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Gov. Dannel Malloy Offers Plan To Ease Connecticut Tax Burden.

Proposed legislation would help residents make up for \$10 billion in lost federal tax deductions under recent overhaul

Gov. Dannel Malloy on Monday proposed legislation to help Connecticut residents make up for \$10 billion in lost federal tax deductions under the recent tax overhaul.

His plan aims to assist Connecticut homeowners who face higher federal tax bills because the new law caps state and local tax deductions at \$10,000 a year. To get around that cap, Mr. Malloy's proposal would give towns authority to form charitable organizations that residents can contribute to in exchange for property tax credits.

Charitable contributions kept their full deductibility under the tax overhaul.

"It would be unreasonable for us as a state to not propose ways to assist our taxpayers," said Mr. Malloy, a Democrat. His plan requires approval by the state legislature.

The governor included the strategy among his recommended revisions to the state budget for the fiscal year that begins in July. The revisions in his \$20.73 billion proposal are applied to the two-year budget lawmakers approved last year.

Other high-tax states such as New York and New Jersey have been searching for ways to ease the impact of the federal tax changes. Some New Jersey towns also have expressed interest in developing a plan similar to the one proposed by Mr. Malloy.

New Jersey Gov. Phil Murphy, a Democrat, supports those efforts. New York Gov. Andrew Cuomo has proposed changing some of the state income tax into a payroll tax on employers.

The Internal Revenue Service didn't respond to a request for comment.

The governors of New York, New Jersey and Connecticut also said in January they would sue the federal government to overturn the new tax law, saying it intentionally discriminates against Democratic-leaning states.

New York tax filers claimed about \$22,000 on average in state and local tax deductions in 2015, the highest figure in the U.S., according to the Government Finance Officers Association. Connecticut tax filers claimed more than \$19,000 on average and New Jersey nearly \$18,000 on average.

Instead of funding municipal services through property taxes, cities and towns would tap a mix of property taxes and money raised from the charitable organizations, under Mr. Malloy's proposal. Details of the plan haven't been fully established.

"The specifics of how that will work will have to be worked out at a local level," said Ben Barnes, the

budget chief for the Malloy administration.

Some towns have expressed interest in exploring whether using charities is a viable option, said Elizabeth Gara, executive director of the Connecticut Council of Small Towns.

“But there is a lot of uncertainty as to how the IRS will treat those contributions,” Ms. Gara said. She said her group hasn’t taken a position on the proposal and would continue to study it.

Mr. Malloy said his administration has determined that his plan would be allowed under the current federal law.

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By Joseph De Avila

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