United Technologies Corporation
United Technologies Building
Hartford, CT 06101
(860) 728-7000

United Technologies

Testimony of Peter M. Holland
Vice President – State Government Affairs
United Technologies Corporation

Submitted to the Finance, Revenue & Bonding Committee
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In opposition to Raised Bills No. 6566 and 1055

Representative Widlitz, Senator Fonfara, Representative Williams, Senator Frantz, and members of the Finance Revenue and Bonding Committee. My name is Peter Holland and I am the Vice President of State Government Affairs for United Technologies Corporation.

United Technologies Corporation is a leader in the aerospace and commercial building industries, employing nearly 27,000 people in Connecticut. Nearly all of our major businesses are headquartered here, with significant administrative, manufacturing, and engineering operations across the state. We employ over 8,000 engineers in Connecticut, which is UTC's main hub for global engineering research and development. In addition to our engineering centers at Pratt & Whitney, Sikorsky, UTC Aerospace Systems, Otis, and Climate Controls and Security, Connecticut is also home to the UTC Research Center.

I would like to thank the Co-Chairs and members of the Finance Committee in allowing me to submit this testimony in ***opposition to*** **two bills:**

- **Bill No. 6566 – An Act Concerning Transparency In Economic Assistance Programs, and**
- **Bill No. 1055 – An Act Concerning Various Tax Credits And An Exemption To, And A Study Of, The Income Tax**

<u>Bill No. 6566 – An Act Concerning Transparency In Economic Assistance Programs</u>

I urge you to oppose this measure with respect to its treatment of statutory tax credits claimed by businesses. It does not provide any additional tax policy analysis benefit and also places Connecticut employers at a distinct competitive disadvantage.

Does Not Provide Any Additional Benefit For Tax Policy Analysis

Policy makers such as yourselves should be able to obtain information needed to evaluate the effectiveness of our tax system. However, all such data is currently available to the Department of Revenue Services and other agencies, and can be used by the Office of Fiscal Analysis (OFA) and others for analyzing the utilization and cost of any tax expenditure. OFA's Tax Expenditure Report and the Department of Economic and Community Development (DECD) analyses are done through such sources today.

The current information received by these agencies is very detailed, including number of filings, income levels, credits taken, and tax liability by industry. For example, this data is sufficiently detailed to permit DECD to recently complete a detailed analysis of tax credits, including the tax revenue and job impacts for all credits.

There is no additional policy analysis benefit of publicly releasing this data on a taxpayer-specific basis.

Disclosure Will Make Connecticut Less Competitive

The proposed bill will publicly disclose information that is directly related to levels of investment, employment, and research & development, including trends for these items over time. It would be remarkably easy to use the disclosed data to learn issues critical to Connecticut employers' ability to compete in the global marketplace.

For example, reviewing a company's R&D tax credits and other information being disclosed by this bill can easily be used to directly track a single company's amount of company and government funded R&D in a single year and over time. This can provide information to competitors as to program life cycles and levels of company investment. This information can then be used against in-state employers when it is time for competitive bids on future work, in particular by non-CT competitors that are not subject to these same disclosure requirements.

This will put our in-state employers lke UTC at a distinct competitive disadvantage.

Bill No. 1055 – An Act Concerning Various Tax Credits And An Exemption To, And A Study Of, The Income Tax

I also urge you to oppose Section 6 of SB 1055 because it reduces the carryforward period of the R&D credit to 15 years, eliminating much of the incentive from this credit for research intensive Connecticut companies.

Whether in the biosciences, aerospace or elsewhere, innovation will be the key driver to future job growth in Connecticut. Fortunately, with its skilled and educated work force, Connecticut may be positioned to take advantage of this opportunity. As recently emphasized by Governor Malloy, the state must support policies encouraging private and public investments in STEM activity.

The R&D credits are essentially the only statutory tool in our tax policy encouraging research and innovation within Connecticut.

The current carryforward term for the R&D credit pursuant to Sec. 12-217n is not capped due to the extremely long research-to-production business cycles for key CT industries. It can be decades from the start of experimentation before a company in the pharmaceutical, submarine, or aerospace industries can expect to enter the manufacturing stage for a new product. It would be years from even that point when a company can expect to receive a return on investment that pays back the 10-20 years of research costs, let alone a profit. And this does not even consider the many research projects that never successfully reach the production stage at all.

For example, in 2012 Pratt & Whitney proudly announced that its geared turbo fan technology had entered the final testing phase for many of its commercial applications. However, Pratt had invested greater than $1 Billion over the previous 20 years in research to even reach that testing phase. Only in 2013 and the decades beyond will Pratt enter a production stage to recoup its decades long investment, let alone profitability to sustain continued investments in other programs.

For the R&D credit to provide any real incentive for long-cycle businesses, the carryforward period of the credit has to match the investment-to-return business cycles of Connecticut's key industries. A 15 year carryforward does not match these cycles. Such a limited term effectively robs the R&D tax credit of incentive value to businesses looking to invest within Connecticut for longer terms.

Thank you.