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**Testimony before the Finance, Revenue and Bonding Committee on
Governor's Bill 843
An Act Concerning Revenue Items to Implement the Governor's Budget**

by Jane McNichol, Executive Director
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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 also a member of **Better Choices for Connecticut**.

I am here to address Bill 843, which implements the Governor's revenue proposals for the 2014 and 2015 fiscal years.

We oppose Sec. 11, which would reduce the state's Earned Income Tax Credit to 25% in 2013 and 27.5% in 2014. This would effectively increase the taxes of the 180,000 low-wage families who benefitted from the Earned Income Tax Credit in 2012.

Beyond that specific concern with a provision that is in Bill 843, **we are generally concerned about what is missing from the Governor's revenue proposals.** Unlike the last biennial budget, this budget does not address the projected budget deficits with a balance of revenue increases and spending reductions. There is very little new revenue proposed in the budget but there are cuts that impose severe burdens on low-income families.

Most notably, the proposed budget:

- **cuts the Earned Income Tax Credit**, as mentioned above and
- **eliminates Medicaid coverage for 40,000 parents of children in the HUSKY program** with incomes between 133% and 185% of the federal poverty level. For a family of three, this means families with incomes between $26,000 and $36,000.

  If these parents purchase health care through the newly established health care exchange, the alternative proposed by the Governor, **that health care will cost them between $780 and $2,000 in premium costs alone. There will be additional costs in the form of co-pays and deductibles to access health care.** This cost-sharing could be as much as $4,500 for a two-parent family with significant health care needs. Many parents will probably choose to become uninsured, or will forego needed health care, rather than pay these costs.

The budget proposes these major cost increases on low-income families but asks nothing additional from taxpayers with enormous wealth or from many corporations. **Better Choices for**

Connecticut has developed a set of revenue alternatives. If adopted, these would eliminate the need to place significant new burdens on low-income families.

A list of these options is attached to my testimony. Specifically, I would urge the adoption of:

- **increased tax rates on wealthy individuals** before we increase taxes and health care costs on low-wage working families and

- **adoption of mandatory combined reporting for corporations** to raise additional revenue and make our corporate income tax more fair to Connecticut corporations. The revenue projected from this change would more than cover the projected savings from the changes in the Earned Income Tax Credit and Medicaid coverage for parents.

Thank you for your consideration of these alternatives and for your work in this difficult budget year.

Better Choices For CT

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Revenues Are Essential to a Balanced Approach

The effects of the Great Recession still linger in Connecticut: too many people are out of work and too many families can't afford the essentials. State taxes produced when our families earn income and purchase goods remain depressed, at the same time that more people depend on the state for healthcare and other basic needs. The result is state budget deficits.

The cost of fixing these deficits cannot simply be budgeted away. Cutting the state's budget just shifts the costs to someone else, namely towns and families. The question is who pays. We can shield the wealthiest people and corporations from any changes, but then lower, middle, and even upper-middle class residents will bear the burden of drastic cuts. They will lose health coverage, see their college tuitions rise, and face sticker shock when the next property tax bill comes due. **But that's not our Connecticut.**

Alternatively, we can ask everyone to contribute a little and use both cuts and revenues to close our state's deficits. We have already relied more heavily on cuts during this recession than during any over the past 25 years. A balanced approach is a better choice for Connecticut. What follows are some smart revenue options that would significantly reduce our deficits.

1) **Raise income taxes for millionaires: $400 million.** Ask people making over $1 million per year to chip in a bit more while ensuring our rates remain below New York's. New rates:
   - 6.8% on income from $1 to 2 million (NY's is 6.85%)
   - 8.8% on income over $2 million (NY's is 8.82%)

2) **Eliminate tax cuts for wealthy heirs and heiresses: $25 million.** Connecticut can no longer afford the estate tax cut enacted in 2009.

3) **Close corporate tax loopholes with mandatory combined reporting: $90 million.** Our tax system allows multistate corporations to shift profits artificially to subsidiaries in states with lower taxes. Requiring combined reporting of corporate incomes—which 22 states already do—would reveal these tax avoidance schemes and close these loopholes.

4) **Use the throwback rule so corporate income doesn't escape taxation: $20 million.** Since the 50 states' tax systems do not always sync perfectly, income from some multistate corporations falls through the cracks and is not taxed anywhere. The throwback rule makes sure this "nowhere income" is taxed appropriately.

5) **Reduce corporate tax expenditures: $75 million.** Tax breaks for Connecticut's largest corporations have grown enormously over the past 20 years, but job growth has been virtually nonexistent. We should set annual caps on business tax credits, like the roughly $100-million-per-year film tax credits, and examine them regularly to make sure they are delivering real benefits.

6) **Improve enforcement at the Department of Revenue Services: $75 million.** Every year, millions of dollars in taxes go uncollected because we do not have enough staff at DRS to catch tax cheats and avoiders. In lean times like these, at the very least we should ensure existing tax law is enforced.

7) **Raise the cigarette tax 95 cents to match New York's: $75 million.** Smoking accounts for over 440,000 deaths each year in the United States, nearly one in five deaths. Raising cigarette taxes is a proven strategy to reduce smoking, save lives, and help cover the cost of treating smoking-related illness.