TESTIMONY OF
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CONNECTICUT BUSINESS AND INDUSTRY ASSOCIATION
SUBMITTED TO THE
APPROPRIATIONS, COMMERCE, FINANCE, REVENUE & BONDING,
PLANNING & DEVELOPMENT COMMITTEES
RE: REPORT OF THE COMMISSION ON FISCAL STABILITY AND ECONOMIC GROWTH
MARCH 23, 2018
STATE CAPITOL
HARTFORD, CONNECTICUT

Distinguished chairs, ranking members, and committee members, thank you for the opportunity to submit testimony on behalf of the Connecticut Business & Industry Association (CBIA), which represents thousands of firms, both large and small, supporting a workforce of hundreds of thousands of Connecticut residents.

Last October, by an overwhelming bipartisan state budget vote, this General Assembly chartered the Commission on Fiscal Stability and Economic Growth and charged its members to be bold in making recommendations for stabilizing the state's fiscal situation and promoting economic growth and competitiveness.

The Commission responded—undertaking an enormous task within a short delivery time—and we join you in saluting the members for their hard work.

Your appointees delivered what you requested—a bold, holistic solution to the challenges facing Connecticut: a shrinking economy, recurring budget deficits, and a loss of competitiveness in key areas. Taken together, these challenges comprise the "burning platform" the Commission describes, and their solution challenges every sector and segment of Connecticut to shoulder the task of fixing our state.

CBIA has spent the days since the report's release analyzing it with our membership, with a focus on two main areas: affordability and competitiveness—affordability for both business and residents, and competitiveness for Connecticut companies and our ability to attract new companies to locate and grow here.

Many elements of the Commission's solution are a step in the right direction—from reducing the personal income tax and eliminating the estate and gift tax to reforming the legislative budgeting process, bringing public sector health and retirement benefits into line with other states, stabilizing underfunded legacy liabilities, and boosting Connecticut's efforts in educating students in STEM fields.

Other areas need more examination. Specifically, our members are concerned about the potential effects of rebalancing the tax burden. In particular, they worry about the anti-competitive nature of the payroll tax and the size of the shift in taxes from individuals to businesses at a time when the economy is just beginning to turn around.

The Commission report comes at a critical time in Connecticut's economy.

Our state gained 5,300 net new jobs in 2017—posting a 0.3 percent growth rate that was the lowest in the Northeast. Likewise, Connecticut's GDP growth through the first three quarters of 2017 was an anemic one percent. On the bright side, there was a strong four percent growth in manufacturing jobs, and Connecticut's private sector finally gained back all of the jobs lost in the 2008-2010 recession.

To be clear: CBIA has a diverse membership that represents thousands of companies across the state and each will be impacted by this proposal in a different way. Our members fully expect that businesses will play an important role in restabilizing and growing Connecticut.

We believe, however, that the Commission report reflects an *overreliance* on an often-misinterpreted tax study and an *underestimation* of the recommendations' impact on business taxes.

The Commission's report cites a 2017 Council of State Taxation (COST) report by Ernst & Young stating that Connecticut has the lowest effective business tax rate in the nation, and there was much discussion during the public meetings and hearings of the Commission on this matter.

COST, however, insists their study does not show Connecticut is a low-tax state for business—just that the state gets more of its revenue from other sources. (A high personal income plus relatively high tax rates means more revenue is generated from the personal income tax than other sources.)

COST testimony will also show that:

- Connecticut business tax revenues appear smaller when compared to individual income tax receipts that outweigh business collections.
- Connecticut business tax revenues appear low compared to private sector gross state product because our state has so many high-output industries such as insurance, financial services, and aerospace.
- Connecticut has the highest growth rate in the nation for business property tax revenue, a statistic not cited in the Commission's report.

We agree with the Commission that the proposed reduction in the personal income tax will bring relief to the thousands of small businesses, S-corporations, and pass-through entities that calculate their corporate taxes on the personal income tax. These companies make up the lion's share of Connecticut businesses and our membership.

It is critical to note, however, that while the Commission's overall revenue rebalancing will provide relief to these businesses and eliminate the business entity tax (saving $45 million), the imposition of a new 0.8% payroll tax represents a new $475 million levy on job creators that nearly no other state imposes—certainly not states competing with Connecticut for jobs and businesses.

Aside from the fact that—unlike an income tax—a payroll tax is imposed whether or not a company makes a profit, our members tell us that a payroll tax could lead companies with both in-state and out-of-state locations to put employees in other facilities to avoid a payroll tax here.

Yet the $475 million payroll tax is not the only tax increase facing Connecticut businesses.

Business activity accounts for 40 percent of state sales tax revenues. That means businesses will shoulder another $400 million of the proposed $1 billion increase in the state sales tax.

Moreover, Connecticut businesses will pay an untold share of the $750 million in new revenues that will result from the elimination of current tax exemptions.

Taken together, this roughly $1 billion tax increase in a high cost state poses a daunting proposition for an economy just getting on its feet.

Anything that prevents employers from confidently investing in Connecticut only makes our current situation worse. We know this is not the intent of the Commission, but feel it important to note these specifics because it is in everyone's interest to understand the impact of these proposals.

Our membership is not convinced that the Commission's rebalancing of the tax burden is a pro-growth shift in tax strategy, but we believe the Commission's holistic solution can be refined and made more competitive.

The platform is still burning.

Inaction will further erode growth; the wrong actions could reverse it.

There's more work to do.

From our members' perspective, there are two huge unknowns in this package: the $750 million in repealed tax exemptions and the unspecified $1 billion in spending reforms. There is also great apprehension that tax increases are being sought before spending reforms are identified.

This legislature can and should build greater certainty into those areas.

Given the brief window the Commission had to take on their major task, we understand there simply wasn't enough time to fully explore significant areas where spending can and should be reformed.

CBIA will work shoulder to shoulder with you to crunch those numbers, fill in the blanks, understand the impact, and complete the picture.

We have examined structural reforms to the delivery of core state services ranging from managed Medicaid to the nonprofit delivery of human services, long-term care, corrections reforms, and other ways to boost performance and save billions of dollars over time.

Greater details will help define the unknown and gauge the impact of the reforms being sought.

And an independent study to assess whether or not the tax changes will improve Connecticut's competitiveness must be part of the work going forward.

Businesses expect to be a part of the solution, even if that entails higher taxes at some point.
But the net result must be that Connecticut businesses are more competitive.

Thank you for chartering this Commission and charging it to be bold. We implore you to maintain the Commission's sense of urgency and your own sense of bipartisanship that led to the seeds of reform you enacted in last October's budget.

On behalf of our member businesses and their workforce, we salute the Commission members and staff for their hard work, and stand ready, as always, to work with you to strengthen Connecticut's affordability, vitality, and competitiveness of its businesses and their workforce.