Testimony Opposing S.B. 446: An Act Repealing The Estate And Gift Taxes

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Human Services Committee

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Senator Fonfara, Representative Berger, and Members of the Finance, Revenue and Bonding Committee: My name is Derek Thomas and I am the Fiscal Policy Fellow at Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the wellbeing of Connecticut's children, youth, and families.

I am submitting comments in opposition to S.B. 446: An Act Repealing the Estate and Gift Taxes. We would like the committee to consider the following: The estate tax is a critical source of revenue that must be maintained, particularly at a time when the state struggles to support a number of important services at levels that meet public need and invest in a prosperous future. Second, the estate tax is an important tool in combatting growing wealth inequality. Finally, without evidence for the contention that estate taxes are driving elderly and wealthy people out of the state, we would agree with the State Tax Panel's recommendation to preserve the current estate tax exemption level of $2 million until further study.[1]

Lost revenue is equal to nearly half of deficit in the fiscal year ending June 30, 2016

Just Wednesday, the Governor announced more than $65 million in executive branch cuts, including more than $3 million to the Department of Social Services, more than $7 million to the Department of Mental Health and Addiction Services and $17 million to Department of Developmental Services.[2] The nearly $115.2 million in revenue from the estate tax in FY2015 is equal to about half the total state budget shortfall of $226 million in the fiscal year (FY) ending this June. And it is 13 percent of the projected shortfall of $900 million in FY 2017. We realize that difficult decisions must be made during the state's financial crisis. But tax cuts for the wealthiest among us will further deplete desperately needed revenue without benefiting the state in any way.

Repealing the estate tax would exacerbate growing wealth inequality

In America 160,000 families own as much wealth (assets minus liabilities) as the poorest 145 million families. That is an enormous gap – equal to ten times that of the more-often-discussed income gap. Just as the share of wealth owned by the top 1 percent of families has more than tripled in the past several decades, the share of middle-class wealth has declined just as dramatically. Beginning in the late 1970s, the broadly shared wealth accumulation of the middle-20th century has, according to Emmanuel Saez and Gabriel Zucman, all but been erased as a result of an eroding progressive tax system and the loss of blue-collar jobs.[3]

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[1] Connecticut State And Local Tax Study Panel: *Overview And Recommendations Notes To Accompany Testimony Before The Finance, Revenue And Bonding Committee.* January 2016. Retrieved from: https://www.cga.ct.gov/fin/tfs/20140929_State%20Tax%20Panel/20160129/Tax%20panel%20CGA%20Presentation%20%20rde%20meb%201%20final.pdf

[2] Rescission Transmittal Letter, Office of Governor Dannel P. Malloy. March 2016. Retrieved from: https://assets.documentcloud.org/documents/2765252/Rescission-Transmittal-Letter-and-List-3-16-16.pdf

[3] Saez, Emmanuel and Zucman, Gabriel. Washington Center for Equitable Growth. *Exploding Wealth Inequality in the United States. October 2014.* Retrieved from: *http://equitablegrowth.org/exploding-wealth-inequality-united-states/*

In Connecticut, the estate tax is the one most closely based on ability to pay, of the nine taxes analyzed by the state's Department of Revenue Services. It is a tax paid by the wealthiest 2 percent of estates.[4] A repeal would be equivalently unfair, amounting to an average tax break of $200,000 for the state's richest taxpayers.[5]

Undermining the important role that estate tax plays in tackling inequality would also undermine efforts towards addressing racial economic inequality which has been exacerbated in Connecticut during an unbalanced economic recovery.[6,7] Nationally, white families on average had seven times the wealth of African American families and six times the wealth of Hispanic families in 2013.[8]

Gift And Estate Tax Returns From Estates Of Decedents Received During FY 2014-15[9]

More Than	Not Over	# of Returns	Tax Due	Tax Due After Credits
$2 Million	$3 Million	240	$6,311,021	$6,211,558
$3 Million	$4 Million	103	9,723,909	9,075,267
$4 Million	$5 Million	61	10,276,132	9,416,247
$5 Million	$6 Million	52	12,537,623	11,377,014
$6 Million	$7 Million	16	4,366,019	3,777,620
$7 Million	$ 8 Million	23	9,812,515	8,153,125
$ 8 Million	$10 Million	24	12,094,440	11,501,141
$ 10 Million	$15 Million	21	15,622,578	15,064,915
$15 Million	$25 Million	12	17,670,270	16,207,199
$25 Million		9	27,425,309	24,410,512
TOTAL		**561**	**$125,839,816**	**$115,194,598**

Source: Connecticut Department of Revenue

No evidence of relationship between taxes and people leaving the state

Concern that high-income earners are fleeing for cheaper pastures is understandable, but there is simply no evidence that when people do leave that it's a result of taxes. Research presented to the State Tax Panel from Karen Smith Conway and Jonathon Rork does not support the notion that state-to-state movement of people or economic growth are substantially affected by estate and gift taxes. Among elderly, in the relatively rare event that they move, their patterns have been persistent over the past three decades, despite changes in estate and gift taxes. That is, they're moving for warmer weather, as well as cheaper housing and to be closer to relatives.[10]

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4 The 561 estates that owed tax in 2015 make up 2 percent of the 29,632 deaths recorded in Connecticut in 2013, the most recent data available from the Centers for Disease Control.

5 Center for Disease Control. National Center for Health Statistics. State and Territorial Data. Retrieved from: http://www.cdc.gov/nchs/fastats/state-and-territorial-data.htm

6 Among children, 5.6 percent of white children live in poverty, and alarmingly, 30.5 percent of black children and 33.5 percent of Hispanic children live in poverty: http://www.ctvoices.org/publications/poverty-median-income-and-health-insurance-connecticut-summary-2014-american-community-

7 Our Disparity by Race and Place maps found that in West Hartford, for example, black poverty is more than 20 percentage points higher than white poverty: http://www.ctvoices.org/publications/mapping-disparities-race-and-place

8 McKernan, Signe-Mary et al. Urban Institute. *Nine Charts About Income Inequality*. 2015. Retrieved from: http://apps.urban.org/features/wealth-inequality-charts/

9 State of Connecticut. Department of Revenue Services. *Fiscal Year 2014 – 2015 Annual Report*. Retrieved from: http://www.ct.gov/drs/lib/drs/research/annualreport/drs_fy15_annual_report.pdf

10 Smith Conway, Karen. Rork, Jonathon. *The Connecticut Estate and Gift Tax*
Presentation to Connecticut State Tax Panel. October 27, 2015. Retrieved from: https://www.cga.ct.gov/fin/tfs/20140929_State%20Tax%20Panel/20151027/CT%20EG%20Tax%20presentation.pdf

As a financial crisis looms over state budget decisions, cutting taxes for the wealthiest residents will create a larger hole and perpetuate the economic disparities – with no resulting benefit in terms of whether people stay in Connecticut or leave.

Lastly, and looking forward, rather than a cuts-only approach to this financial crisis that threatens an already fragile economic recovery on the revenue side, there are opportunities for a balanced approach that invests in Connecticut's future by closing tax loopholes, modernizing outdated tax laws, and calling upon the wealthiest to pay their fair share (options attached).[11]

Thank you for this opportunity to submit testimony in support of S.B. 446.

Please feel free to contact me if you have questions or need additional information.

I can be reached at dthomas@ctvoices.org or (203) 498-4240 (x 114).

[11] See our brief: Revenue Options are Crucial to Maintaining Public Investments that Promote Prosperity: http://www.ctvoices.org/publications/revenue-options-are-crucial-maintaining-public-investments-promote-prosperity

CONNECTICUT VOICES FOR CHILDREN

20 YEARS OF ADVANCING OPPORTUNITIES FOR CHILDREN AND FAMILIES

Revenue Options are Crucial to Maintaining Public Investments that Promote Prosperity

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March 2016

In confronting the financial crisis looming over state budget decisions, the common-sense choice for Connecticut should be a balanced approach that includes revenue, rather than a cuts-only approach that threatens an already fragile economic recovery.

The difficult choices facing the state result from two significant challenges: post-recession revenues coming in short of expectations and past budgeting decisions that have left us with significant debt. The Governor's budget, proposed last month, includes $200 million in deep cuts to programs that support families and children to close a projected deficit in the fiscal year that begins July 1 – these cuts were proposed even before the projected deficit ballooned to nearly a billion dollars. A balanced approach to addressing the deficit would not rely strictly on cutting services for struggling families and their children. On the revenue side, there are opportunities to invest in Connecticut's future by closing tax loopholes, modernizing outdated tax laws, and calling upon the wealthiest to pay their fair share. Here is a look at the options available to Connecticut lawmakers:

Collect a Larger Share of Taxes Due on Internet Sales: Implement a version of Colorado's reporting law that requires Internet, catalog, and other out-of-state sellers either to charge state sales tax or to provide information about the tax due on those purchases to the buyer and the state revenue department. Due to U.S. Supreme Court rulings, Connecticut cannot require out-of-state companies with no employees or facilities in the state to charge sales tax to in-state buyers. Enactment of a law similar to Colorado's – recently upheld by a federal circuit court – however, provides a path for the state to chip away at the estimated $65 to $70 million lost annually in uncollected sales taxes on Internet sales.[1] The law will require out-of-state retailers to remind buyers that they are legally obligated to pay the tax even if the seller doesn't charge it, and provide information to the state that will enable it to seek payment of the tax from people who purchase big-ticket items upon which significant sums of tax are due.

Increase Rates on Capital Gains or Personal Income: Leading the nation in income inequality, Connecticut's lawmakers should consider increases that fall largely on the wealthiest one percent of households – whose income, as of 2012, is 51 times greater than the average income of everyone else in Connecticut.[2]

As it stands now, Connecticut's overall tax system (including income, property, and sales and excise taxes, minus federal deductions) allows the wealthy to pay a much lower percentage of their income than middle-class or low-income taxpayers. For example, a family making less than $25,000 a year pays 11 percent in state and local taxes, a family making between $46,000 and $76,000 pays 10.9 percent, and a family making over $1,331,000 – the top 1 percent – pays 5.5 percent.[3] Property taxes and sales taxes are the main culprits of the state's unfair tax system.[4] An adjustment (see option C below) that combines an increase in the tax on personal income and capital gains – 84 percent of which would fall on the top 1 percent of taxpayers – would result in an estimated $283.1 million in new state revenue. Over a third of this tax increase on the wealthy would be offset by the larger deductions they would be able to take on their federal income taxes. This increase could raise over $100 million more than what taxpayers would end up paying after accounting for the federal deductions. As a matter of perspective, the total increase is equal to asking an income group that has experienced 63 percent of all income growth from 2009 to 2012 (and 81 percent of all growth from 1979 to 2012) to share in addressing just under one-third of the budget shortfall.[5]

84% of Revenue from Capital Gains & Income Tax Change Would Fall on the Top 1% of Taxpayers

(A) Higher Capital Gains Rate on Top 3 Income Tax Brackets						
	Top 5%		State Tax Change	Federal Offset %	Federal Tax Change	Net Tax Change
	Next 4%	Top 1%				
Tax Change, % of Income	0.03%	0.19%	**$112 million**	34%	$37.7 million	$74.3 million
Average Tax Change	$174	$7,202				
Share of Total Change	11%	89%				
% Facing Tax Increase	27%	90%				
(B) Higher PIT Rate on Top 2 Income Tax Brackets: 6.9% to 7.4%; 6.99% to 7.49%						
	Top 5%		State Tax Change	Federal Offset %	Federal Tax Change	Net Tax Change
	Next 4%	Top 1%				
Tax Change, % of Income	0.097%	0.350%	**$226.6 million**	37%	$83.5 million	$143.1 million
Average Tax Change	+552	+13,565				
Share of Total Change	17%	83%				
% Facing Tax Increase	31%	100%				
(C) Higher PIT Rate on Top 2 Income Groups *and* Higher Capital Gains Rate on Top 3 Income Tax Brackets						
	Top 5%		State Tax Change	Federal Offset %	Federal Tax Change	Net Tax Change
	Next 4%	Top 1%				
Tax Change, % of Income	0.11%	0.44%	**$283.1 million**	36%	$102.3 million	$180.8 million
Average Tax Change	+642	+17,183				
Share of Total Change	16%	84%				
% Facing Tax Increase	38%	100%				

Source: Institute on Taxation and Economic Policy

Institute a Low-Wage Workers Fee: Impose a fee on large corporations that pay employees less than $15 an hour to recoup state costs attributable to low-wage employers. The rise in low-wage work is a double whammy to the state fiscal's health. First, as low-wage jobs grow faster than high-wage jobs, state revenue streams are hurt by decreased income tax revenue.[6] Second, some of the largest and most profitable employers in industries that have seen the strongest growth during the recovery are relying on public assistance programs to subsidize the low wages they pay their employees. A low-wage worker fee will help support programs that meet the needs of the low-income families and/or encourage such companies to raise employee wages. According to the state Office of Fiscal Analysis, last year's proposal to recoup state costs attributable to low-wage employers was estimated to generate $305 million in revenue in the coming fiscal year. Changes in this year's legislation, which would phase in the fee and the size of the affected company, will result in less revenue; updated estimates from state analysts are forthcoming.[7]

Create a Soda Tax: The American Heart Association cites research that finds that increasing the price of soda reduces consumption and the associated adverse health impacts, especially for low-income individuals.[8] According to the Office of Fiscal Analysis, an increase of one cent on each fluid ounce of soda would raise more than $85 million in the coming fiscal year. Legislation drafted last year would have required the state Department of Public Health to levy a soda tax for "education and outreach regarding obesity, heart disease and diabetes."[9]

Apply the Sales Tax to Digital Downloads: Update the state sales tax law and regulations to apply the sales and use tax to digital goods and services, such as downloaded computer software and online books and movies. Currently, an in-store purchase of a movie is taxed at a 6.35 percent rate while its digital equivalent is assessed a one-percent "computer services tax."[10] Applying the sales tax to digital downloads would have generated $7 million to $11 million in revenue in 2011.[11] This adjustment would also slightly reduce the extent to which the sales tax falls on lower-income households, since digital goods are disproportionately purchased by upper-income households that are more likely to have Internet access, as well as credit cards with which to make online purchases.

Close the Expedia Loophole:[12] Require online travel companies to pay state hotel or lodging taxes on the amount they charge the customer rather than the wholesale rates they pay to hotels – a scheme known as the "Expedia loophole." This step would ensure that companies such as Expedia, Orbitz, and Priceline are taxed identically to the hotels themselves. The existence of the Expedia loophole is estimated to have resulted in a loss of $3 million to $4 million in 2010. The revenue gain in the coming fiscal year would likely be much higher, given that online travel purchases are growing.[13,14]

Join Regional Compact to Close Carried Interest Loophole: In light of federal inaction, a bill raised by the New York legislature calls for a compact among Northeastern states to impose a "repatriation" tax rate on carried interest sufficient to capture each state's share of the increased federal income tax liability that would be incurred if the loophole were closed at the federal level. It is estimated that Connecticut could raise $535 million by doing so.[15]

Raise the Gas Tax: Compliment current investments aimed at rebuilding public infrastructure by raising the gas tax. According to the Institute for Taxation and Economic Policy, Connecticut could raise $17 million with a 1 cent per gallon increase and as much as $170 million with a 10 cent per gallon increase.

Impact of Increasing Connecticut's Gasoline and Diesel Tax Rates All Connecticut Individuals and Families, 2016 income levels								
2016 Income Group	**Lowest 20%**	**Second 20%**	**Middle 20%**	**Fourth 20%**	**Next 15%**	**Next 4%**	**Top 1%**	**State Revenue Impact**
Income	Less Than $28,000	$28,000 - $50,000	$50,000 - $84,000	$84,000 - $135,000	$135,000 - $320,000	$320,000 - $1,480,000	$1,480,000+	
Average Income in Group	$ 16,000	$ 38,000	$ 64,000	$ 105,000	$ 188,000	$ 594,000	$ 4,039,000	
Option 1: 1 cent per gallon increase in gasoline and diesel tax rates								
Tax Change as % of Income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Average Tax Change	+3	+5	+7	+9	+11	+16	+38	**$17,000,000**
Share of In-State Tax Change	7%	14%	18%	25%	22%	9%	4%	
Option 2: 5 cent per gallon increase in gasoline and diesel tax rates								
Tax Change as % of Income	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	
Average Tax Change	+14	+27	+35	+47	+55	+79	+188	**$85,000,000**
Share of In-State Tax Change	7%	14%	18%	25%	22%	9%	4%	
Option 3: Restore fuel tax rates to levels as of January 2015 (5.71 cent increase for gasoline and 4.2 cent increase for diesel)								
Tax Change as % of Income	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	
Average Tax Change	+15	+30	+38	+52	+60	+86	+201	**$92,700,000**
Share of In-State Tax Change	7%	14%	18%	25%	22%	9%	4%	
Option 4: 10 cent per gallon increase in gasoline and diesel tax rates								
Tax Change as % of Income	0.2%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	
Average Tax Change	+28	+55	+69	+95	+111	+158	+376	**$170,000,000**
Share of In-State Tax Change	7%	14%	18%	25%	22%	9%	4%	

Source: Institute for Taxation and Economic Policy

[1] Mazerov, Michael. CBPP. *States Get New Tool to Collect Taxes Due on Internet Sales*. February 2016. Retrieved

[2] Sommeiller, Estelle and Price, Mark. *The Increasingly Unequal States of America.* Economic Policy Institute. January 2015. Retrieved from: http://www.epi.org/publication/income-inequality-by-state-1917-to-2012/

[3] Davis, Carl et al. Institute for Taxation and Economic Policy. *Who Pays? 5th Edition.* January 2015. Retrieved from: http://www.itep.org/whopays/full_report.php

[4] See our Policy Tax Primer to learn more about a property tax circuit-breaker to promote tax equity: http://www.ctvoices.org/publications/policy-primer-reforming-our-property-tax-system

[5] Sommeiller, Estelle and Price, Mark. *The Increasingly Unequal States of America.* Economic Policy Institute. January 2015. Retrieved from: http://www.epi.org/publication/income-inequality-by-state-1917-to-2012/

[6] See our State of Working Connecticut Report for more on the rise of low-wage work and other economic trends: http://www.ctvoices.org/stateofwork

[7] Office of Fiscal Analysis. *HB-5461 - An act concerning the recoupment of state costs attributable to low wage employers*. January Session, 2015. Retrieved from: https://www.cga.ct.gov/2015/TOB/S/2015SB-01044-R00-SB.htm

[8] American Heart Association. *Decreasing Sugar-Sweetened Beverage Consumption*. 2015. Retrieved from: https://www.heart.org/idc/groups/heart-public/@wcm/@adv/documents/downloadable/ucm_474846.pdf

[9] Office of Fiscal Analysis. *HB-5461 - An act imposing a tax on sugary soft drinks*. January Session, 2015. Retrieved from: https://www.cga.ct.gov/2015/FN/2015HB-05461-R000104-FN.htm

[10] Fox, William. Presentation before Connecticut Tax Study Panel. University of Tennessee. *Sales Taxation in Connecticut.* October 2015. Retrieved from: https://www.cga.ct.gov/fin/taskforce.asp?TF=20140929_State%20Tax%20Panel

[11] Mazerov, Michael. CBPP. *States Should Embrace 21st Century Economy by Extending Sales Taxes to Digital Goods and Services*. December 2012. Retrieved from: http://www.cbpp.org/sites/default/files/atoms/files/12-13-12sfp.pdf

[12] See Model Statutes from Multistate Tax Commission: http://www.mtc.gov/getattachment/Uniformity/Project-Teams/Collection-and-Remittance-of-Lodging-Taxes-by-Acco/Accommodations-Intermediaries-as-Adopted-8112.pdf.aspx

[13] Mazerov, Michael. CBPP. *State and Local Governments Should Close Online Hotel Tax Loophole and Collect Taxes Owed*. April 2011. Retrieved from: http://www.cbpp.org/sites/default/files/atoms/files/4-12-11sfp.pdf

[14] Market Realist. Schmidt, Ally. *Priceline's Stock Hits a New All-Time High on Strong 2Q15.* August 2015. Retrieved from: http://marketrealist.com/2015/08/online-travel-agencies-future-industry-outlook/

[15] The New York State Senate. Assembly Bill A9459. Retrieved from: http://open.nysenate.gov/legislation/bills/2015/a9459