Testimony on Raised Senate Bill 10 and 11

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I would first like to thank the committee for taking this testimony. My name is Joe Horvath. I am the Director of Legislative Outreach for the Yankee Institute for Public Policy, a Connecticut-based free market think tank. I am submitting comment on Raised Senate Bills 10 and 11.

Sound tax policy is such that produces stable, predictable levels of revenue sufficient to fund the core functions of government, all while incurring as little economic harm as possible. Keeping that goal in mind, that is founded on certain fundamental principles. Taxes should be non-discriminatory, meaning that single products or industries are not targeted, but rather categories of tax are applied equitably among all sectors. For example, rather than a high-rate consumption tax placed on one or a few products, it is better to apply a low-rate consumption tax on many, or all products. Further, taxes levied by the state should be complementary to taxes levied by municipalities or the federal government, so that compliance is less burdensome or costly for taxpayers. Additionally, policymakers should prioritize competitiveness, understanding that rational individuals will respond to tax policy, often changing behaviors to accommodate new burdens. Lastly, it is important to understand that all taxes burden economic growth, but certain categories of tax are more burdensome than others. This last point presents both a warning and opportunity in that while all taxes are harmful, revenue neutral tax reform can also be strongly pro-growth.

With these principles in mind, and because the growth of spending in Connecticut significantly outpaces the growth of revenue, the Yankee Institute cannot recommend many of the proposals found in these bills. Simply put, new taxes and tax increases should be an option of absolute last resort, and there are other budget-balancing methods Connecticut should consider before imposing new or higher taxes.

Individually, many of these tax increases appear to be small and not particularly burdensome. That said, they violate core principles of sound tax policy, and, when taken on the whole, represent another unnecessary burden on Connecticut’s economy and residents.

- A new “deposit” on wine and liquor containers presents a compliance burden, as the current process by which bottles and cans are redeemed is wholly insufficient for larger containers that lack uniform shape. Further, a minority of states even impose such a fee at all.
- A new $3 tax on tires would be one of the highest, if not the highest, in America.[1] For small business owners of firms that deploy vehicles to provide services across the state, tire

[1] Amazon.com fact sheet

replacement fees could quickly add up. Connecticut's tire tax would be nearly twice California's.

- Additionally, the increase to Connecticut's gas tax would be back-breaking to commuters and small business owners alike. Connecticut already imposes some of the highest fuel taxes in the nation[2], and is in a minority of states that levy multiple taxes on the same gallon of gasoline.
- Specialized hotel taxes are generally worse tax policy than merely imposing the generally-less-burdensome sales tax. Increasing the rate of this already-burdensome tax would do little to increase tourism in the state, especially when Massachusetts only imposes a 5.7% tax with a local option of 6% which, even if included, is significantly less than the new proposed rates.

These particular changes to state tax policy represent only some of the problematic elements contained within Governor's Bill 10.

Governor's Bill 11 contains a provision that would likely not pass legal muster. Specifically, the scheme creating tax credits exchanged for cash donations to support municipal services is, on its face, outside the parameters of the Internal Revenue Code as well as corresponding Treasury Regulations and existing case law.[3] As for the proposed alteration to pass-through business entity treatment, it is an interesting concept, but Yankee Institute takes no position at this time.

The Yankee Institute appreciates the difficult circumstances Connecticut faces. However, the tax policy proposals outlined in the previous two proposed bills would largely serve only to exacerbate, not alleviate, Connecticut's fiscal issues. Economic growth must be a fundamental part of fiscal recovery, and now is not the time for additional economic burdens.

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[2] American Petroleum Institute Fact Sheet

[3] State Strategies to Preserve SALT Deductions for High-Income Taxpayers: Will They Work?. Jared Walczak, Tax Foundation