



CONNECTICUT

**TESTIMONY OF
NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)
BY
ANDY MARKOWSKI, CONNECTICUT STATE DIRECTOR
SUPPORTING
HB-5438, AN ACT STUDYING THE EFFECT OF THE REPEAL OF THE
CORPORATION BUSINESS TAX
BEFORE THE
COMMERCE COMMITTEE
MARCH 9, 2010**

A non-profit, non-partisan organization founded in 1943, NFIB is Connecticut's and the nation's leading small-business association. In Connecticut, NFIB represents thousands of members and their employees and membership is scattered across the state and ranges from sophisticated high technology enterprises to single-person "Mom & Pop" shops that operate in traditional ways. NFIB's mission is "*To promote and protect the right of its members to own, operate, and grow their businesses.*" On behalf of those small- and independent- job-providers in Connecticut, I thank the Committee for raising and hearing HB-5438 and I offer the following comments:

NFIB/Connecticut supports this bill as an attempt to assist struggling small businesses and positively impact the economy. According to a recent Organisation for Economic Co-operation and Development (OECD) working paper, of the three taxes (income, corporate, and consumption), corporate taxes are most harmful to economic growth. Entrepreneurs risk their capital in attempts to create jobs and grow businesses. The return on these investments is the economic growth that they create, which is profit. Yet governments often tax these profits twice; once at the corporation level and then again when the profits are distributed to individuals. This double taxation not only dampens the incentive to invest, but also obscures who actually bears the burden of these taxes. Corporations are often personified and demonized, but a corporation is a legal entity, not an actual person. Because a corporation is made up of a group of individuals but is not actually an individual, corporate taxes are really taxes on the stakeholders in the corporation.

At a time when Connecticut's businesses are seeing jobs leave the state and the country, a tax plan that increases the competitiveness of the Connecticut business environment and encourages saving and investment by individuals would allow entrepreneurs and small businesses to implement their ideas for dealing with the challenges of the 21st century. It would also encourage job-creating businesses to locate in Connecticut, which would benefit small businesses and send a positive signal that Connecticut is "open for business".

NFIB/Connecticut members suggest that there are numerous additional and perhaps even more impactful measures that state government can take that will help small business, including, but not limited to: 1) Demonstrating fiscal responsibility and reducing state government spending; 2) Refraining from adding any more government mandates on business, small and large alike; 3) Ensuring that workplace freedom continues to thrive; 4) Enacting responsible reforms to the state's unemployment insurance compensation system to prevent or mitigate tax increases as result of the fund's insolvency; 5) Reducing the regulatory burden on small businesses in the state; 6) Focusing on positive healthcare reform measures that reduce costs and increase choice and competition; 7) Enacting *meaningful* tax relief for small businesses. Studying the effects of repeal of the corporation business tax is a step in the right direction towards possibly providing meaningful tax relief for all businesses, large and small alike.

In addition to studying the impact of the corporation business tax, however, NFIB/Connecticut suggest that HB-5438 be amended to also include in the study the effect of repeal of the business entity tax.

When the business entity tax was adopted in 2002, it was widely promoted as a short-term fix to a looming state budget deficit. Eight years later, despite enjoying record state budget surpluses, a robust budget reserve fund, and seemingly broad bi-partisan support for full repeal in the interim, this nuisance tax still exists. Small businesses, like many others, are facing difficult economic times and need a boost. Small businesses contribute an estimated 80% of new jobs to the state's economy, but unfortunately, this tax sends our small businesses the wrong message.

While \$250 may not sound like a lot, this is a tax that disproportionately impacts small businesses. For a small business, that \$250 could pay for an electric bill for a month, advertising or marketing costs or the cost to attend a trade show. To many small business owners, this tax represents one more form, one more tax and one more headache to owning and growing a small business in this state. Limited Liability Companies and other small business entities already pay a significant amount of taxes because they are subject to state and federal income taxes on any net income generated by the company as well as sales taxes, property taxes, licensing fees and registrations. For many small businesses, especially in these difficult economic times, the business entity tax is the straw that breaks the camel's back.

Permanently repealing, not merely temporarily suspending for only some entities, as has already been considered in some legislative proposals, this nuisance tax on small businesses would be a step in the right direction towards improving small business confidence in state government and it would spotlight the state's commitment to small business growth. Completely eliminating the business entity tax is an important first step to improving the business climate for Connecticut's small businesses.

Thank you for consideration of our comments, and NFIB/Connecticut urges passage of the bill with our suggested amendment.