

STATE OF CONNECTICUT
OFFICE OF THE BUSINESS ADVOCATE

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Statement By
The Hon. Robert R. "Rob" Simmons
Connecticut Business Advocate
Before the
Joint Committee on Commerce
The Capitol, Hartford, CT
Thursday, March 6, 2008

Chairman LeBeau, Chairman Berger, Vice Chairman Crisco, Vice Chairman Gentile, Ranking Member Debicella, Ranking Member Stripp, Distinguished Members of the Joint Committee on Commerce, thank you for allowing me to appear here today in my capacity as Connecticut's Business Advocate to support three bills raised by the committee.

Advocate for Business and Free Enterprise

The mission of the Office of the Business Advocate (OBA) is to speak for and promote "free enterprise" in Connecticut. I believe that "free enterprise" is a fundamental freedom of all Americans, from which they can realize their economic dreams through an open and fair competition.

I believe that "free enterprise" has brought more progress and quality of life to human beings than any other economic system devised by man.

And I believe that collaborative relationships between government and the business community can create a strong economy with high paying jobs, generous benefits and a quality of life that enriches the lives of all citizens of this state.

Legislative Proposals

Over the past year I have advocated for business by making over 200 site visits, giving over 100 speeches and engaging in over 100 office visits. But the OBA cannot fulfill all of its obligations through site visits, speeches and meetings alone. We need your support as well.

The Office of the Business Advocate was established to serve as an information clearinghouse for public and private programs available to assist business.

According to the U.S. Small Business Administration, Office of Advocacy:

“Entrepreneurs, innovators and small businesses are key players in the economy of Connecticut. They make up most of the employer firms in the state and their contribution is indispensable. The state has an estimated total of 341,400 small businesses based on the most recent data. Firms with employees numbered 98,067 in 2005 of which an estimated 97.4% or 95,067 were small firms (smaller than 500 employees).

Analysis of this data suggests that Connecticut has 2,550 large business, 95,517 small businesses and over 243,333 singleton businesses. There is clearly not enough time in the day to serve all of their individual needs.

That is why it is important to prevail upon you, the Legislators, to shape our public policy to meet the needs of Connecticut’s business community. One single legislative proposal passed into law can resonate throughout the state and have more impact than a thousand site visits.

On this basis, I am here today to support several legislative proposals for this short session that I think would have a positive impact for the business community.

Business Entity Tax Repeal

First, Senate Bill 400 calls for the complete repeal of the Business Entity Tax. Section 12-284b of the Connecticut State Statutes requires limited liability companies and partnerships, limited liability companies and “S” corporations to pay \$250 each year as a business entity tax.

This is far and away the most disliked tax among small and micro businesses. It was enacted in 2002 as a temporary measure and generates about \$34 million in revenues. Everywhere I go to speak to business groups, they ask me, “When are you going to get rid of this ‘nuisance tax’ on small business?”

On the surface \$250 may not sound like a lot of money. But if you are just getting started, \$250 can mean partial payment on a computer, a new printer, office supplies for a year, the services of a CPA, temporary help, licensing fees, registration costs and so forth.

But the worst part is that many small companies just getting started are hit with a \$250 tax before they have made their first \$1.00 of income. What is the message? Quite simply, this tax tells a new business that Connecticut cares more about your ability to pay taxes than your future success. And if you miss a payment, there will be penalties and interest to pay as well.

In fact, if you do not pay within 30 days of the “due date”, the state can place a lien “against all real estate of the taxpayer within the state.” So, instead of saying “Thank you for starting a new business” we say “pay the tax or we will take your home.”

Just last year I received a letter from Barbara and Clifford Kristiansen of Stratford to the Department of Revenue Services which tells the sad story of their "New Beginnings Home Restoration LLC". The letter is attached to my testimony and I would ask that it be made part of the permanent record of this hearing. After detailing their problems with the Business Entity Tax, and other government "red tape" affecting their new business, the Kristiansen's dissolved their limited liability company "due to excessive taxes required by the state of Connecticut."

Some may say that this is just one case, and it is not significant. But I can tell you that this story is being replicated all over Connecticut. It is a story that reflects our lack of respect for "free enterprise". It is a story of dreams that do not come true and of "red tape" that strangles the entrepreneurial spirit.

Ironically, the Kristiansen's "New Beginnings" LLC became a bitter ending to their dream of supplementing their Social Security with free enterprise.

Regulatory Relief for Small Business

Second, last year, the Legislature considered HB 7342 which proposed a task force to assess the impact of regulatory requirements on small businesses. Although the bill was heard and reported out of this committee, it was tabled by the House without consideration.

A similar bill, Senate Bill 399, An Act Concerning Regulatory Relief for Small Business, is before us today and merits speedy action. I mentioned previously the positive role of small business to our economy. This role is particularly important when we are under recessionary pressures, and we need to act swiftly to lift some of the regulatory burdens off of small business.

Here in Connecticut, micro-business with nine or less employees account for 73% of all businesses. This is where jobs are created and sustained during hard times. You seldom read about micro business packing up and going south to the Carolinas or to Mexico. But these same businesses spend a tremendous amount of time and energy dealing with the regulatory "red tape" of Connecticut. And they are often least equipped to deal with it.

A special effort to study the problem and provide legislative relief will send a strong signal out to Connecticut's small businesses that we value them and want them to do well here.

But let me suggest that the deadline for the task force report be moved up to January 1, 2009. We do not need more than a year to do this work. We need to do it quickly, and get the report to the Connecticut General Assembly by the first month of the new session so that the recommendations can get full consideration.

Also, I suggest that the Ranking Members of Commerce be statutory members of the task force. The business community does not really care about Democrat and Republican –

they care about results, and the Republican leadership of the Commerce Committee can make a significant contribution.

While my office is happy to provide “administrative staff”, what you see is what you get. Unless you allow me to contract for some additional help, I would recommend that the expertise of the Offices of Legislative Research and Fiscal Analysis be included to support the task force.

Finally, the two representatives of a “state-wide business group” mentioned in Section 1. (c) (1) should be designated as “state-wide small business group” since this is the focus of the legislation. Organizations such as the Micro Enterprise Resource Group (MERG), The Small Business Network (TSBM) and other similar organizations should be given special consideration for the task force.

Transfer the OBA from OPM to DECD

Third, when the OBA was first created in 2006 it was placed in the Office of Policy and Management for “administrative purposes only.” Presumably this would give the office the prestige of being supported by the Governor’s policy staff.

In 2007, Governor Rell recommended that the OBA be moved to Department of Economic and Community Development (DECD) for “administrative purposes only.” The idea was that co-location with DECD would allow the OBA to collaborate far more effectively than if located elsewhere in state government offices.

As a practical matter, the offices of the OBA are located at 505 Hudson Street with the staff of the DECD, and this arrangement has worked well. Nonetheless, in deference to the Governor I continue to ask that the OBA be placed in the DECD for “administrative purposes only.”

Closing Remarks

In closing, Mr. Chairman, let me thank you and Members of the Committee for working with Governor Rell in creating the OBA. Although there are 30 Business Advocates around the country, we are the first New England State with a full-time position.

In a competitive national economy and an increasingly “flat world”, we need to leverage our assets in every way possible. Creating this position and fully funding the office is one way to let our business community know that we value their contribution to our state’s economy and we want them to stay and prosper here in Connecticut.

31 Mercer Street
Stratford, Connecticut 06614
October 31, 2007

Ms. Lucy DiVico
Associate Revenue Processor
Department of Revenue Services
25 Sigourney Street
Hartford, Connecticut 06106

Subject: New Beginnings Home Restorations LLC
Tax Registration #34530527-000

Dear Ms. DiVico:

In 2003, when his job was outsourced to Hungary, my 65-year-old husband began the horrendous process of retiring. This was a man who, during his adult working life, put our four children through college by working eighty hours per week for ten years.

In an attempt to stay active and to hopefully supplement his Social Security income, my husband decided to form an LLC with the hope of flipping houses. Our son and two sons-in-law, all of whom are employed full-time elsewhere, joined him and New Beginnings was born. All told, they "flipped" three houses and, to the best of our knowledge, all the appropriate tax forms were filed.

In September, 2007, we were notified by the Department of Revenue Services that we had failed to pay Entity Tax on New Beginnings and therefore, owed \$250 for each year -- 2004, 2005, and 2006 -- plus interest and penalty. We had never heard of an Entity Tax, but wrote a check for \$750 and turned the paperwork over to our accountant for filing.

In October, 2007, we were notified by the DRS that we owed a total of \$130.08 interest on the late Entity Tax payments. That amount was paid on 10/16/07. We were thankful that the penalty had apparently been forgiven.

A few days later, we were notified that we had been assigned a CT tax registration number and would have to complete an application form. Our accountant completed and filed REG-1. Section 8 of that form dealt with Sales and Use Taxes, none of which applied to New Beginnings. The instruction stated, "If you answered Yes to any of the sales and use taxes questions, enter the date you will start selling or leasing goods or taxable services." We answered "no" to each question in Section 8.

On October 26, 2007, we received a form letter from you indicating that "All contractors working in the State of Connecticut must be registered for Sales Tax regardless of whether they are providing taxable sales or services." The letter went on to instruct us to indicate the date requested in #8 and return REG-1 with \$50.

Due to the current state of the housing market in Connecticut, it is unlikely that New Beginnings will be flipping any houses in the future. In view of this, and considering the unbelievable amount of red tape and "surprise taxes" involved in doing business in Connecticut, I am enclosing a copy of the Dissolution of Business form that has been filed with the appropriate office (as far as we know today). Kindly adjust your records accordingly.

Yours truly,

Barbara A. Kristiansen

for Clifford O. Kristiansen

Enclosures

cc: Sec. of State Susan Bysiewicz
Rep. John Harkins
Sen. Daniel Debicella

ARTICLES OF DISSOLUTION

Domestic Limited Liability Company

Office of the Secretary of the State

30 Trinity Street / P.O. Box 150470 / Hartford, CT 06115-0470 / Rev. 05/22/2001

See reverse for instructions

Space For Office Use Only

Filing Fee: \$25.00

1. NAME OF THE LIMITED LIABILITY COMPANY:

NEW BEGINNINGS HOME RESTORATIONS, LLC

2. THE LIMITED LIABILITY COMPANY IS DISSOLVED FOR THE FOLLOWING REASON(S):

OUT OF BUSINESS DUE TO EXCESSIVE TAXES REQUIRED BY THE STATE OF CT

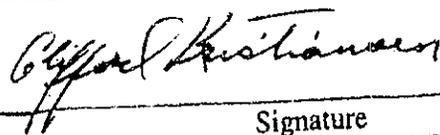
3. EFFECTIVE DATE OF DISSOLUTION (if other than the file date): 11 / 05 / 2007
Month Day Year

4. EXECUTION:

CLIFFORD KRISTIANSEN

MEMBER

Capacity



Signature