



CONNECTICUT ADJUSTED GROSS INCOME CONNECTICUT ADJUSTED GROSS INCOME

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ISSUE

Explain Connecticut adjusted gross income (CT AGI), which is the basis for calculating taxable income subject to Connecticut's income tax. What does it mean if an exemption or deduction is above or below the line?

This report updates OLR report [2011-R-0445](#). **This report has been updated by OLR Report [2022-R-0015](#).**

SUMMARY

The starting point for determining CT AGI is federal AGI. To calculate CT AGI, a taxpayer modifies his or her federal AGI by adding and subtracting specified income and expenses. For some filers, CT AGI is further reduced by a personal exemption to determine Connecticut taxable income.

Exemptions and deductions reduce the amount of income subject to tax. Exemptions reduce income by excluding a portion of it from the tax while deductions do so by subtracting all or a portion of an expense from income. Exemptions and deductions can either be "above-the-line" or "below-the-line," meaning they are claimed before or after calculating AGI (i.e., the "line").

Federal "above-the-line" exemptions and deductions are generally incorporated into Connecticut income tax calculations because they are claimed before calculating federal AGI. They include deductions for educator expenses, health savings account contributions, student loan interest, and moving expenses. Alternatively, federal "below-the-line" exemptions and deductions are not included in Connecticut's state income tax calculation because they are claimed after calculating federal AGI. This includes the standard deduction and itemized deductions for medical and dental expenses, home mortgage interest, and gifts to charity, among others.



FEDERAL ADJUSTED GROSS INCOME

To calculate federal AGI, taxpayers list the total income they received for the tax year in specified categories. They then apply certain “above-the-line” deductions and report the adjusted amount (federal AGI) on lines 37 and 38 of federal tax form 1040. This adjusted amount is the basis for calculating CT AGI. The income categories and deductions used to calculate federal AGI for the 2015 tax year are shown in Table 1.

TABLE 1: FEDERAL AGI

GROSS INCOME	DEDUCTIONS FROM GROSS INCOME
Wages, salaries, and tips	Qualifying educator expenses
Taxable interest	Certain business expenses of reservists, performing artists, and fee-basis government officials
Tax-exempt interest	Health savings account deduction
Ordinary dividends	Moving expenses
Taxable refunds, credits, or offsets of state and local income taxes	Deductible part of self-employment tax
Alimony received	Self-employed SEP, SIMPLE, and qualified plan expenses
Business income (or loss)	Self-employed health insurance expenses
Capital gain (or loss)	Penalty on early withdrawal from savings
Other gains (or losses)	Alimony paid
Taxable IRA distributions	IRA deduction
Taxable pension and annuity income	Student loan interest deduction
Income from rental real estate, royalties, partnerships, S corporations, trusts, etc.	Qualifying tuition and fees
Farm income (or loss)	Domestic production activities deduction
Unemployment compensation	
Social Security benefits	

Table 1 (continued)

GROSS INCOME	DEDUCTIONS FROM GROSS INCOME
<p>Other taxable income, including, for example:</p> <ul style="list-style-type: none"> • Prizes and awards • Gambling winnings • Jury duty pay • Canceled debts • Taxable disaster relief payments • Taxable distributions from a Coverdell education savings account • Taxable distributions from a health savings or ABLE account 	<p>Allowable write-in adjustments:</p> <ul style="list-style-type: none"> • Archer medical savings account deduction • Jury duty pay given to an employer because the employer paid the taxpayer's salary while he or she served on the jury • Deductible expenses related to income from rental of personal property for profit • Reforestation amortization expenses • Repayment of supplemental unemployment benefits received under the 1974 Trade Act • Contributions to certain employee-funded pension plans • Contributions by certain chaplains to 403(b) tax-sheltered annuity plans • Attorney fees and court costs for actions regarding certain illegal discrimination claims • Attorney fees and court costs paid in connection with an IRS award for information that helped detect tax law violations

Source: [U.S. Tax Form 1040 \(2015\)](#) and [2015 Form 1040 Instructions](#) pp. 19-38

To determine federal taxable income, the federal AGI on line 38 must be further reduced by personal exemptions and standard or itemized deductions. Because these "below-the-line" deductions are not included in Connecticut's state income tax calculation, they are subject to Connecticut income taxes unless Connecticut provides otherwise.

CONNECTICUT AGI

CT AGI, which is used to compute Connecticut taxable income, or the income subject to state income tax, is based on federal AGI with certain additions and subtractions.

Unless Connecticut requires an addition for it, any income not included in federal AGI is not subject to Connecticut income tax. Likewise, unless Connecticut expressly requires a subtraction from federal AGI, any income included in that total is automatically included in Connecticut AGI and potentially subject to Connecticut's income tax.

Table 2 summarizes Connecticut's federal AGI modifications.

TABLE 2: CONNECTICUT INCOME TAX MODIFICATIONS TO FEDERAL AGI

ADDITIONS	SUBTRACTIONS
Interest on non-Connecticut state and local government obligations	Interest on federal obligations
Exempt-interest dividends from a mutual fund derived from non-Connecticut state and local government obligations	Dividends from qualifying mutual funds derived from federal obligations
Taxable lump-sum distributions from qualified plans not included in federal AGI	Exempt Social Security income (up to 100% depending on income)
Taxpayer's share of any Connecticut additions that apply to income from an estate or trust ("fiduciary adjustment")	State and local income tax refunds
Loss on sales of Connecticut state or local government bonds	Tier 1 and 2 railroad retirement benefits and supplemental annuities
Amount of federal tax deduction for income from qualified domestic production activities	Military retirement pay
Federally reportable treaty income	10% of teacher's retirement pay (25% in 2016 and 2017; 50% each tax year thereafter)
Certain losses or deductions of an enrolled member of the Mashantucket Pequot Indian Tribe living in Pequot country	Taxpayer's share of any Connecticut subtractions that apply to income from an estate or trust
Connecticut income tax deducted on federal return to arrive at federal AGI	Gain on sales of Connecticut state or local government bonds
Expenses paid or incurred for production or collection of income exempt from Connecticut income tax that were deducted on federal return to arrive at federal AGI	Qualifying contributions to the Connecticut Higher Education Trust (CHET)
Amortizable bond premiums producing interest income exempt from Connecticut income tax, if the premiums were deducted to arrive at federal AGI	Federally taxable distributions received as a designated beneficiary from a CHET account
Interest or dividend income on obligations of a U.S. entity that federal law exempts from federal, but not state, income taxes	Certain income or gains of an enrolled member of the Mashantucket Pequot Indian Tribe living in Pequot country
Interest expenses on debt incurred or continued to buy or carry obligations or securities whose income is Connecticut tax-exempt	Federally taxable interest earned on funds deposited in a Connecticut individual development account
	Interest paid on indebtedness incurred to acquire investments that provide Connecticut taxable but federal tax-exempt income, if not deductible in determining federal AGI and attributable to the taxpayer's trade or business
	Expenses paid or incurred for the production (including management, conservation, and maintenance of property held for production) or collection of Connecticut taxable but federal tax-exempt income, if not deductible in determining federal AGI
	Amortizable bond premiums producing interest or Connecticut taxable income, if the premiums are not deductible to determine federal AGI and are attributable to the taxpayer's trade or business

Table 2 (continued)

ADDITIONS	SUBTRACTIONS
<p>Distributions from a Manufacturing Reinvestment Account (MRA) not used for qualified purposes</p> <p>MRA funds, including interest, remaining at the end of the five-year period after its creation or organization</p>	<p>Federally taxable interest on Connecticut state bonds or obligations</p> <p>Any interest, dividend, or capital gains earned on accounts established under the Connecticut Homecare Option Program for the Elderly included in federal AGI</p> <p>Contributions made to an MRA</p> <p>Amounts received from the Sandy Hook Workers Assistance Program during the 2015 tax year included in federal AGI</p> <p>Federally tax-deferred cancellation of debt income realized in 2009 and 2010 and included in federal AGI</p>

Sources: CGS § [12-701\(20\)](#); 2015 CT 1040 Instructions, pp. 23-27

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