



Connecticut Business & Industry Association

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**TESTIMONY  
BONNIE STEWART  
CONNECTICUT BUSINESS & INDUSTRY ASSOCIATION  
BEFORE THE  
FINANCE, REVENUE AND BONDING COMMITTEE  
LEGISLATIVE OFFICE BUILDING  
MONDAY, MARCH 2, 2009**

My name is Bonnie Stewart and I am vice president and counsel for the Connecticut Business & Industry Association (CBIA). CBIA represents approximately 10,000 businesses throughout Connecticut, the vast majority of which are small companies employing less than 50 people.

I would like to comment on several bills before the Finance Committee today. These measures include:

- SB-931, An Act Concerning The Sales Tax Liability Of Asphalt Manufacturers
- SB-935, An Act Concerning a Property Tax Exemption for Machinery and Equipment in Mobile Manufacturing Operations
- SB-997, An Act Concerning A Municipal Option To Delay Revaluations
- HB-6557, An Act Concerning The Income Tax And The Estate Tax
- HB-6561, An Act Concerning Municipal Revenue Diversification

CBIA supports with modifications SB-931, An Act Concerning the Sales Tax Liability of Asphalt Manufacturers. This measure clarifies the sales tax liability of asphalt manufacturers who not only manufacture, but also install the asphalt sold directly to property owners. CBIA would like SB-931 modified to clarify the situation for all manufacturers, not just asphalt manufacturers. That way it will be clear that a company who manufactures or fabricates a product, such as cabinets or steel beams, is eligible for the manufacturers' sales tax exemption regardless of whether they install the product.

Currently a number of manufacturers and fabricators not only create a product, but they also install it. This is common with certain types of manufacturers because of the products they produce. For example, asphalt manufacturers need to get their product to its final destination and installed quickly, otherwise the asphalt will harden and won't be usable. High-end cabinetry is another product that fabricators often must install themselves as carpenters don't want to be liable for replacing the product should it get nicked or scratched. The fact that a manufacturer or fabricator installs their own product should not make them ineligible for the sales tax exemption that other manufacturers who don't install their products are entitled to.

We urge you clarify that all manufacturers and fabricators, regardless of whether they install their product, are eligible for the manufacturers' sales tax exemption.

Please amend SB-931 as requested and support the amended bill.

CBIA supports SB-935, An Act Concerning a Property Tax Exemption for Machinery and Equipment in Mobile Manufacturing Operations. This measure would treat manufacturing machinery and equipment (MME) the same, regardless of whether it was used in fixed manufacturing facilities or mobile manufacturing facilities.

Studies show that the multiplier impact of manufacturing jobs is significant. Every manufacturing job supports anywhere from three to six nonmanufacturing jobs. Manufacturers export products and import wealth to the state in which they're located. Therefore, Connecticut should remove any impediments to manufacturing in the state.

It is well known that the imposition of the personal property tax on manufacturing machinery and equipment discouraged manufacturers from investing in Connecticut for years. That is why the changes were made to Connecticut's tax laws and an exemption from the property tax for MME in fixed manufacturing facilities was adopted. That exemption should be extended to MME in mobile manufacturing facilities.

CBIA urges passage of SB-935.

CBIA opposes SB-997, An Act Concerning a Municipal Option to Delay Revaluations. This bill would give municipalities that are required to conduct revaluations for the 2008, 2009 and 2010 assessment years the ability to delay those revaluations until as late as the 2011 assessment year. If adopted, the measure will be harmful to both residential and commercial taxpayers for several reasons.

Delaying revaluations causes an increasingly large difference to develop between a property's valuation for tax purposes and its actual fair market value. This makes assessments less equitable and more difficult to accept for all taxpayers. Delay also unfairly shifts the tax burden between types of property so the tax burden is not shared equally.

When revaluations are performed with greater frequency, they are generally easier to implement. Longer delays generally make implementation more difficult, expensive and divisive within communities.

When revaluations are delayed and assessments are held static, mill rates must necessarily increase significantly in order to adequately fund local government. The result is that a disproportionate share of the tax burden is borne by the property types that undergo annual revaluation under state law. Generally speaking, this includes motor vehicles and business personal property as business pay property tax not only on their land, structure and motor vehicles, but also on their furniture, fixtures and machinery and equipment. Thus, communities that delay revaluation become less attractive places in which to live and to do business.

An equitable property tax system is predictable. When commercial and residential taxpayers receive their new revaluation assessments, they must

decide if those assessments are equitable or should be challenged. In making that decision, the current length of the revaluation cycle is an important consideration. Inequitable assessments may not have been challenged and appeals of inequitable assessments may have been settled in reliance upon the expectation that new assessments will be implemented within five years. This important attribute of predictability is lost when a revaluation cycle is extended. Another hallmark of an equitable property tax system is transparency. The process of implementing new assessments should be readily comprehensible to taxpayers. Delaying revaluations makes the system less transparent and the results more subject to criticism.

Many states have revaluation cycles that are shorter than Connecticut's five year cycle. This makes those states more attractive places to do business because assessments more closely track changes in value. By permitting an already lengthy revaluation cycle to be extended further, an unintended consequence is to make Connecticut less hospitable to business.

This proposed delay is similar to one implemented five years ago. It is not clear that the delay at that time achieved its proponents' goals, including cost savings. Indeed, the necessity for remedial legislation would indicate that the previous experiment with delay was not successful. There is no reason to believe that delay will be successful now.

Allowing a significant number of municipalities to delay revaluations to the same time in the future may actually make them more expensive as competition intensifies for the services of a limited number of revaluation companies. The main reason given in support of SB-997 is that it will allow municipalities to postpone the cost of revaluation. Of course, this cost savings is nonexistent for those municipalities currently implementing October 1, 2008 revaluations as the

cost of those revaluations has already been incurred. With improvements in technology, the ability of municipalities to share revaluation costs and other recent changes in state law, revaluations are already becoming less costly. Requiring a municipality to bear the cost of a revaluation once every five years is a modest price to pay for an equitable, predictable, transparent and competitive property tax system.

CBIA urges you to reject SB-997.

CBIA opposes HB-6557, An Act Concerning the Income Tax and the Estate Tax. This measure increases the personal income tax for all individuals as well as most small and medium sized businesses that earn two hundred fifty thousand dollars or more.

Connecticut's small and mid sized businesses pay a significant portion of the personal income tax. That's because their businesses are set up as pass-through entities and pass-through entities pay personal income tax on the income generated by the business. Therefore an increase in the personal income tax means an increase in the tax rate for many small and mid sized businesses.

HB-6557 increases by five percent the tax rate on companies "earning" \$500,000. The increase jumps to 12.6% for employers earning one million dollars. Important to note is that income isn't necessarily cash. The more money you take from these employers, the less money they will have to reinvest in their employees and their businesses.

We urge you to reject HB-6557.

CBIA is concerned with HB-6581, An Act Concerning Municipal Revenue Diversification. This measure permits municipalities, by local option, to impose a various municipal taxes including a sales tax, a tax on meals and alcoholic beverages, and an occupancy tax. The measure would require the state to collect and administer the municipal tax provisions. The measure also permits imposition of a land value tax.

CBIA has concerns with this measure as it permits imposition of additional local taxes. We are worried that local option revenues are not the panacea that some hope them to be. CBIA strongly encourages the committee to conduct a thorough analysis of the impact on municipalities, their residents and businesses, should sales, income or other taxes be imposed at the local level.

We have several reasons for our concerns. First, imposition of some of these taxes on a town-by-town basis might have a negative effect on the state's smart growth efforts. This is in large part due to the fact that local option taxes are most often requested by the state's larger municipalities. It was the higher costs in the cities that drove many to the suburbs to begin with. Adding to those costs will not encourage reinvestment or any other economic activity in those locations.

Second, the measure may result in some towns having to reduce private-sector services. This would happen when retailers, restaurants and local car repair shops realize it would be less expensive for their clients and themselves to locate in a neighboring community that does not impose local option taxes.

Ultimately, we believe that the state should continue to encourage municipalities to control spending and the General Assembly should look at review all municipal revenue options, as is being done with the state, in the larger

picture. Many municipalities have begun to address some of their budget issues by looking at the bigger picture. They have been effective in reducing municipal health care costs and have implemented a number of regional initiatives, making their towns more efficient and effective. When discussing revenues, we urge that you consider the big picture as well and understand the effect various measures will have on the state and its towns.

As for the land value tax portion of HB-6581, CBIA has expressed reservations about the land value taxation proposal many times over the years. Historically, we have opposed various classification schemes that would have allowed municipalities to tax different classes of properties at different rates. Our concerns have been based on the fact that once classification is in place; it may be politically expedient for local officials to increase taxes on one group of property owners as a way to appease another class of property owners. Because we represent manufacturers and other businesses that rely on personal property to run their operations, we are concerned about any initiative that may increase the tax on their equipment.

Although, on its face, this proposal would not do that, it may well lead to that result.

We have heard anecdotally from proponents that land value taxation has worked in Pennsylvania. But we have also heard anecdotally that some Pennsylvania municipalities that initially adopted the system ultimately moved away from it. What we have not heard is any compelling evidence that it is either needed in Connecticut or that it would work here. Certainly there are vacant properties in some urban communities that would be better off developed. But is this the only, or best, way to accomplish that goal?

We believe it would be better policy for the legislature to make it easier and more cost-effective to clean up contaminated property. In addition, we could likely have a situation where an innocent landowner of contaminated property is unable to develop the land due to the cost of cleanup, but would then be hit with a higher tax. That should not be the policy of the state of Connecticut.

We have suggested in the past that if the legislature wants to seriously consider this proposal; it should first conduct a comprehensive study of the pros and cons of this particular tax system to determine if it is right for Connecticut. We have asked for but not received any real evidence that this is a positive policy move for the state. A thorough analysis should precede any consideration of this proposal.

Another reason not move forward with the land value tax proposal at this time is that with the current economic situation as it is, this is not an opportune time for growth. Companies are facing numerous challenges that need to be addressed before they expand their current operations. Many are fighting to keep their current workforce. Forcing them to turn over land they may be planning on developing will hamper their future capital investment in the state.

CBIA urges rejection of HB-6581.

Thank you for the opportunity to comment on these bills.