



Testimony before the Finance, Revenue & Bonding Committee
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HB 6498, AAC the Sales and Use Tax Rate

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Connecticut Association of Nonprofits (CT Nonprofits) represents 530 nonprofit organizations in Connecticut, 300 of which receive state funding to provide health and human services on its behalf. **CT Nonprofits supports the intent of HB 6498, but feels it is critical that any increase in the sales tax must be coupled with a state Earned Income Tax Credit (EITC).**

Connecticut and the nation as a whole are facing an unprecedented financial crisis. Gone are the large budget surpluses that we have seen in recent years. Instead, the state must now grapple with an \$8 billion deficit for FY10-11. This will be no easy task; difficult decisions will have to be made. However, we must keep in mind what we want our state to look like when we come out of these difficult financial times. I do not believe that cutting our way out of an \$8 billion deficit will leave a Connecticut of which any of us can be proud. That is why CT Nonprofits supports the Finance, Revenue & Bonding Committee looking at revenue enhancements such as raising the sales tax. Better Choices for Connecticut has released a revenue enhancement plan which estimates that an increase in the sales tax from 6% to 7% will result in an additional \$575-\$625 million in state revenue. There is no doubt that this increased revenue is greatly needed and could be used to help offset potentially devastating cuts to health and human services.

However, we do not support revenue enhancements being made on the backs of our state's most vulnerable residents – the very people that would suffer the most if the state attempted to cut \$8 billion from the budget. The sales tax is one of the most regressive taxes that exist. Low income families pay a higher share of their income in sales taxes than higher income families who are able to save more of their income. The poorest fifth of Connecticut's population pay an average of 6.4% of their income in sales and excise taxes, while the wealthiest fifth spend only 0.9%-1.9% of their income on sales and excise taxes. Therefore, to ensure that the state can raise much needed revenue, but not do it in a way that disproportionately hurts lower-income residents, CT Nonprofits recommends that the state creates an EITC. State EITC programs reward work and have proven to be one of the single most effective anti-poverty programs.

A State EITC would:

- **Reward Hard Work** – the credit will only go to low-wage earners – many of whom work multiple jobs and struggle to make ends meet.
- **Assist Low-Wage Earners** – only those earning on the low end can take advantage of the credit. That means a family of four earning no more than \$40,000 would receive up to 20% of their federal EITC credit, or a maximum of \$943.

- **Stimulate the Local Economy** – EITC filers spend the refund in their local communities on basic household necessities.
- **Reduce Poverty** – a major goal of the nonprofit sector and the General Assembly. The federal EITC reduces child poverty by nearly 25% and a state EITC can only build on those benefits.
- **Make the State Tax System More Equitable** – Connecticut workers earning less than \$21,000 pay on average more than twice the rate on combined sales, property, excise, and income taxes than the wealthiest 1% of state residents who earn more than \$500,000.

Better Choices for Connecticut estimates a state EITC will cost approximately \$50 million, leaving \$525-\$575 million in increased revenue from raising the state sales tax to 7%.

Again, we support the 1% increase in the state sales tax only if it is coupled with a state EITC that will help protect low-income individuals and families.

Thank you for the opportunity to submit testimony. Please do not hesitate to contact me with any questions.

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