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**TESTIMONY OF
NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)
REGARDING
THE FINAL REPORT OF THE COMMISSION ON FISCAL STABILITY AND ECONOMIC GROWTH
BEFORE THE
APPROPRIATIONS; COMMERCE; FINANCE, REVENUE & BONDING; and
PLANNING & DEVELOPMENT COMMITTEES
MARCH 23, 2018**

A non-profit, non-partisan organization founded in 1943, NFIB is Connecticut's and the nation's leading small-business association. In Connecticut, NFIB represents thousands of members and their employees. NFIB membership is scattered across the state and ranges from sophisticated high technology enterprises to "Main Street" small businesses to single-person "Mom & Pop" shops that operate in traditional ways. NFIB's mission is "To promote and protect the right of its members to own, operate, and grow their businesses." On behalf of those small- and independent- job-providers in Connecticut, NFIB/Connecticut offers the following comments:

Thank you to the Chairs, Ranking Members, and Honorable Committee members for the opportunity to provide input and comment on the Final Report (March 1, 2018) of the Commission on Fiscal Stability and Economic Growth. NFIB commends the legislature for envisioning and creating the Commission through Public Act 17-2. Furthermore, NFIB applauds the Commission members for their service and thoughtful work.

It is refreshing to have had a robust conversation and analyses of Connecticut's economic woes. There is no doubt Connecticut is in a fiscal danger zone and Commission efforts to turn the tide by addressing cost drivers like unsustainable state employee pensions and addressing tax policy are admirable and necessary.

In their report, the Commission proposed ten major recommendations, and NFIB/Connecticut's viewpoints on those recommendations are as follows:

- 1. Enact a revenue neutral rebalancing of state taxes (which becomes revenue positive when coupled with economic growth) that reduces income taxes in every bracket, selectively raises taxes on business, raises the sales tax rate by less than 1%, cuts exemptions and exclusions from all taxes by 14%, eliminates the dwindling estate and gift taxes, and increase the minimum wage.*

While NFIB/CT generally supports the concept of revenue neutral tax reform, we are concerned about the imposition of a new payroll tax. However, NFIB/CT specifically supports the recommendations for a reduction in the personal income tax, elimination of the estate tax, as well as the complete repeal of the Business Entity Tax.



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The Commission suggests a rebalancing of state taxes by reducing the Personal Income Tax, increasing the Sales Tax, and adding a Payroll Tax for businesses, claiming those changes would be revenue neutral. NFIB/CT looks forward to learning more detail on that plan if/when the recommendations are in actual bill form. Of primate concern, NFIB/CT wants to ensure that small businesses are not disadvantaged under a tax-rebalancing plan. If reductions in the Personal Income Tax do not make up for the cost of a new Payroll Tax, it is a great concern, and also seems counterproductive to the benefit that many NFIB members will receive under the recently enacted federal tax reform. Furthermore, NFIB/CT is concerned that this approach is somehow predicated upon certain findings about the overall impact / rate of business taxes in Connecticut, and in an attempt to derive more taxes from businesses, proposes a shift in tax policy to capture many pass-through entities.

On the other hand, getting rid of the estate tax will help family businesses continue to survive from one generation to the next. The elimination of the Business Entity Tax is also something that NFIB/CT has been calling for and will go a long way in making the state more business-friendly. Small business owners consider that tax a penalty for being an entrepreneur and creating jobs, which is a horrible message.

In a state where small businesses pay high costs for energy, development, unemployment insurance, regulatory compliance, and health insurance, NFIB/CT strongly opposes the recommendation to increase small business labor costs through a higher minimum wage. The Commission acknowledged that some of their recommendations might be met with criticism, and certainly one such proposal is their endorsement of a plan for a \$15 minimum wage which will harm certain small businesses, their employees, and the state economy. Some recent studies on these large wage jumps show a tipping point where jobs are eliminated, hours are cut, and paychecks drop for entry-level and unskilled workers. There are too many small businesses operating on a slim profit margin that simply cannot afford that proposal. Interestingly, the Commission seems to somewhat implicitly acknowledge that fact by qualifying their minimum wage recommendation, stating on page 45 that they are “attracted by the approach” in New York for providing “slower implementation for smaller companies” and would consider “variations by age, full time or part time status, region of the state, and other factors”.

- 2. Create a Joint Budget Committee of the legislature with the power to set limits on revenues and expenses.*

NFIB/CT generally views this recommendation as a potentially positive step. The mechanics of the state budget process should more closely align spending priorities based on revenue, just as small businesses and households develop their budgets based upon revenue/income.

- 3. Have the legislature assume the responsibility to define state employee fringe benefits by removing them from collective bargaining for new contracts.*



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NFIB/CT fully supports this recommendation. In a survey of NFIB/CT small business members, a strong majority showed support for moving state government employee pensions to fully defined contribution plans for new employees. All taxpayers in Connecticut, including small business owners and their employees, can no longer afford to pay for “Cadillac pension plans” for state government employees while most private citizens, including those who work in small businesses, are participating in defined contribution – 401K type plans. Connecticut’s plans, in particular, are underfunded and in economic distress because of various poor decisions that have been made by both labor and management over the years, but it is the small business owner and other taxpayers that are taxed to pay for these past mistakes. NFIB/CT therefore supports recommendations to move to defined contribution pension plans for new government employees so that our state’s eroding taxpayer dollars can best be used to meet other funding needs such as workforce education, economic development and transportation infrastructure, rather than continue to be used to prop up these unsustainable pension benefit plans.

- 4. Amend binding arbitration laws to permit compromise awards.*

NFIB/CT fully supports this recommendation.

- 5. Develop and implement a plan to cut \$1 billion out of annual operating expenses.*

NFIB/CT generally views spending cuts as a necessary element of fiscal reform.

- 6. Reform the Teachers’ Retirement System to lower costs and to make it sustainable by paying down unfunded liabilities.*

NFIB/CT generally supports this recommendation.

- 7. Raise the gas tax to fund transportation projects and produce a plan for eventual implementation of electronic tolls.*

NFIB/CT opposes an increase in the gas tax at present and with regard to tolls, more details and analyses are required. Small business owners understand the importance of funding and maintaining transportation infrastructure, particularly Connecticut’s highways, roads, and bridges; however, the state’s past track record of raiding the special transportation fund and not adequately maintaining our infrastructure provides little confidence or support for new or higher taxes.



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Unfortunately, increasing the gas tax will result in more money spent at the pumps and at the service shops for small business' motor vehicles, service vehicles, delivery trucks, and other equipment and machinery. The primary energy-related costs for a large percentage of small employers is in the fuel needed to operate vehicles. With gasoline prices in Connecticut already significantly higher than elsewhere in the region, any contemplated increase is unwelcome news for most small business owners.

8. *Reinvest in cities and build a major new STEM campus in one city in partnership with a major research university.*

While NFIB/CT generally supports efforts that contribute to economic and workforce development, more details and analyses are required, especially with regard to the funding elements of this particular proposal.

9. *Undertake a series of growth initiatives, led by the executive branch, with the funding and support from the legislature to (1) develop and retain the workforce Connecticut needs, (2) support the growth of Connecticut's highest-potential economic sectors and (3) transform the business environment for entrepreneurship and innovation.*

While NFIB/CT generally supports efforts that contribute to economic and workforce development and promote entrepreneurship, more details and analyses are required. NFIB/CT would caution, however, that such recommendation should not necessarily lead toward the direction of "picking winners" but rather take a more holistic approach.

10. *Diversify municipal revenue streams beyond the regressive property tax and stimulate regional service delivery.*

NFIB/CT does not support this recommendation at this time. While property taxes are no doubt a serious concern of many small business owners in Connecticut, it is essential that municipalities are first provided with proper mandate relief measures and tools that allow them to cut costs, such as the recommendation for prevailing wage threshold increases for renovation projects included in the report, which NFIB/CT specifically supports. NFIB/CT opposes local option sales taxes, which could result in a patchwork of varying rates and administrative burdens for small businesses across the state.



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Undoubtedly, the Commission was faced with many challenges but also many opportunities to improve Connecticut's economic climate and create an environment where small businesses can compete, grow and thrive. NFIB/CT applauds the Commission for its work and hopes that lawmakers on these Committees as well as the entire legislature carefully review the Final Report to ensure that Connecticut becomes a place where all businesses thrive and jobs are created. NFIB/Connecticut and its members stand ready to work with the legislature to address the state's fiscal and competitiveness issues without hindering economic development and the growth and vitality of the Connecticut's small businesses.

Thank you again for the opportunity to comment. For any questions or additional information, please contact Andy Markowski, NFIB/Connecticut State Director, at 860-248-NFIB.