



Joan McDonald
Commissioner



DECD

State of Connecticut
Department of Economic and
Community Development

***TESTIMONY BEFORE THE FINANCE REVENUE AND BONDING
COMMITTEE***

February 9, 2009

*Joan McDonald, Commissioner
Department of Economic and Community Development*

*SB 807 AN ACT CONCERNING COMBINED REPORTING FOR PURPOSES OF THE
CORPORATION BUSINESS TAX.*

SB 815 (RAISED) AN ACT CONCERNING A MORATORIUM ON BUSINESS TAX CREDITS

HB 6348 (RAISED) AN ACT CONCERNING CORPORATION BUSINESS TAX CREDITS.

Good Morning Senator Daily, Representative Staples, and members of the Finance Committee. My name is Joan McDonald and I am the Commissioner of the Department of Economic and Community Development (DECD) and Chair of Connecticut Innovations (CII). I appreciate the opportunity to appear before you this morning to discuss the impact several proposals before you may have on the business community.

As you are aware, recent reports have indicated that a record 13,456 Connecticut businesses closed last year. It is apparent the nation's worsening economy is significantly impacting the state. This is one of the many reasons why we should not add additional burdens to Connecticut businesses. Connecticut cannot be put at a competitive disadvantage at this time. Recognizing this, many other states are considering new and expanding existing tax credit programs.

As reported in the Wall Street Journal, several states right now are contemplating job credits, tax credits, multimillion-dollar loan funds and eliminating corporate income taxes.

With that said, the department has heard first hand from many in the business community that they are concerned that these bills before you will make Connecticut a less attractive environment in which to do business. Connecticut already ranks among the top states for the cost of health care, utility rates, and taxes. Companies may be unable to conduct business in the state, especially when their business, industry, and the economy as a whole are clouded by uncertainty. Tax credits help make it possible for companies to make needed investments in the state that otherwise might not happen in this economic climate.

Businesses need consistency in order to plan, particularly now. Companies are facing tenuous circumstances, and those that had accounted for the benefits of tax credits in their business plans will be negatively impacted if these tax benefits are taken away. Even proposing legislation such as these bills directly impacts job creation decisions that companies will ultimately make if they believe the state will not continue these credits.

I can attest that DECD when using these tools does perform extensive due diligence before entering into any deal to make sure there is a return on investment for taxpayer dollars. There are also many safeguards presently in place that ensure we can recover funds through "clawbacks".

The department offers the following specific comments in **opposition** to the following proposals:

- **SB 807 AN ACT CONCERNING COMBINED REPORTING FOR PURPOSES OF THE CORPORATION BUSINESS TAX.**

Unitary reporting for corporations discourages investment and has many uncertain impacts on state revenues and employers' taxes as well as job growth and retention. Additionally it is often complicated and costly to administer for both taxpayers and the State. Essentially this equates to a state corporate income tax on worldwide income. Unitary combined reporting is a system of taxation that imports both profits and losses of business entities with no connection to Connecticut. Adopting unitary combined reporting would cause some Connecticut companies to pay more tax, while others would pay less and it should not be considered a "loophole" closer.

As you may be aware Connecticut hosts many corporate Headquarters. Such a requirement would very likely deter other companies from considering Connecticut as a possible location for their Headquarters.

- **SB 815 (RAISED) AN ACT CONCERNING A MORATORIUM ON BUSINESS TAX CREDITS**

This bill will discourage businesses to come to and consider any expansion in Connecticut. Many companies do base their decisions on hosting certain operations such as research and development in Connecticut because they can justify the high costs by offsetting them with tax credits.

- **HB 6348 (RAISED) AN ACT CONCERNING CORPORATION BUSINESS TAX CREDITS.**

This proposal places a hundred million dollar cap on certain economic tax credit programs. We would caution that such caps could jeopardize existing or future business decisions.

In closing I would just like you to keep in mind that that many of the state's business tax credit programs are necessary tools that we must use as other states continue to be competitive in their efforts to attract businesses away with their own financial incentives.

I would respectfully urge the committee not take favorable action on these proposals in order to keep the state competitive during these uncertain economic times and send a positive message that Connecticut is committed to business.

Thank you for your time and consideration.