

**TESTIMONY PRESENTED TO THE FINANCE, REVENUE, AND BONDING
COMMITTEE
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Testimony Supporting Senate Bill No. 28

AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET

Senator Fonfara, Representative Widlitz and distinguished members of the Finance, Revenue, and Bonding Committee, thank you for the opportunity to offer testimony on Senate Bill No. 28, An Act Concerning Revenue Items To Implement The Governor's Budget.

This bill contains the major revenue elements of the Governor's plan for tax relief purposes in FY 2014 and the out years. General Fund revenue would decrease by \$155.0 million in FY 2014 and by \$51.3 million in FY 2015.

Impact of Proposals on State General Fund Revenue
(Millions of Dollars)

<u>Section</u>	<u>Tax/Provision</u>	<u>FY 2014</u>	<u>FY 2015</u>
1-2	Tax Refund Program	(155.0)	0.0
3-4	Exempt Municipalities' Employee Health Care Coverage	0.0	(8.7)
5	Exempt Non-Prescription Drugs	0.0	(16.5)
6	Phase-in Exemption of Teachers' Pensions	0.0	(23.1)
7	Extend Angel Investor Tax Credit for Two Years	0.0	(3.0)
	Total	<u>(155.0)</u>	<u>(51.3)</u>

Sections 1 and 2 provide a refund of sales and use tax and motor fuels tax to Connecticut residents as of December 31, 2013 from the projected budget surplus of FY 2014. An estimated \$155 million will be refunded to residents that file state tax returns, or residents that receive social security benefits or the federal earned income tax credit. Individual filers with adjusted gross income (AGI) below \$200,000 will receive \$55 and joint filers with AGI below \$400,000 will receive \$110. Over 2.7 million individuals will benefit from this program. The Governor recommends a carry forward of \$1.721 million in Section 19 of House Bill No. 5030 to implement the system changes and check costs associated with the refund. Any unused resources under this program will be credited to FY 2015.

Sections 3 and 4 exempt municipalities from Insurance Premiums tax on new or renewed contracts after July 1, 2014 for health care coverage for municipal employees, municipal retirees and dependents of such employees or retirees. The anticipated savings to municipalities (and state revenue reduction) in FY 2015 is \$8.7 million.

Section 5 exempts non-prescription drugs and medicines from the sales tax starting in FY 2015, at an anticipated cost of \$16.5 million in FY 2015.

Section 6 exempts a portion of income received under the state's teacher retirement system. In tax year 2014, 25% of a teacher's retirement income is exempt at an estimated FY 2015 cost of \$23.1 million benefiting approximately 26,000 retirees. In tax year 2015, and thereafter, 50% of teacher's retirement income is exempt at an estimated FY 2016 cost of \$23.7 million.

Connecticut reduced tax levels on Social Security income during the 1990's. Teachers are not covered by the Social Security system and as a result did not benefit from those tax changes. Moreover, effective January 1, 2008, income tax on military pension income was reduced to 50%. This proposal brings fairness to teacher's retirement income relative to military retirees and social security recipients.

Section 7 extends the Angel Investor Tax Credit for two additional years through July 1, 2016. Adjustments to the existing tax credit structure include allowing recapture of tax credit for two years from the close of a taxable year in which a credit is claimed if the angel investor sells, transfers or otherwise disposes of ownership interest in the business, or the Connecticut business fails to operate with its principal base in Connecticut with at least 75% of employees domiciled in Connecticut. Additionally, Connecticut Innovations, Inc. will, by July 1, 2014 and annually thereafter, produce a report on the cumulative effectiveness of the Angel Investor Tax Credit including, but need not limited to, the number and type of Connecticut businesses that received angel investments, the number of angel investors and the aggregate amount of cash investments, the current status of each Connecticut business that received angel investments, the number of employees employed in each year following the year in which such Connecticut business received the angel investment, and the economic impact in the state of the Connecticut business that received the angel investment.

I would like to again thank the committee for the opportunity to present this testimony. I respectfully request that the committee support this bill and I will be happy to answer any questions you may have.