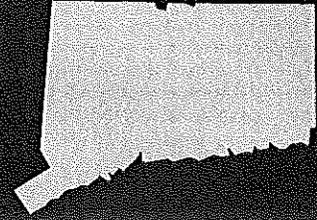


FISCAL POLICY CENTER

At Connecticut Voices for Children



Testimony Regarding S.B. 1131 and S.B. 1132

Acts Concerning Changes to the Historic Home Tax Credit and the Expansion of Business Tax Credits

Commerce Committee

Wade Gibson, J.D.

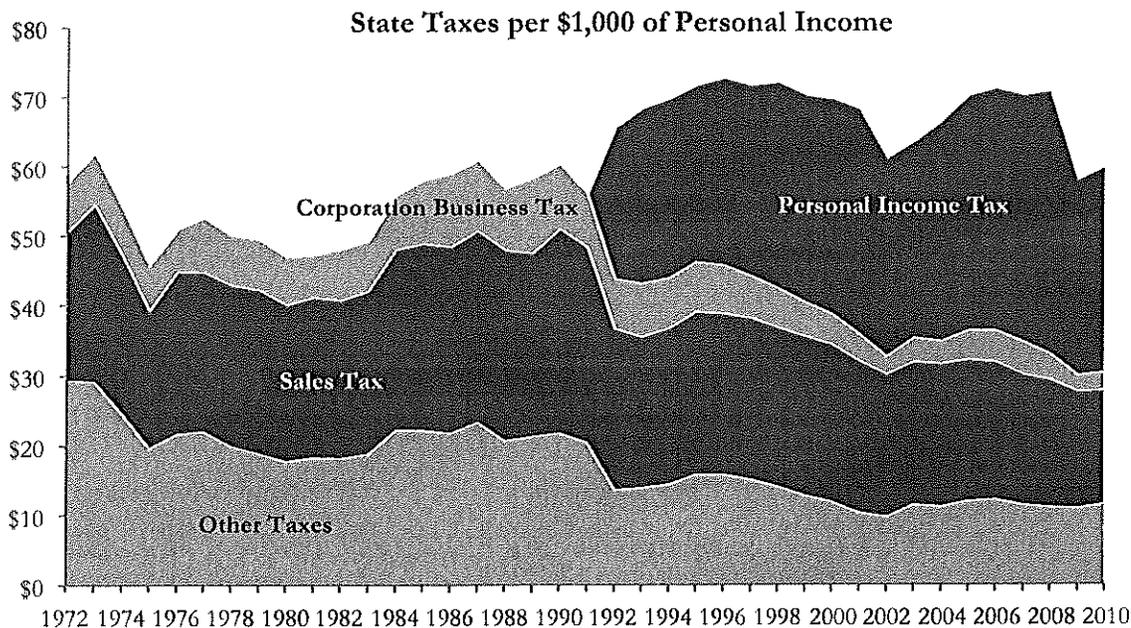
Senior Policy Fellow

March 19, 2013

Senator LeBeau, Representative Perone, Senator Frantz, Representative Lavielle, and members of the Committee:

My name is Wade Gibson. I am in charge of the Fiscal Policy Center at CT Voices for Children. Our mission is to promote the best interests of Connecticut's young people in the state and federal budgets. I am testifying against provisions of Senate Bills 1131 and 1132 that expand business tax credits against the personal income tax.

The personal income tax is the only major source of state tax revenue that is not eroding. As is the case across New England, Connecticut's sales and corporate income taxes have been eroding for decades. The shift from a goods-based (and sales taxed) economy to an increasingly service-based (and sales untaxed) one has diminished the sales tax, which fell nearly 50% as a share of personal income over the past 20 years. During that same period, the corporation business tax fell nearly 75% as more companies organized as "pass through" entities like S-Corporations whose earnings are only taxed as the personal income of their owners. The income tax stands as the only remaining strong leg of the stool, and now makes up half of state tax revenues (see below).



Sources: OFA for FY 72-08, OPM for FY 09-10.

Senate Bills 1131 and 1132 threaten to erode the state's strongest revenue source. The bills would expand the Historic Home Tax Credit to the owners of pass-through entities and allow venture capital companies to receive the Angel Investor Tax Credit, one of only three business tax credits currently permitted against the personal income tax. Expanding these credits risks diminishing the income tax at a time when revenues are at a premium.

Further, expanding business tax credits against the personal income tax fails to address the core problem: Connecticut's system of business taxation is broken. The state often overtaxes small companies and new investments that create jobs but undertaxes big businesses that shed them. Moreover, we tax companies primarily based on how they are legally organized on paper, rather than on their revenues, profits, and losses in the real world.

Rather than extending more business tax credits against the personal income tax, we should make our entire business tax code fair and efficient. A reformed tax code would encourage business growth and could be amended to encourage the very same activities contemplated here without overly relying on companies' legal form or eroding the state's tax revenue system.

Thank you for the opportunity to testify today.