

# Legal Assistance Resource Center

## ◆ of Connecticut, Inc. ◆

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### Testimony before the Finance, Revenue and Bonding Committee

in support of **SB 807**, AAC Combined Reporting and **HB 6349**, AAC the Sales Tax on Services  
and  
commenting on **HB 6350**, An Act Eliminating Exemptions from the Sales and Use Tax

by Jane McNichol, Executive Director  
February 9, 2009

I am Jane McNichol, Executive Director of the Legal Assistance Resource Center of Connecticut, the advocacy and support center for legal services programs in the state. We represent the interests of very-low income residents of the state.

I am here today to offer vigorous **support for SB 807** which would institute “combined reporting” in the corporate income tax in Connecticut. This change is a needed updating of Connecticut’s corporate tax. While the concept of combined reporting has been used in western states for some time, it is now being adopted throughout the country, including recently in Massachusetts and New York. It is a fair way to ensure that state corporate income taxes apply to multi-state corporations as well as to in-state corporations. It is time that Connecticut join the growing number of states which have adopted this system.

I also support the modernization of the state sales tax. **HB 6349** and **6350** contain concepts that move in that direction. I am in **support of HB 6349, which would broaden the base of the sales tax to include many services** currently not covered by the tax. This change would recognize the changes in our economy over past decades. Much more than in the past, our commerce is based on the sale of services and our failure to tax services means that we forego significant potential revenue from the sales tax.

Extending the sales tax to more services would also make the tax less regressive. Lower income residents of Connecticut pay a much higher percent of their incomes in sales taxes than higher income residents. In part, this is because services are more likely to be exempted from the tax and wealthier residents are more likely to buy services. By extending the sales tax to more services, Connecticut would make the tax more equitable and raise much needed revenue.

**HB 6350, which would eliminate most, or perhaps, all exemptions to the sales and use tax requires more thorough exploration.** Certainly examining the need for and efficacy of the many sales tax exemptions that Connecticut has adopted over the years is needed. Unlike appropriations from the General Fund, tax exemptions are not regularly re-examined and we continue to forego millions of dollars of revenue without asking whether we are getting the results we want and expected from tax exemptions adopted years ago.

But a blanket elimination of all sales tax exemptions, even when coupled with a reduction in the sales tax rate, will not move us toward a modern and fair tax system. Connecticut's sales tax is the most regressive portion of our state and local tax system.

**Residents with incomes below \$25,000 pay 6.4% of their income in sales taxes while residents with incomes above \$111,000 pay under 2%.** Residents with incomes over \$1 million pay less than 1% of their incomes in sales taxes.

But we have built in some protections for low-income residents by exempting basic necessities, notably food and health care purchases, from the sales tax. Repealing all exemptions will result in **increasing the cost of food and health care purchases, including prescription drugs, by 6%, or 5%** if the rate is reduced as proposed in this bill.

This would increase the hardship of families already struggling to provide food and medicine for their families and would make our sales tax burden fall even more heavily on low-income residents.

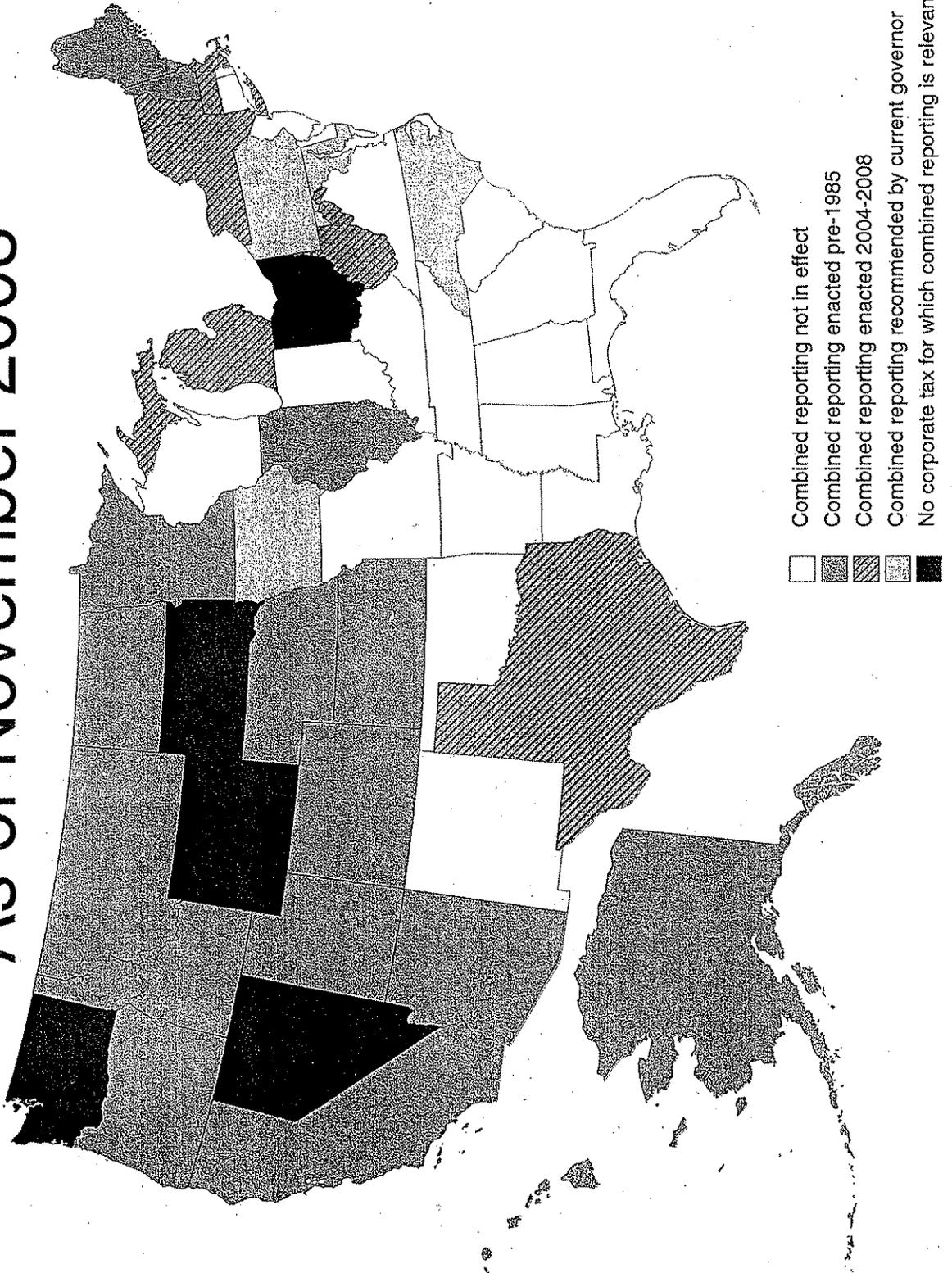
Finally, the bills being heard today propose significant changes in two of the important state taxes - but they fail to address the tax which brings in the most revenue for the state - **the personal income tax.** We can make our tax system more fair, raise much needed revenues from those with resources, and remain competitive with other states by increasing the tax rate on higher-income residents.

Better Choices for Connecticut estimates that we could raise about \$1 billion by raising the income tax rate to 6% on family incomes over \$200,000, 7% on family incomes over \$500,000 and 8% on family incomes over \$1 million. This progressive rate structure would also help to offset the regressivity of the sales tax.

As we modernize our tax structure and make adjustments to bring in needed revenue, we must include the personal income tax.

Thank you for your attention and for your work on these important issues.

# Status of Combined Reporting As of November 2008



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