



**Joint Committee on Finance, Revenue and Bonding
Public Hearing
March 18, 2015**

TESTIMONY OF COMMISSIONER KEVIN B. SULLIVAN

Senator Fonfara, Representative Berger, Senator Frantz, Representative Davis and members of the committee, thank you for the opportunity to testify in support of legislation requested by our agency.

Senate Bill 1080 – AN ACT CONCERNING THE DEPARTMENT OF REVENUE SERVICES

- **Sections 1-2** allow DRS to substitute certificates of mailing rather than certified mail when giving required notices and service of collection warrants. This service is offered by the U.S. Postal Service at lower rates and reflects savings built into our FY2016-17 biennial budget request. This method is no less verifiable, is still directed to the last-known address, requires the same 30 day notice period and meets the current standard of due process for such collection actions.
- **Sections 3-6** standardize at 80% the amount of tax credits that may be claimed for every type of eligible expenditure under the Neighborhood Assistance Act. This will not increase or decrease the total amount available since that remains at \$5 million annually.
- **Sections 7-8** will remedy an area of significant confusion by conforming the timing provisions under state law to federal tax law for purposes of equitable relief under the “innocent spouse” protections. The federal and state “innocent spouse” laws protect spouses from liability for fraudulent or erroneous joint income tax filings when he or she did not know, did not have reason to know or was coerced.

We are also requesting amendment of SB 1080 to add language we have provided to the Committee in order to strengthen our ability to prevent tax fraud. As you know, this has been an especially challenging tax season and we have indeed stopped even more fraud than in years past. DRS now has two internal and one external screening procedures to identify suspicious

filers. Even so, we need to do more just to keep up with sophisticated thieves who are often part of large, global criminal enterprises increasingly able to use actual taxpayer information that has been stolen from some third party source. The more comparison data we have for verification purposes and the sooner we have it in our screening, the more tax fraud we can prevent and stop. Currently, state tax agencies do not receive W-2 employer withholding data until the end of March even though employers must provide it to employees before the end of January. We are asking for legislation to have employers transmit to DRS, usually electronically, the same W-2 information at the same time as must now be sent to employees annually. In New York, this change has significantly increased detection of fraudulent income tax claims.

Senate Bill 1081 – AN ACT CONCERNING ENFORCEMENT OF TAX STATUTES

- **Section 1** follows the provisions applicable to the Department of Motor Vehicles and other state agencies by providing DRS the same organizational flexibility in our employment of the special police agents we are already permitted to employ. These employees will continue as sworn officers trained and designated by the Commissioner of Emergency Services and Public Protection, will continue to have the same investigatory and criminal enforcement authority, and will be unaffected in terms of their current bargaining unit status.
- **Section 2** remedies a recurring problem and is especially important as we ramp up civil and criminal enforcement with respect to illegal cigarette trafficking as required by legislation enacted last session. It creates a narrow exception allowing DRS to disclose tax record information to local police authorities in the course of investigating suspected violations related to cigarettes, tobacco and alcohol.
- **Section 3** brings cigarette tax criminal activity within Connecticut's existing racketeering law.

House Bill 6986 – AN ACT CONCERNING MINOR AND TECHNICAL CHANGES TO TITLE 12 of the GENERAL STATUTES. It just doesn't get any more exciting than this. All sections of this bill are needed but truly technical. The regulatory reference is **Section 5**, in particular, is outdated and unnecessary given the simple registration process long in place that is no different in scope than the specific provisions of the statute.

House Bill 6996 – AN ACT CONCERNING REGISTRATION REQUIREMENTS RELATED TO THE DRY CLEANING ESTABLISHMENT SURCHARGE. This proposal was developed at the request of the dry cleaning industry and in consultation with the Department of Economic and Community Development. DRS currently collects an assessment from each dry cleaning establishment that is then deposited into a remediation fund administered by DECD. However, there is no effective means of enforcement. There is evidence that some dry cleaning businesses are evading this responsibility, unfairly competing with others that comply and underfunding the remediation account. There will be no DRS fee for registration and renewal but violators would be subject to \$1,000 penalties for non-compliance. DECD concurs.

Thank you for your consideration.

Amendment to SB 1080:

Senate Bill 1080 of the current session is amended by adding the following section:

Sec. 9. Section 12-706 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective upon passage*):

(a) The Commissioner of Revenue Services may enter into agreements with the tax officers of other states, which require income tax to be withheld from the payment of wages and salaries, so as to govern the amounts to be withheld from the wages and salaries of residents of such states under this chapter. Such agreements may provide for recognition of anticipated tax credits in determining the amounts to be withheld and, under regulations prescribed by said commissioner, may relieve employers in this state from withholding income tax on wages and salaries paid to nonresident employees. The agreements authorized by this subsection are subject to the condition that the tax officers of such other states grant similar treatment to residents of this state.

(b) Every employer required to deduct and withhold tax under this chapter from the wages of an employee shall furnish to each such employee in respect to the wages paid by such employer to such employee during the calendar year, on or before January thirty-first of the next succeeding year, a written statement as prescribed by the commissioner of revenue services showing the amount of wages paid by the employer to the employee, the amount deducted and withheld as tax, and such other information as said commissioner shall prescribe. Every employer shall file a copy of said written statement with the commissioner of revenue services by the date prescribed in this subsection.

(c) Wages upon which tax is required to be withheld shall be taxable under this chapter as if no withholding were required, but any amount of tax actually deducted and withheld in any calendar year shall be deemed to have been paid to said commissioner on behalf of the person from whom withheld, and such person shall be credited with having paid that amount of tax for the taxable year beginning in such calendar year.