



# Revenue Options for a Stronger Connecticut

**CABHN/FES Meeting  
Hartford, CT  
February 6, 2009**

**Douglas Hall, PhD,  
CT Voices for Children**

CONNECTICUT  
**VOICES**  
FOR CHILDREN

# The Choice We Face:

“The state is projected to experience deficits at the end of 2009-2010, 2010-11 and 2011-12 that are *unprecedented in our history* based on current services requests.”

Robert Genuario, OPM Secretary (November 12, 2008)

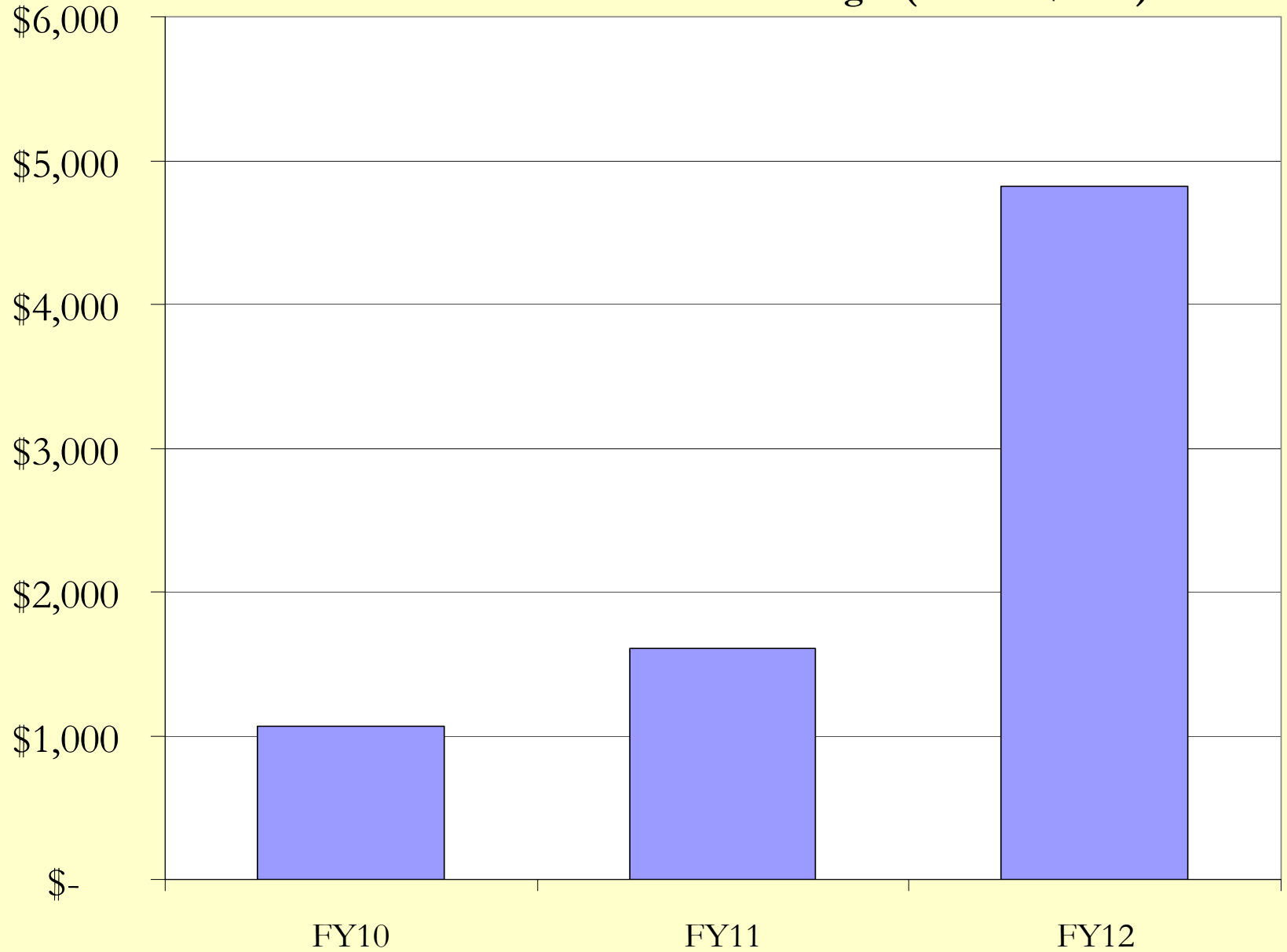
OR

“State revenues – taxes, fees, and other income – are the collective investments that support our communities and maintain the high standards we all expect and enjoy. Our public structures – good schools, safe roads, quality health care programs, and strong public safety agencies are vital to preserving this quality of life and to ensuring Connecticut's economic vitality.” Better Choices for Connecticut, (February 2, 2009)

# Connecticut's Deficit Projections Getting Worse by the Minute

	Aug. Projection	Sept. Projection	Nov. Projection	February Projection
FY09	\$24 m	\$293 m	\$392 m	\$1353 m
FY10	\$727 m	\$956 m	\$2495 m	\$3969 m
FY11	\$1040 m	\$1184 m	\$3215 m	\$4712 m
FY12	\$831 m	\$1294 m	\$3321 m	\$4822 m

**Deficit Unaddressed in the Governor's Budget (Total = \$7.5B)**



## Where Do We Start? Step back from Crisis Mode

- Connecticut's budget – both the expenditure side and the revenue side – should reflect our values and our aspirations
- It should answer the question “What kind of state do we want: for ourselves, for our children, for each other, (and how can we fairly and adequately pay for it)?”

# Where Do We Start?

**“Just Say NO! to crippling budget cuts”  
(but don’t shy away from ‘spending smarter’)**



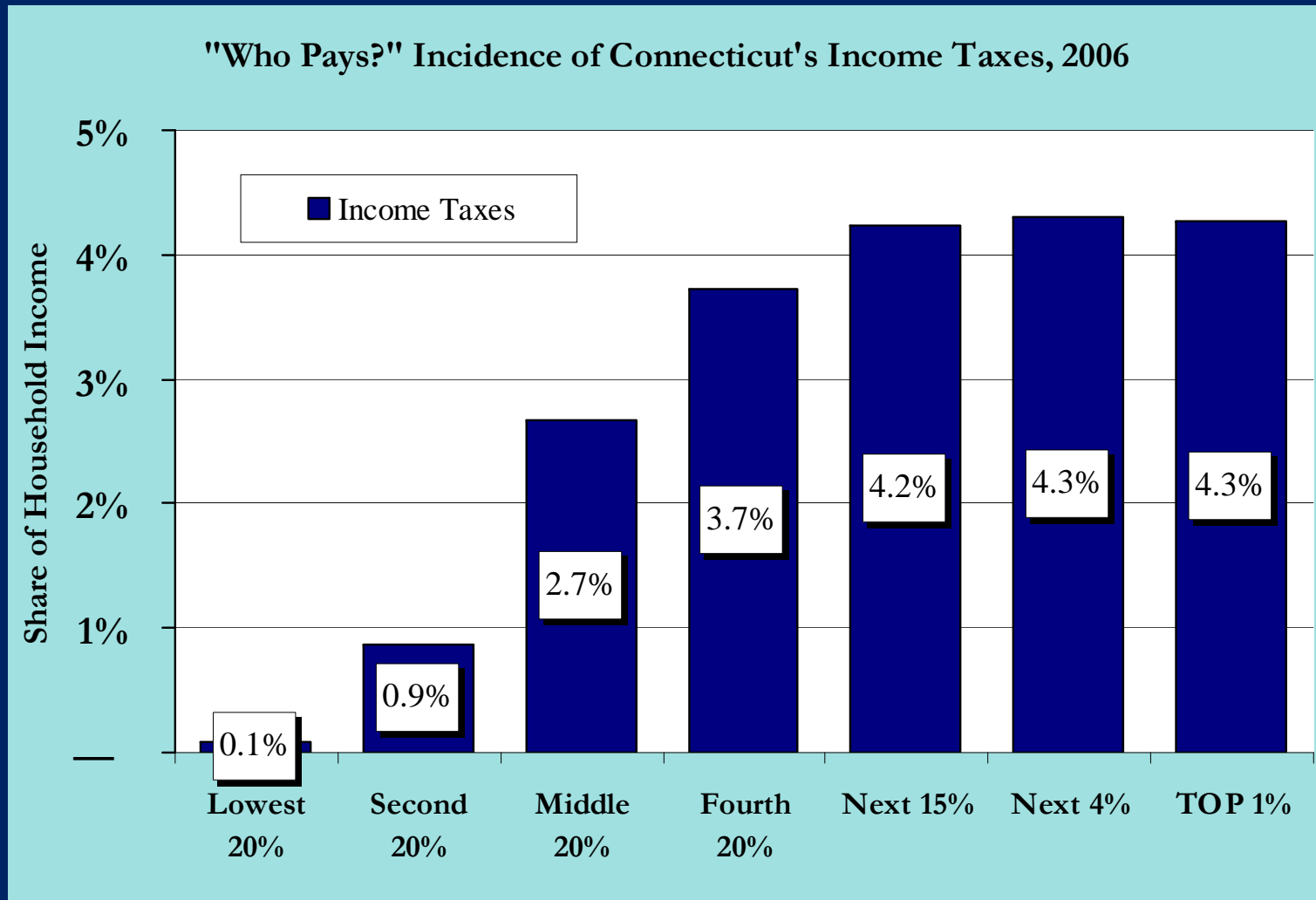


# **Better Choices for Connecticut: Expanded Revenue Options**

## **I. Raise the Income Tax for Those Most Able to Pay**

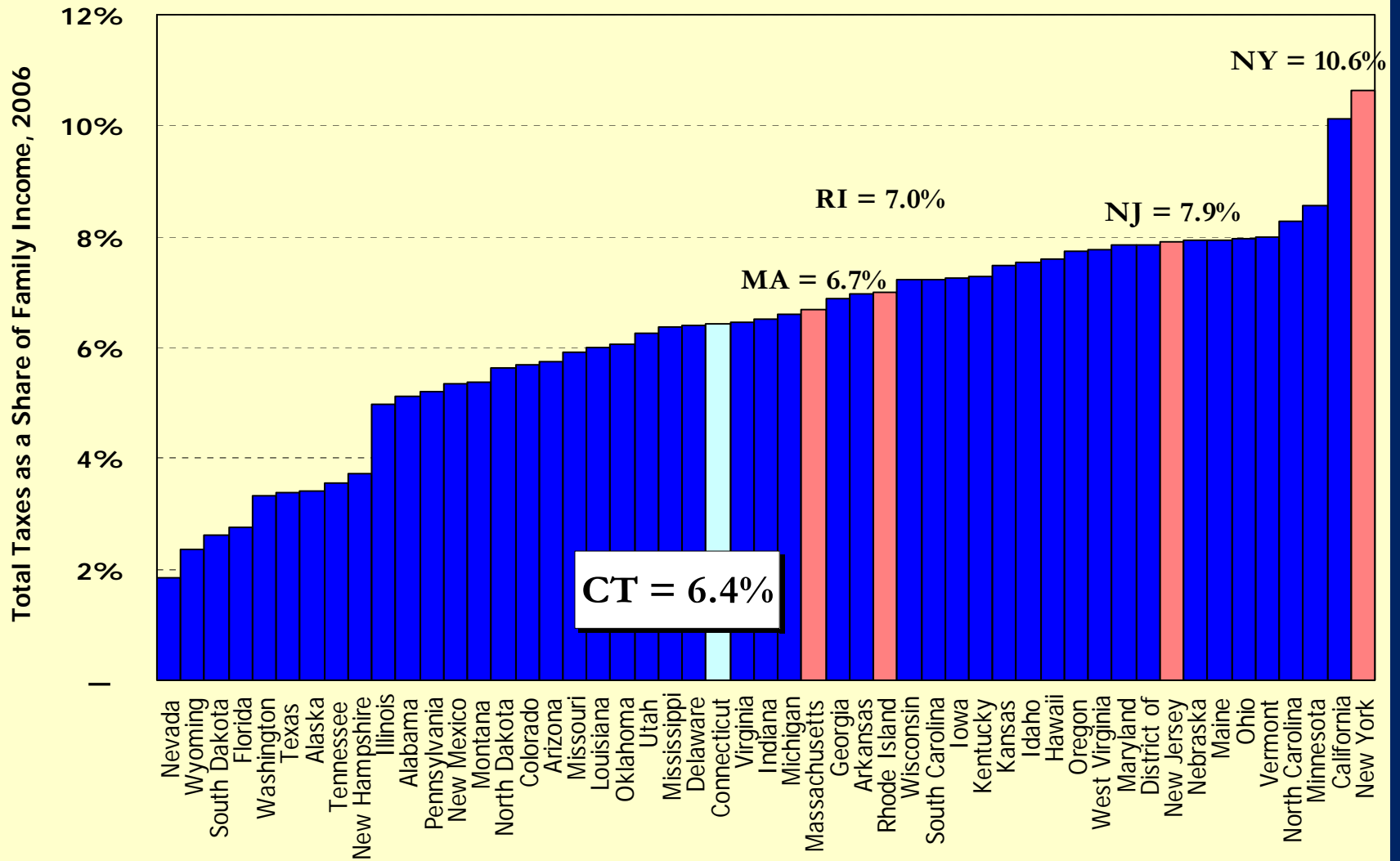
# About Raising Income Taxes:

## Tax Incidence of Income Taxes



Source: Douglas Hall and Shelley Geballe, "Who Pays?" *How Our State and Local Tax System Burdens Connecticut's Poor and Middle Class*, (CT Voices for Children, 2008)

## Connecticut's Highest Income Taxpayers (Top 1%) Pay a Smaller Share of Family Income in State and Local Taxes Than Neighboring States'



Source: ITEP, *Who Pays?*, forthcoming, 2008.

# Ask More of Those Who Can Most Afford It

Three new income tax brackets:

6% for families with incomes \$200,000 -  
\$500,000

7% for families with incomes \$500,000-  
\$1,000,000

8% for families with incomes \$1,000,000+

**Total Additional Revenue: \$800M-\$1.2B**



# **Better Choices for Connecticut: Expanded Revenue Options**

**2. Reform the Corporate Income Tax, closing loopholes and providing a level playing field for CT based companies**

# Reform Corporate Income Tax

## Two Components:

Adopt Mandatory Combined  
Reporting -- **\$100-\$120M**

Re-Apply Corporation Income Tax  
to 'S-Corporations', but with  
graduated rates to protect small  
businesses- **\$20-\$30M**

**Total = \$120m-\$150m**

# About Mandatory Combined Reporting

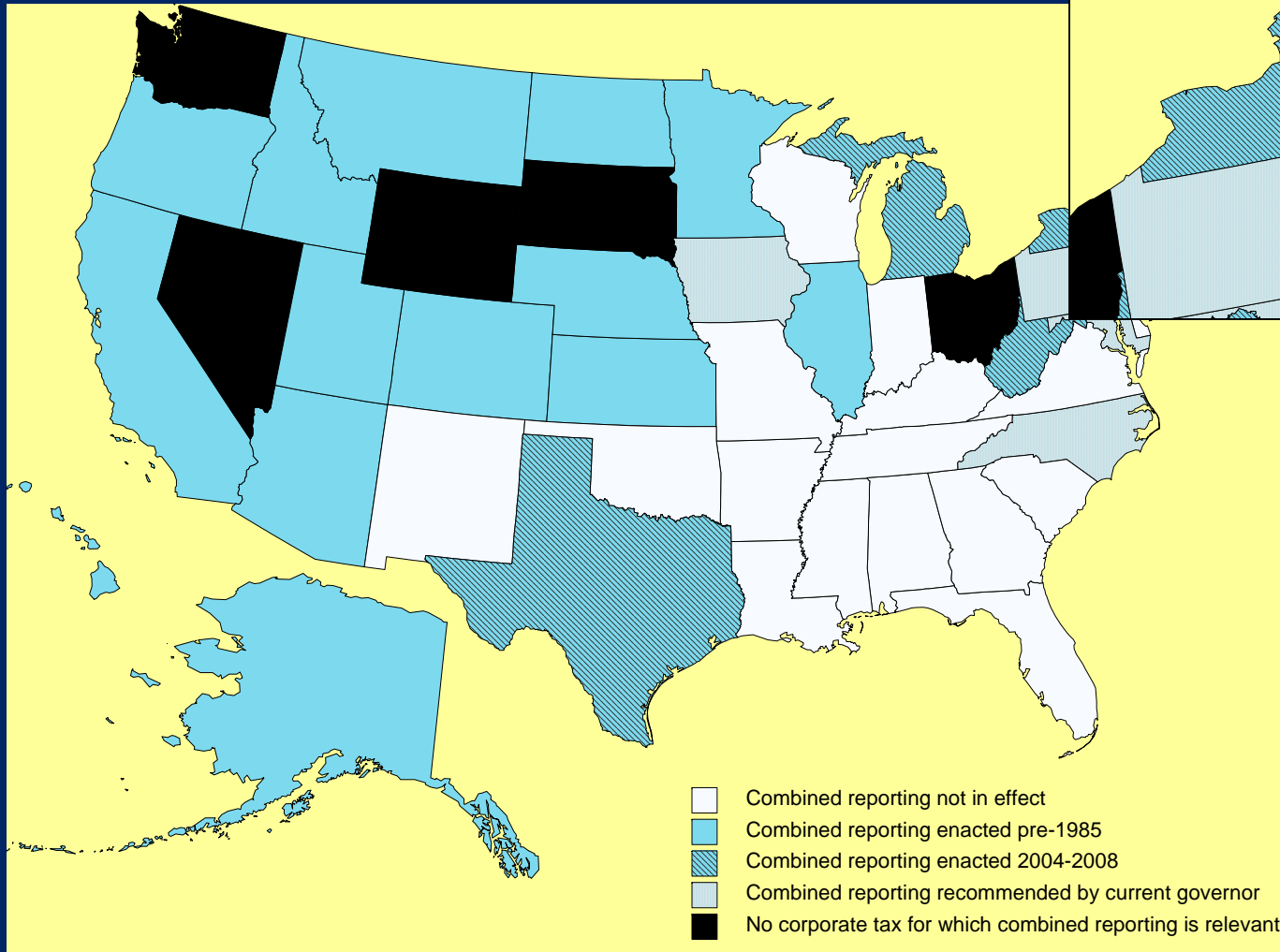
“in the absence of combined reporting, multi-state corporations will always be able to develop new methods of transferring profits from high-tax to low-tax states.” <sup>(1)</sup>

## What is Combined Reporting?

- Combined reporting “treats a business composed of a parent corporation and one or more subsidiaries as a single corporation for tax purposes.”
- Counteracts aggressive corporate “tax planning”

(1) Inst. on Taxation & Econ. Pol’y, Combined Reporting of State Corporate Income Taxes: a Primer (2008), <http://www.itepnet.org/pb24comb.pdf>.

# About Mandatory Combined Reporting: time to get with the program



# About Mandatory Combined Reporting

- 21 states currently require mandatory combined reporting
- States that have recently adopted combined reporting include: MA, NY, VT, WV, and Texas
- Legislation can apply to either domestic or international dimensions of corporation [domestic far simpler, international prevents wider range of tax avoidance]
- Revenue estimate for mandatory combined reporting: **\$117 million**, projected from NY, MA, WI, IA, and MD estimates



## **Better Choices for Connecticut: Expanded Revenue Options**

**3. Increase the Sales Tax by 1 cent  
(and offset with State Earned  
Income Tax Credit, and a Business  
Property Tax Credit)**

**Total = \$425m-\$475m**

# About Raising Sales Taxes

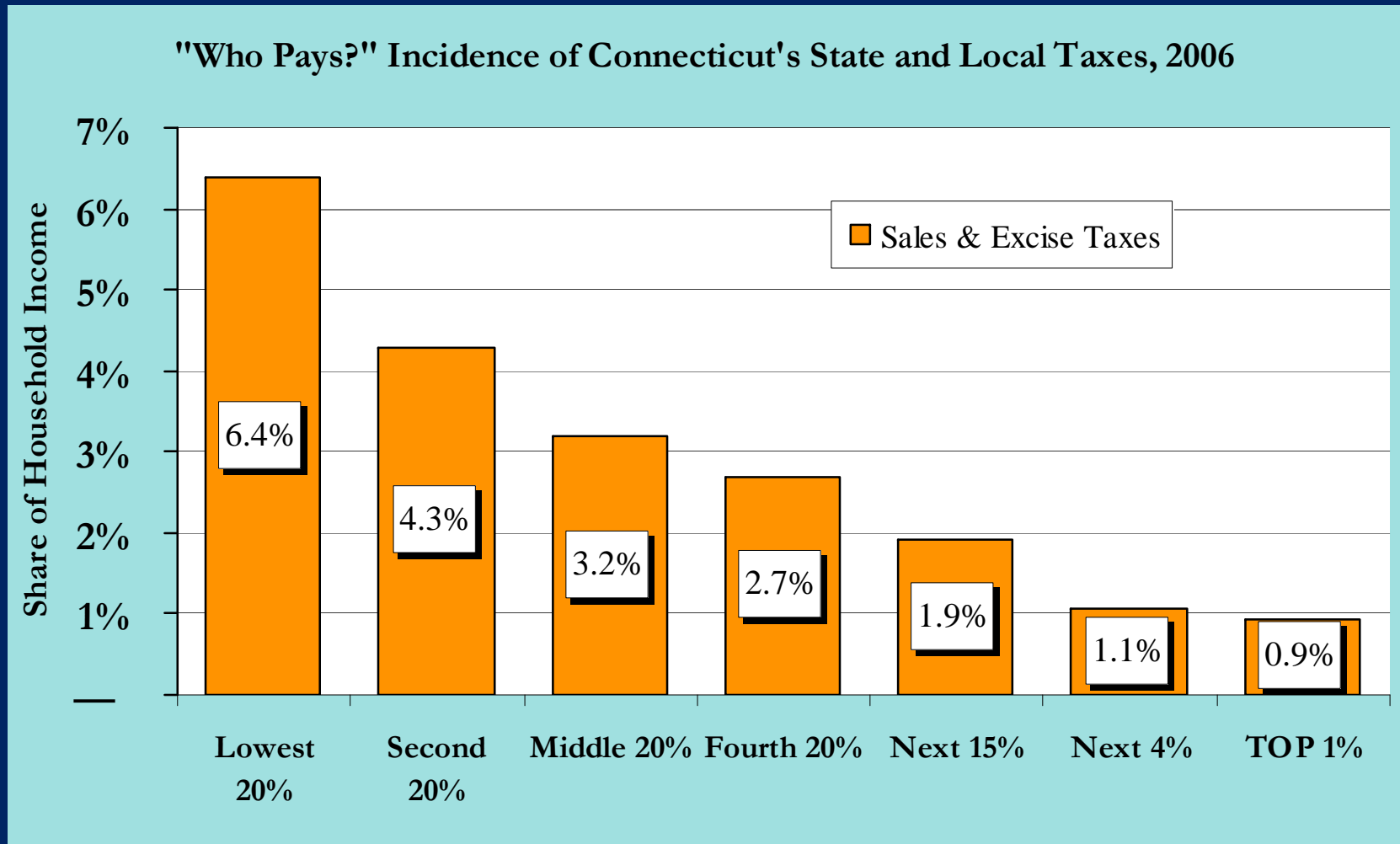
- \$3,582 million in FY08
- OFA estimate for FY09, \$3,748 million
- **7% tax rate** applied to same FY09 sales would generate **additional \$625 million**
- FY 09 year-to-date revenues down \$1.3 million by Oct. 08
- Vulnerable economy could be further crippled by raised rate
- Sales taxes are regressive (see following ITEP table).

State	Sales Tax Rate
NJ	7%
RI	7%
CT	6%
MA	5%
NY*	4%/8%

Sources: <http://www.osc.state.ct.us/reports/monthly/fye08/scheduleb2.htm>, <http://www.taxadmin.org/fta/rate/sales.html>, [http://www.ct.gov/drs/lib/drs/research/08comparstate/mon\\_stmt\\_oct\\_2008.pdf](http://www.ct.gov/drs/lib/drs/research/08comparstate/mon_stmt_oct_2008.pdf), Note that New York City levies an additional 4% sales tax.

# About Raising Sales Taxes:

## Tax Incidence of Sales Taxes



Source: Douglas Hall and Shelley Geballe, "Who Pays?" *How Our State and Local Tax System Burdens Connecticut's Poor and Middle Class*, (CT Voices for Children, 2008)



## **Better Choices for Connecticut: Expanded Revenue Options**

### **4. Scale Back Public Subsidies to the Entertainment Industry**

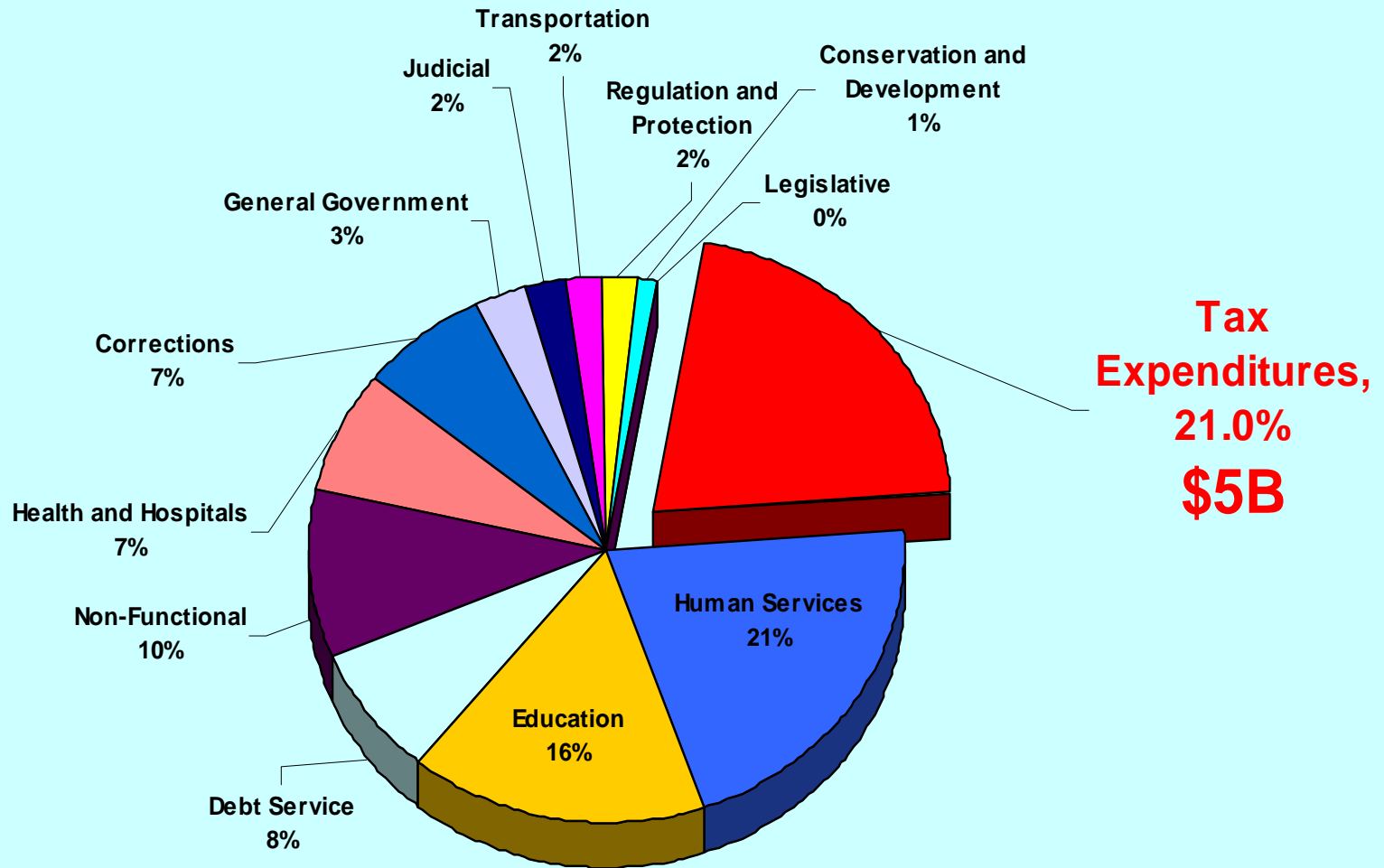
**Total = \$90m-\$100m**



# Scale Back Film Tax Credits

- **Put a cap on total \$\$ available for tax credit in any given year**
- **Remove ability of corporate entities to transfer or sell credit to other (sometimes totally unrelated) corporations**

## Consider both Appropriations Budget and Tax Expenditure Budget



Total “spending” through appropriations and through tax expenditures totals \$23.6 billion in FY09. The financial benefits provided through the tax code roughly equal all funding for DSS, and are more than all spending on education.



## **Better Choices for Connecticut: Expanded Revenue Options**

### **5. Increase Taxes on Alcohol and Tobacco**

**Total = \$78m-\$80m**



## Cutting Spending Hurts Our Economy, Our State, Our Families, and Our Communities

According to Nobel Prize winning economist Joseph Stiglitz and Peter Orszag, the incoming Director of the Office of Management and Budget, “tax increases on higher-income families are the least damaging mechanism for closing state fiscal deficits in the short run. Reductions in government spending on goods and services, or reductions in transfer payments to lower-income families, are likely to be more damaging to the economy in the short run than tax increases focused on higher-income families.”

# Cutting Spending Hurts Our Economy, Our State, Our Families, and Our Communities

	<b>Governor's Recommended Cuts</b>	<b>Estimated Statewide Job Loss</b>
<b>FY10</b>	<b>\$1.075B</b>	<b>14,700</b>
<b>FY11</b>	<b>\$1.256B</b>	<b>17,200</b>

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**[http://www.ctkidslink.org/announcement\\_83.html](http://www.ctkidslink.org/announcement_83.html)**