DATE: Friday, March 2, 2018

TO: Finance, Revenue and Bonding Committee

FROM: Jeff Shaw, Director of Public Policy & Advocacy, The Alliance

RE: S.B. 10, AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET; S.B. 11, AN ACT CONCERNING CONNECTICUT'S RESPONSE TO FEDERAL TAX REFORM and H.B. 5134, AN ACT CONCERNING A TAX CREDIT FOR BUSINESSES THAT PROVIDE PAID FAMILY AND MEDICAL LEAVE

Good afternoon Senator Fonfara, Senator Frantz, Representative Rojas, Representative Davis and distinguished members of the Finance, Revenue and Bonding Committee:

My name is Jeff Shaw, Director of Public Policy and Advocacy, of the Connecticut Community Nonprofit Alliance (The Alliance). The Alliance is Connecticut's statewide association of community nonprofits, which serve over 500,000 people each year and employ almost 14% of Connecticut's workforce.

This testimony comes after year after year of state budget cuts that have put increasing pressure on community nonprofits, leaving them to face an uncertain future at a time when the demand for services is increasing. Further, nonprofits are dependent on the State for funding and have limited options in the face of budget shortfalls. They cannot raise taxes or prices, meaning they are forced to cut services, lay-off employees or close programs. Having to pay additional fees will exacerbate this problem and lead to further service cuts, layoffs and program closures.

S.B. 10, AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET

I offer testimony on S.B. 10, AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET. We ask that Section 9 be amended to exempt nonprofits from fee increases. The section states that the Office of Policy and Management may increase by up to fifty percent of any existing state fee, provided the total amount of the increase in fees shall not exceed $20 million. Nonprofits provide services directly to the public so that the State does not have to, saving the State many millions of dollars, doing their part to make Connecticut a more economically healthy place. Assessing them for fees or other costs only serves to take funding from the missions they serve.

S.B. 11, AN ACT CONCERNING CONNECTICUT'S RESPONSE TO FEDERAL TAX REFORM

I offer testimony on S.B. 11, AN ACT CONCERNING CONNECTICUT'S RESPONSE TO FEDERAL TAX REFORM**.** We hope that the General Assembly will consider the negative impacts federal tax reform will have on nonprofits as it forms its legislative response to these changes. The federal Tax Cuts and Jobs Act contains sweeping changes in corporate and individual tax rates, and an increase in the individual standard deduction. While we are pleased the law protected nonprofit nonpartisanship (the so-called

Johnson Amendment), the law creates uncertainty for nonprofits, both in the State's potential legislative action in response to the new $10,000 cap on state and local taxes (SALT), which affect over 170,000 taxpayers (2015 data), as well as a likely reduction in charitable giving.

The federal tax code will continue to allow an itemized deduction for charitable contributions, but because of other changes in the tax law, fewer people are likely to itemize (about 95% of taxpayers would receive no benefit from giving back to their communities). According to the Tax Policy Center, about 11 percent of U.S. households are projected to itemize deductions, down from 26 percent under the prior law. In Connecticut, the Department of Revenue Services has not projected or estimated how many taxpayers will take the increased standard deduction versus itemizing charitable contributions. Many nonprofit organizations remain concerned about the potential impact of fewer donors itemizing, and therefore fewer people making charitable contributions.

We are also concerned over the cost of the tax cuts, adding at least $1.2 trillion to the nation's deficit. Cutting taxes to the point of an additional $1.2 trillion shortfall could force additional spending reductions, thus service reductions, when the needs in our communities are so great. The massive spending cuts at all levels of government will impose enormous pressures on community nonprofits and adversely impact the people they serve.

Industry experts estimate that the tax law will reduce charitable giving by $13 billion nationally each year (for reasons explained above) and will jeopardize approximately 240,000 nonprofit jobs nationally. These impacts could have a detrimental and lasting effect on the nonprofit community, especially in the context of year-after-year of state and federal budget difficulties putting increasing pressure on community nonprofits, leaving them to face an uncertain future at a time when the demand for services is increasing.

Finally, 2018 individual income tax returns will not be due until April 15, 2019, and then cumulative reported effects of the new law will not be evident until late 2019. Giving USA, a widely used comprehensive report on philanthropy, published annually by the Giving Institute, will report on 2018 numbers in mid-June 2019.

H.B. 5134, AN ACT CONCERNING A TAX CREDIT FOR BUSINESSES THAT PROVIDE PAID FAMILY AND MEDICAL LEAVE

I offer testimony on H.B. 5134, AN ACT CONCERNING A TAX CREDIT FOR BUSINESSES THAT PROVIDE PAID FAMILY AND MEDICAL LEAVE, which would provide a tax credit for businesses that provide paid family and medical leave to employees.

Nonprofits want to provide excellent benefits for their employees, but the State needs to build-in both protections and resources for such increased costs in all current and future contracts and grants. Simply put, nonprofits that contract with the State to provide essential services can only afford wages and benefits to the extent that the contracts pay them for the costs.

Tax credits would not work to do that. This legislation aims at creating a tax credit for for-profit businesses, which nonprofits would not quality for since they are tax-exempt 501(c)(3) charitable organizations.

Since the tax incentive does not apply to nonprofits (which employ 14% of the state's workforce) and many are already not able to afford to provide the benefit, they would be at a competitive disadvantage to for-profit employers that are incentivized to provide the benefit in this proposal. Nonprofit employees may seek employment at for-profit organizations offering the benefit, resulting in increased turnover which could destabilize service delivery.

Nonprofits recognize the increasing costs of health care and that raising the standard of living will improve employee retention and reduce costs associated with turnover and with hiring new employees. If paid family and medical leave becomes law, the State should increase payments in contracts to nonprofits to pay for the increased costs of providing the benefit.

Thank you for your time and consideration.

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