TESTIMONY PRESENTED TO THE FINANCE, REVENUE, AND BONDING COMMITTEE
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Testimony Supporting Senate Bill No. 11

AN ACT CONCERING CONNECTICUT'S RESPONSE TO FEDERAL TAX REFORM

Senator Fonfara, Senator Frantz, Representative Rojas, Representative Davis and distinguished members of the Finance, Revenue, and Bonding Committee, thank you for the opportunity to offer testimony on Senate Bill No. 11, An Act Concerning Connecticut's Response to Federal Tax Reform.

This proposal makes modifications to Connecticut's tax statutes in response to the federal Tax Cuts and Jobs Act of 2017 (TCJA) that became law in December 2017. Regrettably the TCJA targeted states like Connecticut by limiting the state and local tax deduction to no more than $10,000. It has been estimated that this change will impact more than 170,000 residents claiming $10.3 billion of deductions in Connecticut, according to a recent analysis by the Department of Revenue Services.

This bill would introduce changes to ensure Connecticut remains competitive under the new federal tax regime by:

- Establishing a revenue neutral tax on pass-through entities offset by a personal income tax credit that will provide Connecticut's small business owners with favorable federal tax treatment. If all such income is taxed at the maximum federal rate of 37%, this proposal would shield an estimated $600 million from federal taxation and would thereby return an estimated $222 million to Connecticut taxpayers.
- Allowing municipalities to create charitable organizations supporting town services, in conjunction with a local property tax credit for donations made

to such charities. This will allow our cities and towns to continue to provide important services while reducing individuals' federal taxes.

In addition, to avoid a General Fund revenue loss:

- Connecticut would not adopt federal tax changes related to accelerated depreciation and asset expensing. Based on an initial analysis of the Joint Committee on Taxation (JCT) fiscal note for the TCJA, we believe this change could potentially preclude a fiscal loss worth tens of millions of dollars annually.
- Exemption levels on the state's gift and estate tax would rise gradually by 2023 to the new, higher federal estate tax exemption levels. This change would save the state $28.3 million in FY 2021 and $15.1 million in FY 2022.

Importantly, the intent of these proposals is to shield our residents and the General Fund from the adverse impact of TCJA. Connecticut is already one of the largest net contributor to the federal government. According to a recent analysis conducted by the Rockefeller Institute of Government, Connecticut receives 82 cents on the dollar for its contributions to the federal government, fourth lowest in the country. By comparison, Mississippi, West Virginia, and New Mexico all receive more than two dollars for every dollar their residents send to Uncle Sam.

Governor Malloy is one of the first state officials to propose specific language in response to the federal tax law. Since then other jurisdictions are considering alternate approaches to the federal changes. The Governor of New York has proposed an optional 5% employer payroll tax, offset by a personal income tax credit claimable by the employee, and a credit for donations to community supporting organizations at the state level. The administration encourages the committee to continue the process of reviewing all of Connecticut's options to respond to the changes in federal law.

You have before you a more detailed fact sheet on each individual item in this bill. 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.