

Legal Assistance Resource Center of Connecticut, Inc.

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Testimony before the Finance, Revenue and Bonding Committee

on **RB 6498**, AAC the Sales and Use Tax Rate and
SB 934, AAC a Corporation Tax Surcharge (on attached sheet)

by Jane McNichol, Executive Director
February 23, 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 comment on RB 6498, which would raise the sales and use tax rate from 6% to 7%. This proposal is an important element of the alternative budget plan put forward by the Better Choices for Connecticut Coalition, of which LARCC is a member. **But we cannot support a proposal to raise the sales tax rate unless it is a part of a revenue package which addresses the unfairness of the current system, raises enough revenue to forestall devastating cuts in needed services, and includes tax credits to offset the regressivity of the sales tax.**

The Connecticut state and local tax system is regressive. Residents with incomes below \$25,000 pay 10.9% of their income in state and local taxes while residents with incomes over \$1 million pay 4.7%, when the impact of the deductibility of state taxes from federal tax liability is considered. The biggest contributors to this disparity are the sales and excise taxes.

Before adopting an increase in the sales tax rate, this Committee should consider:

- adopting **progressive income tax rates** so that wealthier residents pay their fair share and
- **expanding the base of the sales tax** by examining existing exemptions and eliminating those which are unnecessary and expanding the services subject to the sales tax.

If an increase in the sales tax rate is adopted, it should be **coupled with the adoption of a state earned income credit**, which would offset the regressive impact on low-income residents.

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

Executive Summary

Better Choices for Connecticut is a broad-based community coalition working to help Connecticut make the budgetary choices that reflect the priorities and values of its citizens. While Governor Rell has promised that her upcoming biennial budget will include deep cuts affecting every agency of the Connecticut government, Better Choices believes that reliance on spending cuts is both unwise and unnecessary. Slashing public programs in the midst of this recession places the Connecticut economy in grave danger. With smarter choices, Connecticut has the capacity to protect our schools, our transit, our infrastructure, our social services, and our public safety agencies.

We propose a multi-part revenue package that would balance the budget without cutting any of our state's vital services.

First, increase income taxes for those who can best afford it – the state's wealthiest residents. Second, fix flaws in corporate tax rules that allow many large corporations to avoid paying taxes. Third, increase the sales tax by a single percentage point and couple this with a State Earned Income Tax Credit to stimulate the labor market and protect low-income workers from the effects of the increase. In conjunction with the sales tax increase, implement a significant small business property tax credit. Fourth, scale back lavish public subsidies to the entertainment industry. Fifth, increase excise taxes on alcohol and cigarettes.

Projected Budget Shortfall for FY 2010	-\$2.6 BN*
(1) Increase income taxes for those who can best afford it	+\$0.8 to 1.2 BN
(2) Reform corporate tax rules so corporations pay their fair share of taxes	+\$130 to 150 MN
(3) Increase the sales tax from 6.0 to 7.0 percent	+\$575 to 625 MN
> Offset this increase and stimulate the labor market with a State Earned Income Tax Credit	-\$50 MN
> Create a Small Business Property Tax Credit	-\$100 MN
(4) Scale back public subsidies to the entertainment industry	+\$90 to 100 MN
(5) Increase cigarette and alcohol taxes	+\$78 to 80 MN
Estimated revenue raised by this plan	+\$1.7 BN
Assumed size of Federal Stimulus package	+\$0.7 BN
Additional deficit reduction from Rainy Day Fund	+\$0.5 BN
Total deficit reduction	+\$2.9 BN

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I am here to propose **an alternative to SB 934**, which would impose a temporary 30% surcharge on corporations subject to the corporation tax. Before adopting this surcharge on businesses which are already paying the corporate tax. Connecticut should **require "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.

This proposal is before the Committee in **SB 807**, which was heard two weeks ago. **I urge adoption of that bill and an examination of its expected impact before making changes in the corporate tax rate.**

