TESTIMONY OF
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PRESIDENT AND CHIEF EXECUTIVE OFFICER
CTONNECITUCT BUSINESS AND INDUSTRY ASSOCIAYION
BEFORE THE
FINANCE, REVENUE AND BONDING COMMITTEE
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Good Morning, my name is John Rathgeber. I am President and Chief Executive Officer of the Conneciutcut Business aand Industry Assication (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, have fewer than 50 employees.

Solving our state's fiscal crisis is essential to our economic recovery and to restoring business confidence in Connecticut. But since we cannot truly solve our fiscal problems without growing our economy, the budget must be balance in a way that makes our state more attractive to private-sector investments and job creation. This means adopting innovative approaches and practical solutions to controlling state spending so we can limit tax increases that could slow our economic recovery. Therefore, the answer is to move forward with spending reductions, achieve real and sustainable employee concessions, and make tax increases a last resort.

CBIA has been working with your colleagues on the Appropriations Committee to identify additional steps the state can make to improve efficiency an effectiveness, thereby reducing the cost and size of state government. Focusing on the spending side of the budget is essential so the Finance Committee can reduce the size and scope of the proposed tax increase. Receipts from the personal income tax are up substantially over last year, even though our economy has not fully recovered (our fiscal condition isn't because Department of Social Services' expenditures are projected to be $200 million over budget). As our economy recovers, tax receipts will continue to rise and demands on state agencies should begin to diminish as more people get back to work. Large scale tax increases, however, will work to delay that recovery and prolong the drain on state services. That is why it is critical that the legislature continue to find ways to limit tax increases that will slow our economic recovery.

Certain tax hikes contained in **SB-1007**, AAC The Governor's Recommendations On Revenue, would directly affect the competitiveness of Connecticut businesses. Chief among them are:

- A throwback rule that will mainly affect in-state manufacturers
- An increase in the personal income tax
- A new tax on electricity generation
- An increase in the sales tax rate and an expansion of taxable goods and services
- An increase in the insurance premium tax

Although the administration's budget states that individuals will shoulder 81% of the $1.5 billion in tax increases and businesses only 19%, that calculation doesn't take into account the significant impact of the personal income tax and sales tax on businesses.

The personal income tax increase is particularly troubling to many small businesses, because under Connecticut's tax laws, small businesses that are formed as S corporations, limited liability companies, or other similar structures pay tax on their business income under the personal income tax, not the corporate income tax. So the proposed increase is a *de facto* tax hike on thousands of small businesses.

Of special concern to in-state manufacturers is the proposed introduction of a throwback rule. Under such a rule, sales by in-state manufacturers into jurisdictions where they are not taxed, or to the federal government, are added back into the companies' Connecticut tax calculations. It is estimated that the rule will cost these firms that invest in Connecticut approximately $20 million a year.

As for the other taxes mentioned, it's important to remember that:

- Nearly 45% of the sales tax is paid by businesses,
- Connecticut's energy rates are among the highest in the U.S., and the generation tax will increase those costs more, and
- The premium tax will result in Connecticut's domestic insurers being hit with a retaliatory tax by other states.

Deeper Cuts Necessary—and Attainable

Additional budget cuts are not only necessary, but also attainable. Detailed reports by the Connecticut Regional Institute for the 21st Century show that Connecticut can realize significant savings through reforms to state employee retirement benefits, the corrections system, and long-term healthcare practices. Furthermore, the Commission on Agency Outcomes has given the legislature a full plate of other budget-reducing ideas, and more cost savings measures already adopted in other states can be implemented in Connecticut.

Making Connecticut state government more efficient and affordable is not just a budget imperative but it is essential to building a healthy, sustainable economy, business confidence, and an improved quality of life.

CBIA is encouraged by the governor's declaration that Connecticut is now "open for business," and his commitment to working with the business community. As stated above, however, a tax increase of this magnitude - $1.5 billion - could present a significant roadblock to business investment and job creation.

With Connecticut employers facing more than a $70 million hike in unemployment compensation taxes in calendar year 2011 alone, additional tax increases on our economic engines must be looked at as a last resort and kept as minimal as possible. The governor understands that we can't solve our state's fiscal crisis without growing our economy and putting people back to work. This must be everyone's top priority, starting with the budget and tax package.

Thank you for this opportunity to share our thoughts with you.