SUBMITTED TESTIMONY OF
KEVIN MALONEY
4016 MOUNTAIN RD, WEST SUFFIELD CT
Re: SB-1007

My name is Kevin Maloney. I own a small transportation company located in Windsor Locks and I am a member of the leadership council of the National Federation of Independent Business here in Connecticut.

We're starting to hear a lot of dialogue, in particular from the public service unions, about the "rich" not paying their fair share and the path out of the our deficit problem lying down the road to higher taxes. For decades, the leadership in this state has layered tax upon tax and regulation upon regulation on the business community, and the small business person has suffered more than anyone from these efforts. In fact, on a national average, small businesses with fewer than twenty employees incur regulatory costs 42% greater than firms with 20 to 499 employees and 36% greater than companies with more than 500 employees. The national regulatory cost per employee for a small business is $10,585, as compared to $7,454 for a medium sized business and $7755 for a large firm. Small business compliance costs are 110% higher than medium sized businesses and 125% higher than large businesses. In areas like health care, utility costs, construction and the like, small businesses pay between 45% and 70% more than medium sized businesses and between 28% and 83% more than large businesses. We account for four out of every five new jobs created across this country, yet we bear a disproportionate share of the cost of tax compliance, environmental regulation, occupational safety and homeland security. The running joke in the Connecticut business community is that the only time we're safe is when the Legislature is in recess; but it's no joke. We're overregulated and taxed to death. And has this policy of tax and regulation yielded the economic growth our state so desperately needs to pull us out of the financial morass we find ourselves in? Absolutely not! It's had exactly the opposite effect.

In point of fact, we have had <u>no</u> job growth here in Connecticut since the inception of the income tax in 1991. Worse, Connecticut's gross state product relative to the gross product of the nation as a whole has fallen 12% since then, a deterioration mirrored by every state, without a single exception, that has instituted a personal income tax within the last fifty years. We've always been blessed here with a higher personal income per capita than most of the country, yet even that has fallen by 8% since 1991. As of November of 2009, Connecticut had lost 85,000 jobs in the previous eighteen months alone, with estimates of a potential loss of another 20,000 jobs by the end of 2010; and that only covers the private sector. Who knows how large a reduction in the number of public service employees this fiscal crisis will drive? And as if all this isn't bad enough, the jobs that we're losing are of the high-wage type and are being replaced by low-wage type jobs. This wage shift wields a double edged sword of lower tax revenue and a higher demand on public services and assistance. Let's look at some statistics that might give us a clue as to what is causing these problems:

1. We have one of the highest, if not <u>the</u> highest cost of energy of any state in the nation.
2. We have the second highest property taxes in the nation, second only to New Jersey.
3. We have the third highest state and local income tax collections per capita in the nation,

eclipsed only by New York and Maryland.

4. We have the 4th highest gas taxes in the nation. Only New York's, California's and Hawaii's are higher.
5. We have the sixth highest sales tax in the nation.

Do you sense a pattern here? Between 1977 and 2008, our state and local taxes grew 17% as a percentage of our per capita income. On average, in each of the past twenty-two years, our legislators increased the state's expenditures 1.66% more than the average growth of personal income. In fact, while the population of the state grew about 10% since 1972 and the median income growth was about 40%, the growth in state expenditures in this same period was 225%. What does all this add up to? Connecticut ranks 47th on the list of business friendly states! Only three states are ranked lower, California, New York and New Jersey. I might add that the states enjoying the quickest recovery from the current recession are found at the top of this list. By the way, remember the names of the states specifically mentioned above; we'll visit them again.

We've all heard the cry consistently raised in our legislature about the need for a "millionaires" tax supported by the argument that (1.) they can afford it and (2.) they'll just grin and bear it. Statistical information exists establishing unequivocally that they will not just "grin and bear it". Let's look at some of the states that have already gone down the road many would have us travel.

When Maryland raised its top individual income tax rate by 25%, the number of tax returns filed by millionaires fell by 30%. In 2008, instead of the additional $106 million the state anticipated adding to its coffers, its collections actually fell by $257 million. Between 2000 and 2008, one and a half million more people left New York State than settled there, and the annual income of those arriving was 13% lower than those leaving. A study on this exodus found a correlation between tax increases and population losses.

Probably the state whose tax policies and their consequences have been the most recently studied is New Jersey. In January of 2010, Boston College released a report entitled, "Migration of Wealth in New Jersey and the impact on Wealth and Philanthropy". It's a telling story of what happens when a state embarks on a "soak the rich" program. New Jersey, like Maryland, raised their maximum personal income tax by about 25% and ratcheted up a whole host of other business and personal taxes as well; and they already had the highest property taxes in the nation. What happened? Between 2004 and 2008, $70 BILLION of wealth fled the state. When B.C. looked at exactly who left, it discovered that it was people who did indeed possess a million dollars or more in assets. They owned 93% of the equity in closely held and unincorporated businesses and they tended to be, according to the study, "entrepreneurial in nature and agents of economic expansion. They contributed heavily to economic development as a source of funds, as a potential investor and as an agent for creating new businesses and expanding existing ones." 90% of them had made their fortune in their own lifetime, rather than through inheritance. They were also the persons who were actively involved in civic and philanthropic organizations. The study found that they tended to be 60 years or older, an age group that while representing only 4% of the population, accounts for 25% of all charitable giving. The study found that in addition to the $70 billion of wealth that exited the state, $2 billion of charitable giving was lost as well. Before he was voted out of office, Governor Corzine was forced to admit that New Jersey had experienced a 25% drop in revenue from the very taxpayers they were targeting.

When I read the Boston College report, I had one of those "Eureka!" moments. I thought to myself, "Geez, I actually know one of these folks." My friend Tom has a very successful business in New Jersey and he initially contemplated leaving not to avoid taxes, but because his wife fell in love with Florida. She announced that she no longer liked living in New Jersey and wanted to raise their family there. Tom agreed to sit down with their accountant and discuss the possibility mostly to placate her, as he was convinced that the costs of transportation and temporary housing he would incur shuttling back and forth between New Jersey and Florida would ultimately be prohibitive. He was stunned to discover that the tax savings he would realize as a resident of Florida would far exceed any expenses he had anticipated and upon leaving his accountant's offices, he called his wife to announce that they were moving. He now runs his business on a lap top from his den a thousand miles away. Oh, and by the way, what direction did the majority of those folks who left New Jersey head in? Like Tom, they went south.

But that's not the end of the story. Tom always dreamed of owning his own restaurant, and don't you know he found one that he fell in love with. So he bought it, paid contractors to do renovations, hired cooks, wait staff and engaged the various vendors he needed to run the business. Where did he make his investment and create those jobs? Not in New Jersey, but in Florida. You see, entrepreneurs don't stop being entrepreneurs simply because they relocate; and the real ambitious ones, like capital, will eventually migrate to where they can realize the best return on their investment. So when we hear the "tax the rich" mantra, we should all be asking ourselves, "How many Toms are there in Connecticut?" Perhaps a more pertinent question is, "How many Toms have already left?"

We NEED the successful here in Connecticut. Successful entrepreneurs are the engines of our economy; THEY create the majority of the new jobs and THEY provide the bulk of the capital for economic expansion. Are a number of them likely to end up wealthy as a result of their efforts? Most certainly! But to most entrepreneurs, wealth is more often than not a consequence of their success rather than the goal itself, <u>and no business failure ever created a job that sustained itself.</u> So when we propose to increase the tax burden on the "rich", aren't we really saying that we're out to penalize the successful?

Connecticut should be an incubator for entrepreneurs and not an exterminator of them. We know from the experiences sited above that if they are taxed beyond what they deem to be fair and reasonable, they'll simply leave. To continue to drive them out of our state with regressive tax policies and burdensome regulations will undoubtedly result in a further loss of jobs in our marketplace, contributions to our charitable sector and tithes in our churches, losses we can ill afford to incur.