

CAHS

The Connecticut Association for Human Services
110 Bartholomew Avenue · Suite 4030
Hartford, Connecticut 06106
www.cahs.org

Michael Rhode, President
James P. Horan Executive Director
860.951.2212 x 235
860.951.6511 fax

Testimony before the Finance, Bonding & Revenue Committee
Re: H.B. 6557 – An Act Concerning the Income Tax and Estate Tax
Submitted by Maggie Adair, Policy Director
Connecticut Association for Human Services
March 2, 2009

Good morning, Senator Daily, Representative Staples, and members of the Finance, Revenue & Bonding Committee. I am Maggie Adair, Policy Director of the Connecticut Association for Human Services (CAHS). CAHS is a statewide nonprofit organization that works to end poverty and to engage, equip, and empower all families in Connecticut to build a secure future.

Faced with a precipitous drop in state revenue and a budget deficit in the billions, policymakers must now make difficult decisions. CAHS believes that Connecticut's policy leaders should take the long view on budget priorities, preserving the integrity of programs and policies that support children and families, and that promote economic development and sustainable, good-paying jobs.

Revenue increases can be strategically focused on the people and businesses with the greatest ability to pay, while maintaining or lowering tax rates for people who are struggling the most economically, and for small businesses that are key to job creation. We urge you to consider a full array of revenue options, keeping in mind the need to avoid hurting the state's most vulnerable people and the health of the state's economy through unwise spending cuts. Most economists agree that crippling state government is the worst thing you can do to the economy.

That is why CAHS is testifying to comment on **H.B. 6557 – An Act Concerning the Income Tax and the Estate Tax**. We commend the Committee for raising this bill, which raises the income tax on wealthier families. However, we do not think the bill goes far enough.

CAHS is a member of **Better Choices for Connecticut**, a broad-based community coalition that is urging Connecticut's policy leaders to make budget and revenue choices that reflect priorities and values of our citizens.

Better Choices for Connecticut has released a White Paper, detailing ways to address the budget crisis through prudent revenue changes. As author David Osborne said when Governor Rell brought him to Connecticut last month, it is "pure fantasy" to think that Connecticut can address the budget deficit by spending cuts alone. **Better Choices for Connecticut offers a revenue plan that will ensure Connecticut invests in its families, workforce, and infrastructure so that we come out stronger on the long run.**

Specific to the income tax, Better Choices for Connecticut proposes a graduated income tax that would raise an additional \$800 million to \$1.2 billion in FY10. For married couples filing jointly, the tax rate would increase to 6 percent on the portion of income over \$200,000, to 7 percent for the portion of income over \$500,000, and to 8 percent for the portion of income over \$1 million. These increased rates

would still be lower than income tax rates in the neighboring states of New York, New Jersey and Rhode Island. Connecticut's top rate of 5% is tied with Alabama and Mississippi as the *second lowest* among the 41 states with a broad-based personal income tax.

Adjusting Connecticut's income tax rates would be step in making our tax structure more equitable. While Connecticut's income tax is progressive for very low-income earners, it is otherwise essentially flat. According to the Institute on Taxation and Economic Policy, middle-income and low-income residents pay close to 11 percent of their income in state and local taxes, while the wealthier residents pay less than 7 percent. When you look at the regressive nature of sales, excise and property taxes, Connecticut's relatively flat income tax is extremely unfair.

Raising the income tax on wealthier families will stimulate the economy. Higher-income families save a substantially greater proportion of their income than low- and middle-income families. An increase in the income tax on higher families, therefore, will contribute to Connecticut's economy, while tax increases targeted toward families lower on the income ladder will merely represent a reallocation of dollars that would otherwise be spent in the economy.

The income tax increased outline by Better Choices for Connecticut would not place a significant financial burden on wealthier families. In fact, CAHS believes that wealthier households want to share in the sacrifice so that we can maintain the quality of life we have in Connecticut. We have confidence that wealthier citizens want to be part of the solution.

Thank you for giving me the opportunity to testify today.