

Reject Section 3 of SB 1136

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Despite the title of the bill, and its admirable aim to relieve pressure on the property tax, Section 3 has precisely the opposite effect. It is so fundamentally flawed that it violates the first principle of legislation: to do no harm.

1. Capping the property tax on cars is fatally flawed.

Practically everyone agrees that the property tax on motor vehicles has numerous bad aspects. It is inequitable, in that the tax on the same car, located in different towns, can be wildly different. And because of that difference, it encourages car owners living in towns with a high mill rate to register their cars in a low tax town, or even out of state. We all see out-of-state plates floating around our towns, and even though we can't see out-of-town plates, we know that lots of folks find out-of-town addresses to use to register their vehicles.

But adjusting the assessment of motor vehicles so that the tax equates to a mill rate of no more than 35 mills (lines 38-42) is flawed for two reasons:

- A. It deprives fiscally-pressed towns – mainly cities – of vitally needed revenue, unless the loss is reimbursed by the state. And if it is intended that an allocation of sales tax revenue would be an adequate targeted reimbursement, the second point below refutes that notion.
- B. If the loss of revenue is cured by shifting the burden of taxation to other classes of property in the municipality, then the effect of a property tax cap on vehicles would be to undermine economic development in that community. Shifting the burden to the real property of homeowners who are also vehicle owners might not (who knows?) result in a penalty, but shifting the burden to business owners would be an additional incentive to move their establishments to another town or to another state. And shifting the burden to owners of rental property would likely lead them to increase rents, or to decrease investment in repairs and maintenance. Either of the latter two impacts could well lead to further decline in high-tax towns.

2. Distributing sales tax revenue on the basis of where it was collected is fatally flawed.

The second flawed idea in Section 3 of this bill is to distribute sales tax revenue on the basis of where the tax was collected (lines 45-46).

- A. It would probably prove impossible to accurately trace where the sales tax was collected, particularly in cases in which a retailer has more than one location. Even the DRS website, in reporting sales tax collections, warns:
- Please note that retailers with more than one establishment usually report all of their sales and use taxes from their primary location; therefore the amounts for various towns may not reflect actual business activity.**
- B. Distribution of sales tax revenue on the basis of where it was collected would result in humongous windfalls of income to some towns, and practically nothing to others. Such a distribution pattern would do nothing to address the real needs of most towns.
- C. The distribution of sales tax revenue on this basis would just reinforce the incentive to “sprawl,” as towns would attempt to attract, to vacant land in their town, retailers which would maximize their sales tax collections.

The members of the Property Tax Working Group have numerous ideas that can be implemented over a period of years to relieve pressure on the property tax. See the recent white paper distributed to members of the General Assembly (a copy of which is attached to this statement). But the provisions of Section 3 of this bill are not among them.