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Statement by Paul Filson, Director of Service Employees International Union (SEIU) Connecticut State Council in support of Bills No. 807, 815, 6348, 6349, 6350 ACTs CONCERNING CORPORATION TAXES AND SALES TAXES. – **Before the Finance, Revenue and Bonding Committee**

Good morning, Co-Chairs, Senator Daily, Representative Staples and distinguished members of the Finance, Revenue and Bonding Committee - I appreciate the opportunity to be here before you today. My name is Paul Filson and I am Director of SEIU's Connecticut State Council. The State Council represents over 55,000 active members in Connecticut. SEIU is Connecticut's largest union. We represent health care workers, building service workers, state/municipal employees and community college professors and staff. SEIU advocates for a responsible, fair, reliable transparent and accountable taxation system for Connecticut.

A key component to designing and implementing, a sensible and reliable revenue raising tax code, for Connecticut is understanding who pays taxes and how much they pay. A balanced tax system will result in a steady stream of revenue more able to withstand the ups and downs of our economy. In the past, corporate business income taxes accounted for up to 14% of all taxes collected. Today, that figure is closer to 5%. Income taxes are now flat across most income levels, in Connecticut, hurting middleclass taxpayers more than wealthy ones, and represent nearly one third of our revenues. Sales and sin taxes, which are much more burdensome and have a greater impact on poor and moderate-income people, account for over 20%. This means that individuals and the taxes they pay account for quite a bit more than 50% of Connecticut's tax stream while corporate income taxes account for only 5%.

It is no mean feat to design a system of corporate taxes that balances the need to raise revenues and the need to promote job growth. It is true, taxes are used to pay for the entire infrastructure that is needed to attract corporations and businesses to Connecticut. In any list of reasons why companies' decide to locate in a particular region of the country, infrastructure related items such as, an educated and trained pool of workers, good transportation, and quality of life rank higher than taxes and other business cost items. This does not minimize the impact overly high taxes and the cost of doing business might play in making a decision, but Connecticut clearly has moved too far in the direction of placing tax burdens on individuals.

There are dozens and dozens of tax incentives or tax expenditures for corporations written into Connecticut's tax code. These account for nearly $1 billion in taxes that are not collected from corporations. Rather than praise or condemn them, I commend the committee for trying to understand them, regulate them, cap them, and pre-approve them on a regular basis. through **Bills 815 and 6348.**

Some of these Incentives were designed to attract or retain jobs in Connecticut. Many incentives were passed during a time of higher corporate tax burdens and a growing economy. Some tax incentives were passed to compete with other states in our region. One such incentive passed in 1998 allows passive investment companies like Webster Bank to reduce their Connecticut tax liability to nothing. Webster Bank has earned profits in excess of $150 million in 2002 and hundreds of millions in profits since then. Perhaps, in 1998, such a tax reduction made sense, but today while programs for the poor are being cut and our cities and towns struggle to keep property taxes down it makes less sense.

The public has a right to know if Connecticut businesses are paying their fair share. Furthermore, it is becoming clear that certain businesses achieve breaks while others do not. Are tax breaks distributed based on their political contributions or is there equity and purpose in the way tax breaks are designed? Without a regular systematic study the General Assembly and the public will never know.

In addition to countless tax breaks, wealthy Connecticut corporations use a variety of accounting schemes to avoid paying taxes. While these schemes may be legal, their net effect has been to lower the net amount of taxes collected from corporations. Connecticut has the dubious distinction of being only 1 of 2 states to see its revenues, derived from corporation business taxes, decrease from fiscal years 2000 to 2003. **Bill 807** closes, perhaps, the biggest loophole and requires **combined reporting.**

When filing tax returns, corporations that operate across state lines apportion their income among the states where they do business. Corporations use many strategies to artificially shift the reporting of their income to low-tax or no-tax states. Combined reporting is the broadest and fairest reform to stop the most common tax avoidance strategies. Because combined reporting requires corporations to add together the profits of related businesses before the combined profit is subject to apportionment, the company gains little or no advantage by shifting profit among its subsidiaries in different states. Combined reporting ensures that a corporation's state income tax liability remains the same regardless of the corporation's legal structure. Twenty two states use combined reporting including: AK, AZ, CA, CO, HI, ID, IL, KS, MA, ME, MN, MT, NE, NH, ND, NY, OR and UT.

SEIU and its members support creating the fairest, most transparent and accountable system possible. Sales taxes disproportionately hurt lower income people. Removing most exemptions and lowering the overall rate seems to make sense as proposed in **Bills 6349 and 6350**. Some sales tax exemptions are designed to keep prices lower on essential items. Taxing such items may disproportionately hurt lower income people. However, a general lowering of the sales tax by 1% may on balance be fair and provide for a much more reliable stream of revenue for the state.

Connecticut's tax system seems antiquated and unfair. Our system is ill equipped to account for the changes a global and computer economy have created. The revenues and jobs gained by requiring all to pay their fair share, and to account for the incentives they receive, will make Connecticut a better place to live and do business.