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Finance Committee
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Senator Fonfara, Representative Berger, and members of the Finance Committee,

My name is Art Perlo. In the past, I have helped research and develop legislative proposals for the Coalition to End Child Poverty in Connecticut, and I currently represent the New Haven Peoples Center in the *Better Choices for Connecticut* coalition.

This committee faces two related challenges.

1) Connecticut's tax system is regressive, with the burden of state and local taxes falling most heavily on those with the lowest income, and the wealthiest residents with an effective tax burden one-third to one-half that borne by almost everyone else. See recent studies by the Connecticut Department of Revenue Services (DRS), and by the Institute for Taxation and Economic Policy (ITEP). [1]

2) Connecticut needs additional revenue in the neighborhood of $1.3 billion in the coming year, just to maintain services at current levels and meet pension and health fund obligations without fiscal gimmicks.

Many states face similar problems. The problems are aggravated because the federal government has failed to enact an effective program that would provide jobs meeting the infrastructure and social needs of our communities. The results are fewer jobs and lower pay, and placing too much of the burden on state and local governments, for spending for infrastructure, education and other necessary programs.

Nonetheless, Connecticut can do a lot. The overall goals should be:

1) Generate the revenue necessary to meet state needs without cutting services

2) Make the overall tax system more progressive, reducing the tax burden on most working families, while increasing taxes on those who now pay at the lowest rate.

3) Make the tax burden and the funding for services more equitable amongst our 169 cities and towns.

Based on the DRS and ITEP studies, households with incomes over $300,000 – roughly the top 3%-4% – could pay an extra $2 billion per year in taxes. They would still have a lower tax burden than 90% of the population. This could be achieved by a combination of measures including:

- HB 6791, Corporate Accountability for Large Employers that pay poverty wages
- Extend the sales tax to services (e.g., legal) used by large businesses
- Close other corporate loopholes and end corporate tax expenditures
- Impose an income tax surcharge on the portion of incomes over $350,000 per year. One possible example, which would raise an estimated $1.5 billion per year, would be [2]:

Portion of income between	Surtax
$350,000 - $500,000	1.00%
$500,000 - $1 million	1.50%
$1 million - $2 million	2.00%
$2 million and above	3.00%

- Reduce the tax burden on low- and moderate-income residents by maintaining the scheduled EITC increase, raising the property tax credit, and adding a renter's credit to the income tax.
- Fully fund ECS and PILOT, and adopt statewide equalization of automobile tax rates.

Finally, in a system that relies so heavily on income tax revenue, a portion of the added revenue should be set aside in a stabilization fund, to insure a steady revenue stream as incomes in the highest brackets fluctuate.

These proposals would provide the revenue to meet the growing needs of our state, averting cuts to basic human needs, and avoiding further burdens on state workers. It would shift the tax burden to those most able to pay, and ease the critical tax and fiscal burden on many of our cities and towns.

Notes

[1] The DRS study (http://www.ct.gov/drs/lib/drs/DRSTaxIncidenceReport2014.pdf), released this January and based on 2011 data, shows that taxes consume 6.5% of the income of the super-rich. But the bottom half of Connecticut households pay almost 3 times as much – 23.6% of their income. The ITEP study (http://whopays.org) shows an effective state & local tax burden of 5.3% for top incomes, and 7.6% for the merely rich (incomes of $300,000 to $1.3 million). For everyone else, the tax burden is between 9% and 10.5%. The studies are not directly comparable, and show different results especially for the lower half of the income distribution. But they are consistent in showing the relatively low tax burden on the highest income. The ITEP study takes into account that high incomes can deduct up to 40% of their state income tax from their federal return. That means that if the state income tax on the wealthiest residents is increased by 2% of income, the state gets all of the increase, but the burden on the wealthy taxpayer is only about 1,2%.

[2] Estimate based on figures from the DRS on 2012 tax returns. Calculations were applied to all CT-1040 returns. Adjustments were then made to account for the breakdown between types of return (single, married, etc.), the additional NR-PY returns, and increased income since 2012.