

KEY POINTS:PRELIMINARY STAFF FINDINGS REGARDING CONNECTICUT’S TAX SYSTEM

Criteria/Definition	Summary of Preliminary Staff Findings
Complementary	
Objectives of tax system should be consistent and system must recognize limitations and responsibilities of local government	<ul style="list-style-type: none"> • No significant overlap in state and municipal tax bases • Local government revenue-raising authority limited to property tax but no constraints on levels of taxing or spending • No formal recognition of total cost of state mandates • State does not fully fund grants to municipalities, notably education and Payment in Lieu of Taxes (PILOT) reimbursement
Reliable	
Revenues should be stable, certain, and sufficient	<ul style="list-style-type: none"> • State tax system’s revenues are more volatile than the economy as a whole, subject to more dramatic highs and lows, but the property tax adds a measure of stability • Connecticut’s tax system is more volatile than the U.S. average • Corporate income tax and excise taxes have been the most prone to legislative changes • Total tax system revenues have matched or exceeded growth in the economy and inflation • State tax revenues have in most, but not all, years matched expenditures
Balanced	
The major taxes (personal income, sales, and property) should be contributing a nearly equal proportion to total revenues	<ul style="list-style-type: none"> • Connecticut levies all the major taxes, but the system is most reliant on the personal income and the property tax • Connecticut’s revenue system is more reliant on the property tax than 42 other states – three of the states that are more reliant do not impose an income tax • Connecticut’s reliance on the sales and corporate tax has declined considerably during the 1990s
Equitable	
Overall tax system should minimize regressivity	<ul style="list-style-type: none"> • State and local taxes as a percent of personal income have declined from the mid-1990s • The income tax is mildly progressive but it does not offset the regressivity of the state’s sales, excise, and local property tax • Lower- and middle-income residents pay more in taxes as a percent of income than high income earners
Promotes Compliance	
System should be easy to understand and minimize compliance costs	<ul style="list-style-type: none"> • The personal income tax contains two rate brackets and very few exemptions and credits compared with other states • Except for a few narrow state excise taxes, the state sales tax is the only general sales tax, and only one rate is applied • The property tax has many exemptions, but taxpayers are most familiar with the amount, frequency, and purpose of this tax • The corporate income tax is complex and prone to avoidance • Higher than average excise taxes increase vulnerability to evasion

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Fairly Administered	
System should be relatively easy to implement and uniformly applied	<ul style="list-style-type: none"> • According to DRS, the corporate income tax is difficult to administer and prone to avoidance • The sales tax can be avoided through internet sales, cash transactions; the tax’s many exemptions create confusion. • It is nearly impossible to tell if Connecticut’s tax system is efficiently or effectively administered compared to other states • Property tax administration is fairly straightforward, though the timing of assessments may affect uniformity and fairness
Economically Competitive	
Tax burden should not be very different from other states	<ul style="list-style-type: none"> • Taxes on business have been reduced significantly and are not considered more burdensome compared to other states • Personal income tax rate structure is lower than neighboring states
Neutral	
System should not influence economic decisions (spending or investment)	<ul style="list-style-type: none"> • The personal income tax has few exemptions or credits • The corporate income tax has been changed many times and contains many exemptions and credits for certain businesses • The sales tax contains many exemptions and tax holidays intended to influence behavior • The only major earmarking occurs with the Special Transportation Fund, which is mainly supported by a tax on gasoline • Excise taxes are designed to influence behavior, but are a relatively small part of the tax system
Accountable	
System should be explicit in how revenues are raised, changes should be well publicized, and costs and benefits of tax policy should be examined.	<ul style="list-style-type: none"> • Recipients of corporate income tax credits and exemptions are not publicly known, nor are the credits evaluated to see if they are having the intended effect • Passage of the property tax requires a public meeting and possibly a referendum to pass • Little opportunity within state government to assess or monitor efficiency or effectiveness of current system or evaluate impact of proposed changes • State spending cap provides some measure of fiscal discipline and public disclosure