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**Testimony in Support of  
SB475: An Act Studying the Effect of Federal Tax Reform on Hedge Funds and  
Investment Management Firms in this State**

**March 15, 2018**

Testimony from Carlos Moreno, Connecticut state director of the Working Families Organization.

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Dear Senator Martin, Senator Winfield, Representative Lesser and members of the Banking Committee:

My name is Carlos Moreno, State Director of the CT Working Families Organization, a progressive grassroots organization fighting for an economy that works for everyone, not just the 1%.

Thank you for the opportunity to testify here before you today in support of S.B. No. 475 AN ACT STUDYING THE EFFECT OF FEDERAL TAX REFORM ON HEDGE FUNDS AND INVESTMENT MANAGEMENT FIRMS IN THIS STATE.

Under the Trump Tax Reform law, hedge fund and private equity managers stand to make massive gains through new and old tax loopholes that make it difficult for Connecticut to capture income tax revenues. New federal statutes through the federal tax law, such as the pass through loophole, allow hedge funds to further avoid paying taxes. And despite promises and populist appeals made to middle and working class families by President Trump to close the carried interest tax loophole, which enables finance industry titans to pay almost half the effective tax rate than teachers or janitors, Connecticut will continue to lose hundreds of millions of dollars in income that it is not able to capture.<sup>1</sup> That's money that should pay for education, crumbling infrastructure, and services cut that will most impact the neediest in our state.

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<sup>1</sup> [Connecticut Voice for Children: Revenue Options are Key to Addressing Budget Shortfalls and Supporting Thriving Communities](#)

According to *The New York Times*, "economists and tax experts across the political spectrum warn that the proposed system would invite tax avoidance. The more the tax code distinguishes among types of earnings, personal characteristics or economic activities, the greater the incentive to label income artificially, restructure or switch categories in a hunt for lower rates."<sup>2</sup> According to *The Wall Street Journal*, the bill's changes to "business and individual taxation could lead to a new era of business reorganization and tax-code gamesmanship with unknown consequences for the economy and federal revenue collection."<sup>3</sup>

Of course, this presents very serious implications for Connecticut with its over reliance on the finance sector. It is worth noting that the finance sector doesn't invest in our economy as it once did. Every dollar of earnings or borrowing used to be associated with a 40-cent increase in investment. Since the 1980s, though, less than 10 cents of each earned or borrowed dollar is invested.<sup>4</sup> This means fewer jobs created and more money winding up as shareholders' profits.

That is why it is critical to our state's economic health that CT establish a task force to closely study and calculate the windfall that hedge funds, private equity firms, the state's biggest corporations and the richest families stand to gain.

Connecticut is one of the most wealthy states, but consistently ranks in the top 5 of income inequality in the nation. Our tax policies over the past few years haven't benefited the middle class — whose wages have been stagnant for three decades. That lowers consumers' ability to spend money and keep small businesses operating.

If our federal government won't take meaningful steps to ensure that the finance sector pays its fair share, it's up to states to regulate this industry. States like New York and New Jersey are taking steps to close the carried interest tax loophole and Connecticut should as well. And, at the very least, a task force should be assembled to calculate the coming loss to our state.

I urge the Banking Committee to vote in favor of SB475.

Thank you,

Carlos Moreno  
State Director  
CT Working Families Organization

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<sup>2</sup> [NY Times: Tax Plans May Give Your Co-Worker a Better Deal Than You](#)

<sup>3</sup> [Wall Street Journal: For Pass Through Businesses, Let the \(Tax\) Games Begin](#)

<sup>4</sup> [Roosevelt Institute: Disgorge the Cash](#)