CBIA

Connecticut Business & Industry Association

TESTIMONY
JOSEPH BRENNAN
CONNECTICUT BUSINESS & INDUSTRY ASSOCIATION
BEFORE THE
FINANCE, REVENUE AND BONDING COMMITTEE
MONDAY, FEBRUARY 9, 2009

Good afternoon. My name is Joseph Brennan. I am senior vice president for the Connecticut Business and Industry Association (CBIA). CBIA represents over 10,000 companies in the state ranging from large industrial corporations to small businesses with one or two employees. The vast majority of our members, about 90 percent, are employers with fewer than 50 employees.

Connecticut's ability to manage its state and local government's budgets has a direct effect on our economy. The more effective and efficient that government is, the better our business climate will be. The better Connecticut's business climate is the more able Connecticut is able to compete with other states to bring in businesses, jobs and revenue. These businesses and jobs make the economy stronger and produce additional tax revenues that make it easier to pay for state and local programs and services.

Yet before you today, are a host of bills that would drive up the cost of doing business in the Connecticut. These measures would make it less likely that jobs would remain here, let alone be brought here. That is why we are here today to voice our **opposition** to:

- **SB- 807** An Act Concerning Combined Reporting For Purposes Of The Corporation Business Tax.

350 Church Street • Hartford, CT 06103-1126 • Phone: 860-244-1900 • Fax: 860-278-8562 • Web: cbia.com

- **SB- 808** An Act Increasing Fees And Fines.
- **SB- 815** An Act Concerning A Moratorium On Business Tax Credits.
- **HB- 6348** An Act Concerning Corporation Business Tax Credits.
- **HB- 6349** An Act Concerning The Sales Tax On Services.
- **HB- 6350** An Act Eliminating Exemptions From The Sales And Use Tax And Lowering The Rate Of Such Tax.

Connecticut is facing one of its the worst economic downturns in decades. The rate of business closures and job losses continue to mount month after month. We have choices to make, and it is more critical than ever that we make the right choices. We need to focus on turning our economy around and positioning the state for a quick and full recovery. Passage of these bills runs counter to that goal. We tried the alternative in the late 1980s when faced with similar circumstances. We raised every form of business tax and made Connecticut's situation far worse than most other states in the nation, losing 160,000 jobs in the process. We can't make that mistake again. We can't put that many jobs at risk.

All of these measures, each in their own way, would make an already difficult situation much worse.

SB- 807 An Act Concerning Combined Reporting For Purposes Of The Corporation Business Tax.

CBIA opposes this measure as it would change Connecticut's current corporate income tax structure by requiring combined reporting. Requiring combined reporting is a bad idea for Connecticut for several reasons. First, combined reporting discourages investment. Second, it creates a great deal of revenue uncertainty. Lastly, it is complex and costly. For all of these reasons, SB-807 should be rejected.

Business investment drives job growth and has a significant positive impact on municipal and state revenues. Mandatory combined reporting discourages investment because it illogically distorts a company's net earnings taxed by the state.

Mandatory combined reporting is not a good idea at anytime, but it's especially problematic in the current economic downturn. Connecticut needs certainty where revenues are concerned yet, estimates of the state revenue impact of implementing combined reporting are highly uncertain. When Minnesota adopted combined reporting, the state projected increased revenues of $63 million (with a range of $23-103 million). Two years after combined reporting was implemented, the Department of Revenue estimated that there was no change in revenue as a result of mandatory combined reporting.

The impact of mandatory combined reporting on employers' taxes also isn't clear. What is clear is that some employers' taxes will increase and others will decrease. There will be winner and losers.

Proponents of mandatory combined reporting say that the change is needed to close loopholes. This is clearly not the case in Connecticut. In 2003, Connecticut passed a number of modifications to the state corporate income tax, closing any of the supposed "loopholes." Two of the changes made were capping the use of tax credits and adding an interest add-back provision to the state's tax code. So, if the real intent of proposing mandatory combined reporting is—as many proponents claim—to address intercompany payments, Connecticut has already adopted targeted legislation to address that issue.

Mandatory combined reporting is complex and costly. It would require more company personnel to prepare and more state personnel to audit. It also results in lengthy appeals and costly litigation. In combined reporting states, an employer may not receive a final determination of taxes for a given year until 20 or more years after the fact. That is simply unacceptable.

Finally, California is the state most associated with combined reporting, and their budget problems are astronomical and their business climate is less than friendly. Combined reporting is not the panacea its proponents profess it to be.

We urge rejection of SB-807 and ask that you act on measures that will increase business activity in the state.

<u>SB- 808</u> An Act Increasing Fees And Fines

At this time, we oppose SB-808, which would increase fees and fines by twenty-five percent.

While we may need to increase fees and fines in the future, we believe it is too soon to know whether that's the case, and if it is, how much they need to be raised. Prior to increasing fees and fines, decisions need to be made on budget cuts. No cuts have been made yet; therefore SB-808 should not be acted upon at this time.

Please reject SB-808.

SB-815 An Act Concerning A Moratorium On Business Tax Credits

CBIA opposes SB-815, which places a two-year moratorium on the use of tax credits under the corporate income tax. This bill would reduce investment in the state of Connecticut at the very time when that investment is most important. Economists are nearly unanimous in their assumption that 2009 and 2010 are going to be very difficult years for the economy, in Connecticut and nationally. Any actions that the General Assembly takes that reduce investment and economic activity will only make our problems far greater.

Corporations rely on some degree of tax predictability in making investment decisions. If Connecticut changes tax rules on them after investment decisions were made, future investment is likely to go to other jurisdictions where such investments are encouraged. We went through a difficult period several years ago when Connecticut reduced the value of tax credits after the investments that generated the credits were made. To completely suspend credits will further erode confidence in the state as a place in which to invest and grow.

We ask the committee to consider the reasons why these credits were adopted in the first place—to foster economic development and to encourage investments in certain activities, such as research and development. The very industries that many legislators believe to be the growth industries in Connecticut—bioscience, fuel cells and other alternative energy industries—all benefits from various tax credits in the state. Shutting off those incentives now will only make these industries less viable in Connecticut and cause companies to seek out those states that truly value the jobs they can create.

Without going through all the credits that are critical to Connecticut's continued economic prosperity, mention of a few can be illustrative of their collective value. Research and development tax credits are responsible for the location of many R&D jobs in the state. They are also instrumental in assisting bioscience and fuel cell companies, to name two, grow and create jobs here. Tax credits for property taxes paid on electronic data processing equipment allow companies with easily movable assets to remain in our high-cost urban areas. Other credits that incent companies to invest here rather than in lower-cost jurisdictions are a gain for the state because of the jobs they help create.

Another practical reason why a credit moratorium is problematic for Connecticut companies is that it can affect a company's financial statements. Statements are prepared based on existing law, and companies that rely on tax credits as it affects their tax liability can have negative consequences relative to credit rating agencies, thereby making Connecticut less attractive for needed future investment.

In sum, tax credits are valuable tools that promote capital investment, research and development, and job creation, as well as promoting the development of certain industries. Connecticut has a very high cost of doing business, and incentives like tax credits help the state be more economically competitive. They provide value to the state, and we need that value more now than at any time in our recent history. Therefore, we ask you to reject SB-815.

HB-6348 An Act Concerning Corporation Business Tax Credits

CBIA opposes HB-6348 for many of the same reason stated above in our opposition to SB-815. In addition to those reasons, we also oppose this bill because of the negative impact it will have on investment in the state of Connecticut. The application process is cumbersome and the cap on credits will lessen their value as economic development tools. Companies will not know in sufficient time if their investment will qualify for a credit, which will lead in many cases to investment not being made, or being made elsewhere. This bill would also eliminate any carry forwards, which flies in the face of the long-term strategic planning that is vital to the success of many corporations.

Tax credits are valuable to Connecticut because they provide incentives for behaviors that are deemed by the legislature to be beneficial to the state. The economic activity fostered by these credits not only supports jobs that are created but also generates a variety of tax revenues that help to offset their cost. As a matter of policy, lawmakers should look for choices that increase economic activity rather than limit those things that accomplishing that task already. Investment and jobs are desperately needed right now, and therefore we oppose HB-6348 because it will limit investment and jobs rather than grow them.

HB- 6349 An Act Concerning The Sales Tax On Services

CBIA opposes HB-6349, which extends the state sales tax to virtually all professional and business services.

Very few states have a broad based sales tax that applies to such a wide array of services. Of the four states that were identified by the Legislative Program Review and Investigations Committee (New Mexico, Hawaii, Iowa and South Dakota) as having such a tax, none have the type of competitive business climate issues that Connecticut has.

If Connecticut is to recover from the current economic downturn, we need to have a tax policy that encourages investment and growth in our state. Yet measures such as HB-6349 do the exact opposite.

Under HB-6349, Connecticut companies needing to hire an accounting firm to audit their books, or a lawyer to work on a patent application, would have to pay a five percent sales tax on that service. The same would be true of numerous other services that employers pay for on a routine basis. Yet if their business was located just over the border, that business would not incur that five percent increase in the cost of such services.

Measures such as HB-6349 are bad for Connecticut because we compete in a global economy. Employers often don't have the ability to pass on increased cost to their consumers, especially when they are competing with a business that is not located in Connecticut and thus not incurring that additional tax. Therefore the employers are forced to make very difficult decisions. Often their choices are limited—invest less in Connecticut or offer fewer jobs. This is problematic at anytime, but especially now when we desperately need more of both.

We urge you to reject HB-6349.

HB- 6350 An Act Eliminating Exemptions From The Sales And Use Tax And Lowering The Rate Of Such Tax

CBIA opposes HB-6350, which eliminates virtually all exemptions to the state's sales tax, including for manufacturing machinery and equipment, then imposes the sales tax rate of five percent.

Similar to HB-6349, this measure would increase the cost of doing business in Connecticut. It hits businesses particularly hard as the elimination of all exemptions means that business inputs are being taxed, not simply the final sale. This means that the sales tax would be paid repeatedly throughout the production and distribution process, thereby significantly driving up the cost of a product and making it uncompetitive.

We are unaware of any manufacturing state that does not exempt production equipment and inputs from its sales and use tax. It is hard to imagine any manufacturer in Connecticut reinvesting in their operations here if this measure were to become law.

Likewise, other growth industries in Connecticut, such as bioscience and the fuel cell industry, benefit from various sales tax exemptions. Given the number of states that are trying to lure these industries, elimination of incentives will likely cause more and more companies to seek out other locations. And taxing sales of services between affiliated companies, as this bill would do, will make Connecticut a much less viable place for business investment. As we compete in a global economy, a measure such as this would make it far more difficult for a Connecticut business to be competitive. If they can't be competitive in Connecticut, they would be forced to look elsewhere.

We urge you to reject HB-6350 and encourage businesses to invest in Connecticut.

As Missouri Gov. Jay Nixon, a Democrat, recently said, "Everything stems from jobs. Now is not the time to back off the field of economic development."

In Colorado, Democratic Gov. Bill Ritter says their stepped-up business tax credits and incentive funds have a very specific goal: "When the resurgence comes, we want to be poised to capture that. It's going to give us a competitive edge."

CBIA has already heard from our members about the proposals before you. They have said that, if adopted, the measures would make it significantly harder to do business here during these difficult economic times and could force companies to question Connecticut as a viable place in which to operate.

Please do not adopt job-stopper measures. We urge you to reject SB-807, SB-808, SB-815, HB-6348, HB-6349 and HB-6350.

Thank you for the opportunity to submit this testimony.