with the Implementation of a 5% Payroll Tax

1	2	3	4	5	6	7	8	9	10
	DRS Tax Calculation Schedule	IRS Income Tax Table, Estimated FICA payments	Col 1 - (Col 2 + Col 3)	95% * Col 1	DRS Tax Calculation Schedule	IRS Income Tax Table, Estimated FICA payments	100% of payroll tax paid by business, phased out at higher income levels	Col 5 - (Col 6 + Col 7) + Col 8	Col 9 - Col 4
Current Law				Post Payroll Tax Implementation					
Original CT AGI	**CT Income Tax**	**Est. Federal Taxes**	**Take-Home Income**	**Post Payroll CT AGI**	**CT Income Tax**	**Est. Federal Taxes**	**Est. Refundable Credit**	**Take-Home Income**	**Increase in Take-Home Pay**
High school graduate who entered workforce earning $28K a year									
$ 28,000	383	3,872	$ 23,746	$ 26,600	-	3,596	800	$ 23,804	**$ 58**
Single mother filing as head of household, earning $35K a year									
$ 35,000	360	4,446	$ 30,195	$ 33,250	-	4,102	1,280	$ 30,428	**$ 234**
Young married couple, both working and together earning $100K a year									
$ 100,000	4,508	16,389	$ 79,103	$ 95,000	-	15,407	-	$ 79,594	**$ 491**
Single individual, making $80K a year									
$ 80,000	4,050	17,020	$ 58,931	$ 76,000	260	15,834	-	$ 59,907	**$ 976**
Married professional couple with family, earning $200K a year									
$ 200,000	10,500	42,823	$ 146,677	$ 190,000	900	40,278	-	$ 148,822	**$ 2,145**
Single executive earning $500K a year									
$ 500,000	34,450	164,400	$ 301,150	$ 475,000	14,700	155,063	-	$ 305,237	**$ 4,088**

Savings to Connecticut Businesses with the Implementation of a 5% Payroll Tax

1	2	3	4	5	6	7	8
	7.65% * Col 1	Col 1 + Col 2	95% * Col 1	7.65% * Col 4	Payroll Tax (5%) * Col 4	Col 4 + Col 5 + Col 6	Col 9 - Col 4
Current Law			Post Payroll Tax Implementation				
Total Payroll	**FICA Taxes**	**Total Expenditures**	**New Total Payroll**	**FICA Taxes**	**Payroll Tax**	**Total Expenditures**	**Total Savings to Business**
Small Business (10 employees, $250K payroll)							
$ 250,000	19,125	269,125	$ 237,500	18,169	11,875	$ 267,544	**$ 1,581**
Medium-sized Business (150 employees, $9M payroll)							
$ 9,000,000	688,500	9,688,500	$ 8,550,000	654,075	427,500	$ 9,631,575	**$ 56,925**
Large Business (5,000 employees, $400M payroll)							
$ 400,000,000	30,600,000	430,600,000	$ 380,000,000	29,070,000	19,000,000	$ 428,070,000	**$ 2,530,000**

These are conservative estimates that do NOT take into account 1) the additional tax savings that would accrue to taxpayers as a result of the SALT mitigation and 2) the additional tax savings that would accrue to businesses as a result of the reduction in their taxes by 21% of the new payroll tax. **Those savings are IN ADDITION to the tax savings estimated above.** (These savings have not been included because making those estimates requires access to individual-level taxpayer data, and therefore, the analysis must be performed by Connecticut's Department of Revenue Services.)

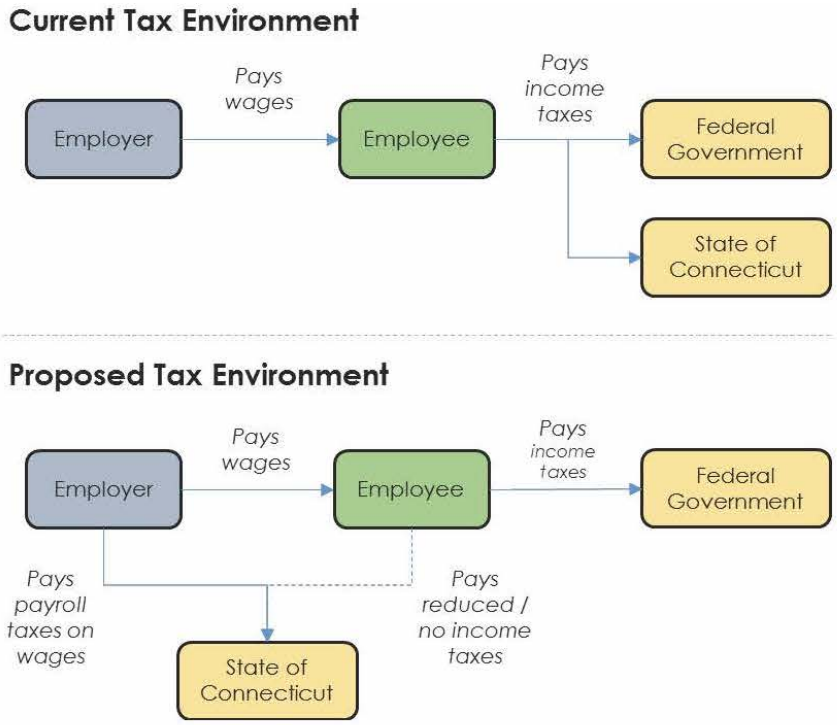
Q: Would the state income tax be completely eliminated under the payroll tax?
A: Under the payroll tax proposal, state income tax rates on wage income would be significantly reduced or eliminated. If the personal income tax rates on wage income were adjusted as outlined in the table below, ***about one million filers, which is equivalent to two-thirds of current state income taxpayers, would no longer owe any state income tax*** (as a note: a married filing jointly couple = 1 filer because it is one return even though it is two people and not all Connecticut residents are taxpayers (children, elderly, people who do not earn enough to owe tax)). **This means the state personal income tax would effectively be eliminated for most Connecticut residents.**

Potential Adjustments to Connecticut Income Tax Rates Over 5%

AGI Single Filer	AGI Joint Filers	2018 Personal Income Tax Rate	Possible Payroll Tax	Proposed New Income Tax Rate with Payroll Tax
$0 - $10,000	$0 - $20,000	3.00%	5.00%	0.00%
$10,001 - $50,000	$20,001 - $100,000	5.00%	5.00%	0.00%
$50,001 - $100,000	$100,001 - $200,000	5.50%	5.00%	0.50%
$100,001 - $200,000	$200,001 - $400,000	6.00%	5.00%	1.00%
$200,001 - $250,000	$400,001 - $500,000	6.50%	5.00%	2.50%
$250,001 - $500,000	$500,001 - $1,000,000	6.90%	5.00%	2.90%
$500,001+	$1,000,001+	6.99%	5.00%	2.99%

Q: Wouldn't the payroll tax be a new tax imposed on businesses?
A: While the payroll tax does technically transition the responsibility of paying the tax from the employee to the employer, **it does not increase the overall tax burden on Connecticut residents and businesses — in fact, it reduces it.** Instead, the payroll tax essentially shifts the point in time at which the tax is paid from *after* wages are paid to the employee to *before* wages are paid to the employee. This change is illustrated in the graphic below this answer.

Notably, this is the only proposal under discussion that would increase revenue to the State of Connecticut that does not increase the overall tax burden on Connecticut taxpayers (either businesses or individuals). Conversely, the payroll tax proposal would raise revenue while reducing the overall amount of tax paid by Connecticut residents and businesses. In fact, the federal tax savings to Connecticut individuals would help families pay for any other tax increases that may be needed to balance the budget.



Q: Would businesses have to reduce employee wages to successfully implement the payroll tax? Why would employees support this?
A: In order to account for the shift in paying the payroll tax *before* wages are paid to the employee, employers could either 1) reduce wages by an amount equal to the payroll tax or 2) delay or modify future wage increases by an amount equal to the payroll tax. However, even though gross wages would be reduced and/or future wage increases would be delayed or modified, **employees' take-home pay will still increase under the payroll tax proposal, as if they had gotten a raise, due to the federal tax savings**. The table below provides examples of the impact on take home pay.

Impact on Take Home Pay with the Implementation of a 5% Payroll Tax

1	2	3	4	5	6	7	8	9	10
	DRS Tax Calculation Schedule	IRS Income Tax Table, Estimated FICA payments	Col 1 - (Col 2 + Col 3)	95% * Col 1	DRS Tax Calculation Schedule	IRS Income Tax Table, Estimated FICA payments	100% of payroll tax paid by business, phased out at higher income levels	Col 5 - (Col 6 + Col 7) + Col 8	Col 9 - Col 4

Current Law				Post Payroll Tax Implementation					
Original CT AGI	**CT Income Tax**	**Est. Federal Taxes**	**Take-Home Income**	**Post Payroll CT AGI**	**CT Income Tax**	**Est. Federal Taxes**	**Est. Refundable Credit**	**Take-Home Income**	**Increase in Take-Home Pay**
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Single executive earning $500K a year									
$ 500,000	34,450	164,400	$ 301,150	$ 475,000	14,700	155,063	-	$ 305,237	**$ 4,088**

Additionally, businesses will recognize FICA tax savings by reducing gross wages or delaying wage increases. The table below provides an example of the impact on businesses.

Savings to Connecticut Businesses with the Implementation of a 5% Payroll Tax

1	2	3	4	5	6	7	8
	7.65% * Col 1	Col 1 + Col 2	95% * Col 1	7.65% * Col 4	Payroll Tax (5%) * Col 4	Col 4 + Col 5 + Col 6	Col 9 - Col 4

Current Law			Post Payroll Tax Implementation				
Total Payroll	**FICA Taxes**	**Total Expenditures**	**New Total Payroll**	**FICA Taxes**	**Payroll Tax**	**Total Expenditures**	**Total Savings to Business**
Small Business (10 employees, $250K payroll)							
$ 250,000	19,125	269,125	$ 237,500	18,169	11,875	$ 267,544	**$ 1,581**
Medium-sized Business (150 employees, $9M payroll)							
$ 9,000,000	688,500	9,688,500	$ 8,550,000	654,075	427,500	$ 9,631,575	**$ 56,925**
Large Business (5,000 employees, $400M payroll)							
$ 400,000,000	30,600,000	430,600,000	$ 380,000,000	29,070,000	19,000,000	$ 428,070,000	**$ 2,530,000**

Because wages are "sticky," it would likely be easier for employers to delay or modify future wage increases, rather than to reduce employees' gross pay. When the State of New York implemented its optional payroll tax, it chose to phase it in over three years. If Connecticut's payroll tax were phased-in, the income tax rates on wage income would simultaneously be phased down. Notably, recent data from the U.S. Bureau of Labor

Statistics and the Federal Reserve Bank of St. Louis[3] show that wages in Connecticut have been rising at a rate of more than two percent per year. This means employers are already increasing wages, and therefore, their overall payroll costs, anyhow and could more easily substitute the payroll tax for a wage increase.

Q: How would the reduction in FICA taxes and taxes on corporate profits work for businesses?

Example: Analysis of Impact of Reduction in FICA and Taxes on Corporate Profits

Example: Corporate Impact	Current Situation	Proposed Payroll Tax
Revenue		
Gross Revenue	$ 1,000,000	$ 1,000,000
Expenses		
Payroll Expenses	500,000	475,000
FICA Payroll Tax Expense (7.65%)	38,250	36,338
State Payroll Tax Expense (5%)	-	21,933
Total Expenses	538,250	533,271
Corporate Profit Net of Expenses	461,750	466,729
Federal Corporate Income Tax Due on Profit (21%)	96,968	98,013
Profit After Taxes	**$ 364,783**	**$ 368,716**

- Reduction results in an **increase** in profit after taxes.

Source: Tax Cuts and Jobs Act (TCJA), P.L. 115-97.

Q: Since the payroll tax only applies to wages, how would non-wage income be treated under the proposal?
A: The personal income tax rates on non-wage income would stay at current levels under this proposal.

Q: How would the payroll tax be administered for Connecticut residents who are self-employed?
A: Self-employed individuals would fall under the pass-through entity tax that the Connecticut General Assembly passed in 2018 and would not be subject to the payroll tax.

[3] Federal Reserve Bank of St. Louis, & U.S. Bureau of Labor Statistics. (2019, April 19). Average Hourly Earnings of All Employees: Total Private in Connecticut (SMU09000000500000003SA). Retrieved from https://fred.stlouisfed.org/series/SMU09000000500000003SA.

Q: Would the payroll tax make Connecticut a less desirable place for businesses? How would the tax impact economic development?
A: There are an infinite number of factors that go into determining where jobs are located and levels at which wages are set, including many statutory and regulatory factors, as well as differences in the tax environments, that vary from state-to-state. As a result, it is essentially impossible to determine how employers and workers will weigh these differing policies and their varying pros/cons. While it is essentially impossible to determine how a payroll tax would impact the job market and wages, one direct counterpoint to this is that companies looking to attract higher-wage skilled workers in a tight job market may find that more skilled workers want to live and work in Connecticut because they will receive a significant tax break under this policy, causing them to locate more jobs in Connecticut. As a more practical example, Massachusetts has an income tax and New Hampshire has a payroll tax, but there are not significant differences in wages along the border of the two states.

Q: How would the proposed payroll tax treat low-wage workers to ensure they also benefit from lower taxes?
A: If wages were lowered, the net reduction in state and federal taxes would not make up the wage reduction to low-income workers. As a result, a refundable, low-income taxpayer credit should be established to ensure these taxpayers are, at a minimum, held harmless. This should be a new, refundable credit intended to offset the payroll tax rather than an expansion of the EITC, as the EITC changes based on family size.

The cost of holding low-income taxpayers harmless is estimated to be $390 million. This cost is built into the revenue estimates, which estimate the State of Connecticut would see a net revenue increase of approximately $400 million (see table below). Additionally, the proposed payroll tax presents an opportunity to provide additional assistance to low-income taxpayers by making the amount of the refundable credit more than the amount needed to hold low-income taxpayers harmless. The following slide highlights the breakdown assuming all low-income taxpayers are held harmless.

SAMPLE ONLY: What are the potential benefits to the State of Connecticut?

****Note: Numbers are estimates only based on publicly available data.*****

Tax Provision	Estimated Fiscal Impact
Revenue Increases	
Elimination of Personal Income Tax Personal Exemption and CT Tax Credit	$490,000,000
Increase Income Tax Rates	$370,000,000
Estimated Sales Tax Revenue from Increased Consumption	$10,000,000
Subtotal	**$870,000,000**
Revenue Decreases	
Elimination of 3% Personal Income Tax Phase-out	($90,000,000)
Exemption Amount	-
Amount Needed to Hold Harmless all Negatively Impacted Taxpayers (e.g. Expanded EITC)	($390,000,000)
Subtotal	**($480,000,000)**
Net Revenue Change	**$390,000,000**

- Exemption and tax credit estimate is based upon the projected increase in tax revenue that would be collected if CT eliminated its income tax personal exemption and tax credit for each filer in a bracket, multiplied by the number of filers in that bracket.
- Increase in state revenue resulting from increases in tax rates estimated using Office of the State Comptroller's DIY Revenue Tool.
- Sales tax revenue assumed to be equal to one-fourth of taxpayer wealth being subject to general sales and use tax rate.
- Elimination of 3 percent phase-out provision marginally decreases the revenue gained from high-income tax earners.
- The sum of the amount needed to hold all individuals harmless was estimated by summing the amount of loss for all filers in a bracket and multiplying by the number of filers in that bracket.

Sources: Connecticut School Finance Project analysis.
Tax Cuts and Jobs Act (TCJA), P.L. 115-97.
Conn. Gen. Statutes ch. 229, § 12-700.
State of Connecticut, Department of Revenue Services. (2018). 2016 Individual Income Tax Data Report. Retrieved from http://www.ct.gov/drs/cwp/view.asp?a=1445&q=600136.

Q: In order to account for the payroll tax shift, businesses would need to either reduce wages by an amount equal to the payroll tax or 2) delay or modify future wage increases by an amount equal to the payroll tax. How would this impact contracts for collectively bargained employees?

A: Employers with collectively bargained employees would need to work with their union partners to make adjustments to accommodate this tax change. However, most of Connecticut's workforce is not collectively bargained — only 16.7 percent of the Connecticut workforce is represented by unions.[4] In addition, employers and unions could work together to ensure that contractual wage increase commitments are met, while also adjusting gross wages to accommodate the payroll tax. For example, if a current labor contract provides a three percent wage increase annually for the next two years and a payroll tax is enacted and phased in over two years at 2.5 percent a year, wages can still be increased by three percent to reflect the commitment contained in the contract and then reduced by 2.5 percent to reflect the change in state tax law.

[4] U.S. Department of Labor, Bureau of Labor Statistics. (2019, January 18). *Union Members – 2018* [Press release]. Retrieved from https://www.bls.gov/news.release/pdf/union2.pdf.

Q: Because the minimum wage cannot be reduced below state law, employers would not be able to recapture their additional costs for the payroll tax on minimum wage workers by reducing their wages. How does the proposed payroll tax rectify this?
A: The following are potential ways to resolve the issue and concern around how businesses would treat minimum wage workers under the payroll tax.

1. Include a provision in the legislation enacting the payroll tax that would redefine the minimum wage to make it inclusive of the payroll tax. **This would not have a negative effect on minimum wage workers because the payroll tax paid on their wages would be paid to them through the refundable low-income taxpayer credit discussed above.**

2. Exempt employers from paying the payroll tax on employees earning less than the full-time minimum wage (which would be equivalent of employees making less than $21,008/annually at a $10.10 minimum wage, this could be increased to $25,000 to account for over time and the amount could be set to increase in step with minimum wage increases). The revenue impact of this exemption would be minimal because the personal income tax paid by these taxpayers is low (for example, the total amount of personal income tax revenue on single taxpayers making <$25,000 and married taxpayers filing jointly making less than $50,000 is approximately $83 million).[5] In addition, the Connecticut Tax Incidence Report published in 2014 found that the 725,202 households in the lowest income decile bore just 2.9 percent of the aggregate personal income tax burden.[6] While it is possible that taxpayers in this income range may hold multiple jobs, the potential foregone revenue is low because these taxpayers currently pay very little income tax. Furthermore, this would also have the effect of decreasing the amount needed to hold low-income taxpayers harmless because 1) their wages would not be lowered and 2) less payroll tax would be paid on their behalf, lessening the amount of credit refunded to them. (Note: This is not the same as exempting the first $25,000 of wages for all employees, which is not recommended, as it would reduce the overall benefits of shifting a portion of the income tax to a payroll tax.)

3. Make no additional adjustments and allow the payroll tax to act as an additional five percent pay increase for minimum wage workers. (At $10.10 this would be 50.5 cents per hour, at $15 this would be 75 cents per hour.)

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[5] Amount derived from addition of 1040, 1040 pt. 2, NRPY, and NRPY pt. 2 total tax for selected adjusted gross income levels for single ($25,000), married filing jointly ($50,000), married filing separately ($25,000), and head of household ($50,000).
State of Connecticut, Department of Revenue Services. (2018). 2017 CT-1040 & CT-1040NR/PY Income Tax Data. Retrieved from https://portal.ct.gov/DRS/DRS-Reports/Income-Tax-Reports/2017-Individual-Income-Tax-Reports.
[6] Sullivan, K. (2014). *Connecticut Tax Incidence*. Hartford, CT: State of Connecticut, Department of Revenue Services. Retrieved from http://ctstatefinance.org/assets/uploads/files/Tax-Incidence-Report-2014.pdf.

Q: How would the payroll tax impact Medicare and Social Security payments?
A: The proposed payroll tax would reduce the total Medicare and Social Security payments Connecticut sends to the federal government by five percent. However, this would not impact the Medicare and Social Security benefits Connecticut receives from the federal government, nor would it impact what individuals receive for Medicare. Additionally, the payroll tax proposal would not impact what people have already put into Social Security or what they are currently receiving in benefits.

Q: Nonprofit entities are tax-exempt federally and, therefore, would not be able to deduct the new state payroll tax. How would nonprofits benefit from the payroll tax proposal?
A: Even though they are exempt from taxation, nonprofit entities pay FICA tax. As a result, the FICA savings that would accrue to other employers would also accrue to nonprofits. For example, an analysis of hospitals, which are one of the largest nonprofit employers in Connecticut, estimates they would save a total of $48 million annually as a result of implementing a five percent payroll tax. The table below shows the impact.

Savings to Connecticut Hospitals with the Implementation of a 5% Payroll Tax*

1	2	3	4	5	6	7	8
	7.65% * Col 1	Col 1 + Col 2	95% * Col 1	7.65% * Col 4	Payroll Tax (5%) * Col 4	Col 4 + Col 5 + Col 6	Col 9 - Col 4
Current Law			Payroll Tax Option				
Total Payroll	**FICA Taxes**	**Total Expenditures**	**New Total Payroll**	**FICA Taxes**	**Payroll Tax**	**Total Expenditures**	**Total Savings to Hospitals**
Impact on Hospitals (7,600 employees, $7.6B payroll)							
$ 7,600,000,000	581,400,000	$ 8,181,400,000	$ 7,220,000,000	552,330,000	361,000,000	$ 8,133,330,000	**$ 48,070,000**

*Source:
Pilon, M. (2019, January 16). Report: CT hospitals, health systems generate $27B for economy. Hartford Business Journal. Retrieved from http://www.hartfordbusiness.com/article/20190116/NEWS01/190119929/report-ct-hospitals-health-systems-generate-27b-for-economy.

Q: Is the State of Connecticut as an employer subject to the payroll tax? If so, would collective bargaining agreements have to be modified to reduce employee wages or defer future wage increases to offset the new payroll tax?
A: The State can choose not to assess the payroll tax on itself, as it is essentially moving money from the right hand to the left hand. In this case, the State would assume it will forgo the income tax currently paid by state employees at the five percent rate or lower. Alternatively, the State can also make appropriate net neutral adjustments to the state budget with an appropriation and offsetting revenue item to reflect the implementation of the payroll tax. In addition, collective bargaining contracts would still be honored with wage increases going into effect as planned on July 1, 2019 for example, and then wages being reduced on January 1, 2020 (if this is the payroll tax implementation date) to accommodate the modification to the state taxation policy. **The fact that a collective bargaining contract is in place for state employees does not hinder the General Assembly from modifying state tax structure or rates in any way.**

Q: How would state employees be impacted if the State of Connecticut was not subject to the payroll tax as an employer?
A: If the General Assembly decides the State of Connecticut is exempt from the payroll tax as an employer, state employees (like all wage earners) would still be subject to the reduced income tax rates on wages if the amount they earn is over the threshold. However, state employees earning less than the threshold would be part of the two-thirds of current state income taxpayers who would no longer owe any state income tax, which means they would no longer see it deducted from their paychecks. Additionally, the implementation of the payroll tax, and any potential impacts on wages, could be taken into account when the wages portion of the SEBAC agreement expires and is renegotiated in 2021.

Q: Wouldn't a reduction in wages impact state employee retirement benefits?
A: While a reduction in state employee wages seems unlikely, under this proposal, state employees, like all other Connecticut resident employees, would see an increase in take-home pay. Like all Connecticut wage earners, state employees would have the option of depositing some or all of those increases in take-home pay into a tax preferred retirement account, which over time, could make up for any potentially small loss in pension payments.

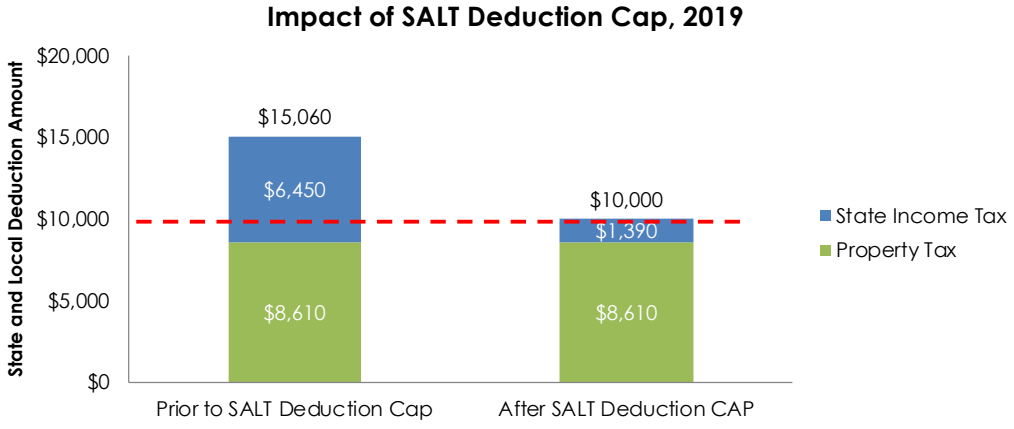
Q: Would the State of Connecticut be able to levy a payroll tax on the federal government and/or the tribal casinos?
A: It is unclear whether the state can levy a payroll tax on the federal government and tribal casinos. Although New York's Department of Taxation and Finance wrote federal employees could not be subject to a payroll tax when New York was exploring the option, the basis for their legal reasoning is unclear. Other tax attorneys consulted have said the incomes of federal employees (and presumably, tribal casinos) can be subject to state payroll tax withholdings because their wages are considered not exempt from state taxation. This is due to the fact that the U.S. Supreme Court has attempted to limit the applicability of the Supremacy Clause for tax purposes because of the obvious issues that could arise. Case law cited includes *Washington v. United States*, 460 U.S. 536 (1983) and *James v. Dravo Contracting*, 302 U.S. 134 (1937) (see esp. Justice Frankfurter's concurrence). In the event federal employees could not be subject to a payroll tax, federal employees make up about 1.1 percent of all employees in Connecticut, which is a very small fraction of all employees in the state.

Q: How would the proposed payroll tax impact Connecticut residents who work in New York?
A: If the payroll tax proposal were enacted, the tax situation for individuals who live in Connecticut and work in New York would not change. Connecticut residents who work in New York already pay New York's higher income tax rates and get a credit against their Connecticut income tax, resulting in no Connecticut income tax liability. The fact that Connecticut's income tax rates would be lower would not change anything about this scenario.

Q: How would the SALT mitigation work for taxpayers?
A: Although the potential savings from the SALT mitigation are not included in these estimates, the following is an example of how this would work for taxpayers.

Impact of SALT Cap on a Sample CT Taxpayer

- The sample taxpayers used for this example are married, filing jointly with an AGI of $120,000 and own a home valued at $300,000 in West Hartford.
- With the SALT deduction cap, these taxpayers are only able to deduct $1,390 of their $6,450 in state personal income taxes on their federal tax return, a difference of $5,060.



Sources: Tax Cuts and Jobs Act (TCJA), P.L. 115-97.
U.S. Internal Revenue Service. (2018). *Tax Year 2016: Historic Table 2*. Available from https://www.irs.gov/statistics/soi-tax-stats-historic-table-2.
State of Connecticut, Office of Policy and Management. (2018). *Mill Rates 2017 Grand List Year 2019 Fiscal Year*. Retrieved from https://www.ct.gov/opm/cwp/view.asp?a=2987&q=385976.

Q: What would happen if the federal SALT cap is ever lifted or expires?
A: If the SALT deduction cap is ever repealed, it will not impact the tax savings outlined in the payroll tax proposal. The estimated savings in the proposal do NOT include the additional tax savings taxpayers would accrue as a result of the potential SALT workaround. The tax savings outlined in the plan are ONLY the savings that would accrue to taxpayers as a result of lowered federal income tax liability. The SALT deduction cap savings would be IN ADDITION to the savings currently estimated in the proposal's tax impact tables.

Q: If adopted, when would the payroll tax be implemented?
A: Because this change involves individual taxpayers, the implementation of the payroll tax would need to occur the beginning of a calendar year; example, January 1, 2020. Certainly, a short time frame for implementation will present challenges, but due to the increased revenue to the state, it could be possible to appropriate additional funding to the Department of Revenue Services to give them the resources they need to be prepared.