

**TESTIMONY PRESENTED TO THE FINANCE, REVENUE, AND BONDING  
COMMITTEE  
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*Benjamin Barnes  
Secretary  
Office of Policy and Management*

Testimony Supporting Senate Bill No. 946

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

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Senator Fonfara, Representative Berger and distinguished members of the Finance, Revenue, and Bonding Committee, thank you for the opportunity to offer testimony on Senate Bill No. 946, An Act Concerning Revenue Items to Implement the Governor's Budget.

This bill contains the major revenue elements of the Governor's plan for the FY 2016 to 2017 biennial budget. General Fund revenue would increase by \$465.7 million in FY 2016 and by \$269.8 million in FY 2017. Transportation Fund revenue would increase by \$112.0 million in FY 2018, \$255.0 million in FY 2019, and \$400.0 million in FY 2020, with a corresponding decrease in the General Fund.

**Impact of Proposals on State General Fund Revenue  
(In Millions)**

<u>Section</u>	<u>Tax/Provision</u>	<u>FY 2016</u>	<u>FY 2017</u>
1-3	Delay increase in singles exemption for three years	\$12.7	\$8.5
4	Delay increase in Earned Income Tax Credit for 2 years	11.0	11.0
5-6	Maintain 20% corporate surcharge permanently	44.4	75.0
7	Maintain 3-tier credit cap on Insurance Premiums for 2 years	18.7	18.7
8	Extend film moratorium for two years	4.0	4.0
9-16	Reduce the sales tax rate: 6.20% on 11/1/15, 5.95% on 4/1/17	(70.1)	(154.9)
17	Alter sales tax free week - clothing less than \$100	1.0	1.1
18	Cap use of NOLs on corporation tax at 50% of liability	156.3	90.1
19	Cap use of credits on corporation tax: 35% in IY 15, 45% in IY 16, 60% in IY 17 & thereafter	72.5	29.3
20	Cap use of credits on hospital net revenue tax: 35% in FY 16, 45% in FY 17, 60% in FY 18 & thereafter	5.0	3.8
21	Eliminate the business entity tax	0.0	(40.0)

<u>Section</u>	<u>Tax/Provision</u>	<u>FY 2016</u>	<u>FY 2017</u>
22-24	Increase Secretary of the State's annual fees for pass-through entities from \$20 to \$100	10.0	12.8
25	Increase/expand DEEP fee for solid waste transport	5.3	5.3
26	Charge towns 100% for resident state troopers	4.6	4.6
27	Eliminate tobacco health trust fund transfer from tobacco settlement fund	12.0	12.0
27	Eliminate biomedical trust fund transfer from tobacco settlement fund	4.0	4.0
27	Reduce transfer to the early childhood education program	5.0	0.0
28	Transfer General Fund revenue to Special Transportation Fund for Let's Go CT! initiative (Fiscal impact beginning in FY 2018)	0.0	0.0
29	Intercept community investment act revenue	13.5	27.0
30-31	Transfer money from CHEFA grant program financed from excess client servicing fees	3.5	3.5
32	Transfer money from private occupational school student protection account	2.5	0.0
33	Reduce transfer to CT-N	0.7	0.7
34-35	Divert PEGPETIA transfer	4.2	4.3
36	Divert municipal video competition trust account transfer	3.0	3.0
37-40, 44	Transfer palliative use of marijuana to General Fund	0.6	0.6
41	Modify alcoholic beverage retail permits	0.0	0.0
42	Extend the sale hours of alcoholic beverages	0.5	0.5
43	Revise the alcohol minimum bottle price	2.8	2.8
45	Eliminate the clothing sales tax exemption	138.0	142.1
	Total	<u>\$465.7</u>	<u>\$269.8</u>

Sections 1 through 3 delays the increase in singles exemption for three years. When the income tax was enacted the exemption for single filers (\$12,000) was exactly half that of joint filers (\$24,000). The 1999 legislative session enacted an 8 year phase in of an increase in the exemption to \$15,000. Delays in the phase-in were enacted during the 2002, 2003, 2005, and 2009 legislative sessions. As of January 1, 2014, the exemption level for singles was \$14,500. The Governor is proposing to delay the final tax cut until a time when the state's finances fully recover. The Governor's proposal would freeze the exemption level at that amount for income years 2015 through 2017. In income year 2018 the exemption level will rise to \$15,000. This delay would impact approximately 145,000 filers.

Section 4 delays the increase in the EITC. Connecticut's Earned Income Tax Credit mirrors the federal credit. For income year 2014, Connecticut's EITC is worth 27.5% of the federal credit. The EITC is scheduled to increase to 30.0% of the federal credit in income year 2015. This bill will postpone the increase and continue the 27.5% credit level in income years 2015 and 2016. The Connecticut EITC will increase to 30.0% in income year 2017.

Sections 5 and 6 permanently extends the 20% corporate surcharge on the corporation tax. The current corporation tax rate is 7.5%. The surcharge is not imposed on companies with less than \$100 million in gross income. The effective tax rate with the surcharge is 9.0%.

Section 7 extends the three tier credit cap on insurance premiums tax collections through income years 2015 and 2016. The three tier cap was introduced in the 2011 legislative session as an alternative to raising the insurance premiums tax rate. Credits are capped as follows:

<u>Tier</u>	<u>Tax Credits</u>	<u>Cap</u>
Type one	Film Production, Film Infrastructure, and Digital Animation	55%
Type two	Insurance Reinvestment	70%
Type three	All Others	30%

Historically, many of the film production, film infrastructure, and digital animation credits have ultimately been sold to insurance companies by production companies.

Section 8 extends the moratorium on film production tax credits for feature films through fiscal years 2016 and 2017. The moratorium excludes feature length films without significant private investment in the state from eligibility for tax credits. Other qualified productions will remain eligible for the credits. The moratorium has been in place since fiscal year 2014.

Sections 9 through 16 reduces the sales tax rate from 6.35% to 6.20% effective November 1, 2015. The sales tax rate is further reduced to 5.95% effective April 1, 2017. When fully implemented, the sales tax rate will be the lowest it has been since 1971. Twenty four states currently have sales tax rates greater than 5.95% while twenty states are lower.

Section 17 alters the sales tax free week that occurs annually during the third week in August, which currently exempts clothing and footwear less than \$300 from the sales tax, to exempt clothing and footwear less than \$100.

Section 18 caps the amount a corporation may lower their corporation tax liability by claiming net operating losses (NOLs) at 50%. There is currently no cap on the use of net operating losses.

Section 19 caps the amount corporations may lower their corporation tax liability by claiming credits at 35% in income year 2015, 45% in income year 2016, and 60% in income year 2017 and thereafter. The current cap is 70%.

Section 20 caps the amount hospitals may lower their hospital net revenue tax liability by claiming credits at 35% in fiscal year 2016, 45% in fiscal year 2017, and 60% in fiscal year 2018 and thereafter. There is currently no cap on the use of such credits.

Section 21 eliminates the business entity tax, levied against pass-through entities. The current tax is \$250, due biennially.

Sections 22 through 24 increases The Secretary of the State's preexisting annual filing fee for pass-through entities (LPs, LLCs, and LLPs) from \$20 to \$100 per year. This change would partially mitigate the cost of eliminating the business entity tax, which is levied against the same population of taxpayers.

Section 25 modifies the current solid waste assessment fee by increasing the current rate of \$1.50 per ton to \$2.50 per ton for trash disposed of at resource recovery authorities. In addition, this proposal expands the waste streams in which the \$2.50 per ton fee would apply, which includes both municipal solid waste and construction and demolition waste transported out of the state or into Connecticut landfills. Modifications are as follows:

Waste Type	Annual Tonnage	Current Rate/ton	Current Revenue	New Rate/ton	New Revenue	Net Change
Municipal Solid Waste to Resource Recovery Facilities	2,222,846	\$ 1.50	\$ 3,334,269	\$ 2.50	\$ 5,557,115	\$ 2,222,846
Municipal Solid Waste Out of State (NEW)	140,298	\$ -	\$ -	\$ 2.50	\$ 350,745	\$ 350,745
Municipal Solid Waste to CT Landfills (NEW)	2,802	\$ -	\$ -	\$ 2.50	\$ 7,005	\$ 7,005
Construction and Demolition Waste Exported Out of State (NEW)	818,291	\$ -	\$ -	\$ 2.50	\$ 2,045,728	\$ 2,045,728
Construction and Demolition Waste landfilled in CT (NEW)	285,807	\$ -	\$ -	\$ 2.50	\$ 714,518	\$ 714,518
<b>Total</b>						<b>\$5,340,841</b>

Section 26 increases the reimbursement rate from towns to the state for resident state troopers to 100%. DESPP provides state police to serve in Connecticut towns which do not have an organized police force. Currently, towns reimburse the state for such police services at a rate of 70%. These payments include all costs, including fringe benefits. Currently, DESPP provides 107 resident state troopers to 56 municipalities.

Section 27 eliminates the \$12.0 million transfer from the Tobacco Settlement Fund to the Tobacco Health Trust Fund and diverts it to the General Fund for fiscal years 2016 and 2017. For fiscal year 2018 and each fiscal year thereafter the transfer from the Tobacco Settlement Fund to the Tobacco Health Trust Fund will be \$6.0 million. Certain expenses from the Tobacco Health Trust Fund have been transferred to the General Fund. The section also permanently eliminates the \$4.0 million transfer from the Tobacco Settlement Fund to the Biomedical Research Fund and diverts it to the General Fund. Finally, the section reduces the \$10.0 million disbursement from the Tobacco Settlement Fund to the smart start competitive grant account to \$5.0 million and diverts the remaining \$5.0 million to the General Fund in fiscal year 2016 only.

Section 28 increases the General Fund subsidy of the Special Transportation Fund in order to fund the capital expansion associated with the Let's Go CT! Initiative. This section is a placeholder while public discussion occurs about the resources of the Special Transportation Fund. The additional transfer can be seen below:

**General Fund Transfers to the Special Transportation Fund**

	(in millions)				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Current Transfer	\$152.8	\$ 162.8	\$ 162.8	\$ 162.8	\$ 162.8
Let's Go CT! Transfer	-	-	<u>112.0</u>	<u>255.0</u>	<u>400.0</u>
Total General Fund Transfer	\$ 152.8	\$ 162.8	\$ 274.8	\$ 417.8	\$ 562.8

Section 29 intercepts all revenue transfers to the Community Investment Account and transfers it to the General Fund from January 1, 2016 through June 30, 2017. The Community Investment Account receives roughly \$7 million each quarter from municipal land records (a \$40 fee). Ten dollars of each fee goes to the agriculture sustainability account. The remaining funds go to the following: 25.0% to DECD for historic preservation; 25.0% to DOH for affordable housing programs; 25.0% to DEEP for municipal open space; and 25.0% to the Department of Agriculture for various agriculture programs.

Sections 30 and 31 transfers \$3.5 million in revenue from the Connecticut Health and Educational Facilities Authority from excess client servicing fees to the General Fund in fiscal years 2016 and 2017.

Section 32 transfers \$2.5 million from the Private Occupational School Student Protection Account to the General Fund in FY 2016. Private occupational schools operating in Connecticut are required to pay 0.5% of tuition into the account. In the event that students are unable to complete coursework due to closure or insolvency of a school, their tuition is refunded out of the account. However, when the account reaches a certain threshold of funding schools are no longer required to pay into the account. Enough money remains in the account to reimburse students in the event of a closure.

Section 33 permanently reduces to \$2.5 million the transfer from the public service companies tax to the Office of Legislative Management, to defray costs associated with the Connecticut Television Network (CT-N). CT-N annually received \$2.5 million until FY 2015, when the transfer was increased to \$3.2 million.

Sections 34 and 35 diverts \$4.2 million in FY 2016 and \$4.3 million in FY 2017 from the Public, Education and Governmental Programming and Education Technology Investment Account (PEGPETIA) to the resources of the General Fund.

Section 36 diverts \$3.0 million from the Municipal Video Competition Trust account to the resources of the General Fund. By statute, the Comptroller deposits revenue up to \$5.0 million from competitive video service provider payments of the Community Antenna Television Systems and One-Way Satellite Transmission Businesses Tax to the account. The balance of the account from the prior fiscal year is subsequently distributed to the cities and towns for property tax relief. In Fiscal Year 2013, \$3.5 million was transferred from this account to the General Fund. In Fiscal Year 2014 and Fiscal Year 2015, \$5.0 million was transferred from this account to the General Fund.

Sections 37 through 40 and 44 permanently transfers the revenue currently deposited into the Palliative Marijuana Administration Account to the General Fund. All expenses associated with the regulation of Palliative Marijuana have also been transferred to the General Fund.

Section 41 increases the number of alcoholic beverage retail permits allowed per person from three to six.

Section 42 extends the sale hours of alcoholic beverages at package stores, grocery stores, beer manufacturers, non-profit golf tournaments and farmers markets by one hour Monday through Saturday from 9:00PM to 10:00PM and three hours on Sunday from 5:00PM to 8:00PM. This would be effective starting July 1, 2015.

Section 43 modifies the existing minimum bottle price law to reflect the actual cost paid per bottle by the retailer to the wholesaler.

Section 45 eliminates the sales and use tax clothing exemption for each item of clothing or footwear under \$50, which was to become effective on July 1, 2015.

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

Per the Office of Policy and Management

Governor's Revenue Proposals

February 18, 2015

General Fund  
(In Millions)

Tax Type	Bill	Sec.	Legislative Proposals	Eff. Date	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Personal Income Tax	946	1-3	Delay Singles Exemption for Three Years	1/1/2015	\$ 12.7	\$ 8.5	\$ 4.3	\$ -	\$ -
Sales and Use Tax	946	9-16	Reduce rate: 6.20% on 11/1/2015, 5.95% on 4/1/2017	11/1/2015	\$ (70.1)	\$ (154.9)	\$ (299.5)	\$ (310.9)	\$ (322.6)
	946	45	Eliminate Clothing Exemption	7/1/2015	138.0	142.1	146.4	150.8	155.3
	946	17	Alter Sales Tax free week, exempt clothing <\$100	7/1/2015	1.0	1.1	1.2	1.3	1.4
			Impact of Alcoholic Beverages Changes	7/1/2015	1.5	1.5	1.5	1.5	1.5
			Sub-Total - Sales and Use Tax		\$ 70.4	\$ (10.2)	\$ (150.4)	\$ (157.3)	\$ (164.4)
Corporation Tax	946	5-6	Maintain surcharge at 20% permanently	1/1/2016	\$ 44.4	\$ 75.0	\$ 75.0	\$ 75.0	\$ 75.0
	946	18	Cap use of Net Operating Losses at 50% of liability	1/1/2015	156.3	90.1	90.1	90.1	90.1
	946	19	Credit caps- IY 15: 35%, IY 16: 45%, IY 17 and later, 60%	1/1/2015	72.5	29.3	26.2	26.2	26.2
	946	21	Eliminate the Business Entity Tax	1/1/2016	-	(40.0)	-	(40.0)	-
			Sub-Total - Corporation Tax		\$ 273.2	\$ 154.4	\$ 191.3	\$ 151.3	\$ 191.3
Public Utilities Tax	946	33	Reduce transfer to CT-N	7/1/2015	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7
Insurance Companies Tax	946	7	Maintain 3 Tier Credit Cap for Two Years	1/1/2015	\$ 18.7	\$ 18.7	\$ -	\$ -	\$ -
	946	8	Continue Film Moratorium for Two Years	7/1/2015	4.0	4.0	-	-	-
			Sub-Total - Insurance Companies Tax		\$ 22.7	\$ 22.7	\$ -	\$ -	\$ -
Alcoholic Beverages	946	42	Extend sale hours	7/1/2015	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3
	946	43	Revise minimum pricing	7/1/2015	1.5	1.5	1.5	1.5	1.5
			Sub-Total - Alcoholic Beverages		\$ 1.8	\$ 1.8	\$ 1.8	\$ 1.8	\$ 1.8
Health Provider Taxes	No legis.		Update the Hospital Net Revenue Tax	7/1/2015	\$ 165.2	\$ 165.2	\$ 165.2	\$ 165.2	\$ 165.2
	946	20	Credit caps- FY 16: 35%, FY 17: 45%, FY 18 and later, 60%	1/1/2015	5.0	3.8	3.1	3.1	3.1
			Sub-Total - Health Provider Tax		\$ 170.2	\$ 169.0	\$ 168.3	\$ 168.3	\$ 168.3
Refunds of Taxes	946	4	Delay EITC for Two Years @ 27.5%	1/1/2015	\$ 11.0	\$ 11.0	\$ -	\$ -	\$ -
License, Permits, Fees	946	22-24	Increase SOTS fees for pass-through entities by \$80	10/1/2015	10.0	12.8	12.8	12.8	12.8
	946	25	Increase DEEP Fee for Solid Waste Transport by \$1	7/1/2015	5.3	5.3	5.3	5.3	5.3
	946	37-40, 44	Transfer Palliative Use of Marijuana to General Fund	7/1/2015	0.6	0.6	0.6	0.6	0.6
			Sub-Total - License, Permits, Fees		\$ 15.9	\$ 18.7	\$ 18.7	\$ 18.7	\$ 18.7
Miscellaneous Revenue	946	26	Charge towns 100% for Resident State Troopers	7/1/2015	\$ 4.6	\$ 4.6	\$ 4.6	\$ 4.6	\$ 4.6
Federal Grants	6824		Revenue loss resulting from expenditure changes	7/1/2015	\$ (25.7)	\$ (30.6)	\$ (30.6)	\$ (30.6)	\$ (30.6)
Transfers - Tobacco Settlement	946	27	Eliminate Tobacco Health Trust Fund Transfer	7/1/2015	\$ 12.0	\$ 12.0	\$ 6.0	\$ 6.0	\$ 6.0
	946	27	Eliminate Biomedical Trust Fund Transfer	7/1/2015	4.0	4.0	4.0	4.0	4.0
	946	27	Reduce transfer to the Early Childhood Education Program	7/1/2015	5.0	-	-	-	-
			Sub-Total - Transfers - Tobacco Settlement		\$ 21.0	\$ 16.0	\$ 10.0	\$ 10.0	\$ 10.0
Transfers - Other Funds	946	28	GF Transfer to STF - Let's Go CT	7/1/2015	\$ -	\$ -	\$ (112.0)	\$ (255.0)	\$ (400.0)
	6824 - Rev. Sched.		GAAP Amortization	7/1/2015	(47.6)	(47.6)	(47.6)	(47.6)	(47.6)
	946	29	Intercept Community Investment Act Revenue	1/1/2016	13.5	27.0	-	-	-
	946	30-31	CHEFA-grant program - loan servicing fees	7/1/2015	3.5	3.5	-	-	-
	946	32	Private Occupational School Student Protection Account	7/1/2015	2.5	-	-	-	-
	946	34-35	Divert PEGPETIA transfer	7/1/2015	4.2	4.3	-	-	-
	946	36	Divert Municipal Video Competition Trust Acct. transfer	7/1/2015	3.0	3.0	3.0	3.0	3.0
			Sub-Total - Transfers - Other Funds		\$ (20.9)	\$ (9.8)	\$ (156.6)	\$ (299.6)	\$ (444.6)
			<b>General Fund - Total</b>		<b>\$ 557.6</b>	<b>\$ 356.8</b>	<b>\$ 62.1</b>	<b>\$ (132.1)</b>	<b>\$ (244.2)</b>

Special Transportation Fund  
(In Millions)

Tax Type	Bill	Sec.	Legislative Proposals	Eff. Date	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Transfers - Other Funds	946	28	GF Transfer to STF - Let's Go CT	7/1/2015	\$ -	\$ -	\$ 112.0	\$ 255.0	\$ 400.0
			<b>Special Transportation Fund - Total</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ 112.0</b>	<b>\$ 255.0</b>	<b>\$ 400.0</b>