Good afternoon. My name is Scott Shepard. I am the Policy & Research Director for the Yankee Institute for Public Policy, Connecticut’s free-market think tank. I submit this note in response to House Bill 7410.

Yankee Institute would like to congratulate the members of the Commission on Fiscal Stability and Economic Growth for their yeoman work in producing two separate reports, the second long after their formal authorization had expired. While we would have balanced some interests differently than did the Commission, and believe that evidence indicates that Connecticut cannot recover until it significantly lowers both its key costs and its taxes and fees, we applaud its efforts and its deep commitment to rebuilding a sunny future for our state.

This proposed bill, incorporating the Commission’s recommendations so far as is possible given the bounded jurisdiction of the Finance Committee, underscores the profound and troubling gap between the Commission’s purposes and methods and those of the current administration. The Commission strove to present a plan that would return Connecticut to prosperity and growth. The administration, on the other hand, seems intent on squeezing the last revenues from Connecticut’s ever-decreasing tax base, either oblivious or resigned to the Nutmeg State’s ongoing deterioration. This difference in vision and approach is particularly highlighted by their respective treatment of the estate tax. The Commission recognized that states across the Republic are abandoning the estate tax as a tax loser that drives away our highest tax-paying citizens while presenting an insuperable barrier to entry and settlement by other wealthy families. It therefore called, as this proposal calls, for its abolition. The administration, to its shame, adopted wholesale as many of the tax increase proposals from the Commission as did not (like the proposed grocery tax) threaten to spark instant and statewide revolt, but ignored Commission’s call for estate-tax repeal and other efforts to make the state an even incrementally more affordable place to live.

Proponents of estate taxes make a number of faulty arguments in its defense. The primary claim made for the tax – outside of the realm of pure, jealousy-based
arguments in favor of confiscation of disfavored people’s wealth – arises from the tax’s claimed progressivity. The theory is that if small estates are exempted from the estate tax, then the less rich will not be hurt by the tax, leaving only the rich to pay it. This, it is claimed, places more of the tax burden on those who can best afford to bear it.

This claim of progressivity is not even necessarily true on its face, because badly designed estate taxes – including those in Connecticut – tend to fall very heavily on small business owners or farmers whose capital stock in their businesses or farms might have a value higher than the minimum estate-tax threshold even if the entrepreneur’s or farmer’s annual income is relatively small. The primary effect of these ill-conceived estate taxes is to force the descendants of small and family businesses and farms to sell those small businesses or farms – often to wealthier purchasers – in order to pay the tax. This is nothing but an unconscionable barrier keeping hard-working poor and lower middle class strivers from working their way up the ladder of success. It cannot be borne.

Setting aside this vital flaw, the estate tax otherwise should, in theory, act progressively to the extent it only falls on the rich. With the poor exempted, only the rich will pay. In fact, though – in the real world of modern Connecticut life – the estate tax does not work progressively. Here’s why.

First, as of 2019 the state’s estate tax tops out at $15 million. That is to say, those who die as residents of Connecticut with total estates of more than $3.6 million pay an estate tax starting at 7.2 percent, and increasing to 12 percent for portions of estates in excess of $10,100,000.¹ But the state has limited its take at $15 million per estate, so that the marginal value of extremely large estates is not taxed.

This is not progressive. People with estates worth $10 million at their deaths are very well off, no doubt. But people with estates worth $200 million when they die are much, much richer. If the estate tax were structured progressively, then the decedent with the larger estate would pay a higher total estate tax rate, not a lower one.

What’s going on here is this: the estate tax causes the rich to move out of state – to one of the two-thirds’ majority of states that has no estate tax – before they die. This is no surprise. Someone who dies in Connecticut with $10 million in assets will have more than half a million dollars of his estate taken by the state upon his death – money that his descendants will receive if he moves to one of the 37 states without an estate tax. No matter how big an estate is, that’s a lot of money. And moving doesn’t cost

¹ Connecticut Department of Revenue Services, Connecticut Estate & Gift Tax Return Instructions, 2018 Form CT-706/709.
anything like that much. We know that we would move to save that much money, and would consider it a betrayal to our family not to.

The Connecticut government knows this. If our elected officials didn’t know that estate taxes force residents to move out of state, they would not have capped the estate-tax take at $15 million. But so far the state – and the current administration – lacks the sense to play out the consequences of this insight. The current structure suggests that the state knows that the estate tax drives older wealthy residents to leave Connecticut, but then it thinks either (a) that those wealthy folks won’t bother to move for anything less than $15 million, or (b) that the state doesn’t need taxpayers whose wealth is higher than the minimum threshold but not deep into 9 figures. This doesn’t make any sense.

Both of these propositions seem patently, obviously, indisputably wrong on their face. And as the Yankee Institute demonstrated in 2016, the evidence shows them to be wrong.\(^2\) The estate tax is pushing wealthy taxpayers out of state.

As a result of this effect, the estate tax becomes even more regressive. The tax doesn’t, by and large, get paid; instead, it motivates high earners to leave Connecticut. When those high earners leave, they avoid not only the estate tax, but income, sales and property taxes in Connecticut, all of which are relatively very high. This leaves the rest of us to pick up the difference – raising our taxes. And when those of us who remain can’t afford to pay any more in taxes, state benefits and programs must be cut, hurting the most vulnerable residents of the state. That describes regressive taxation to a T – maybe not in design, but definitely in effect.

The final problem with the estate tax is how much it costs to enforce. The estate tax is notoriously expensive to apply. It grosses about $175 million a year, though the figure varies widely from year to year and thus provides a poor basis upon which to make economic plans. By itself, though, this is a completely meaningless figure. What’s important to the budget, and to the state, is how much the estate tax nets, after all relevant effects are considered, including enforcement costs.

In short, with the estate tax we have a tax that doesn’t gross much money in the first place, is highly volatile and unreliable even at that low level, is very expensive to enforce, and drives out untold numbers of residents who would otherwise stay in Connecticut and bear a significant portion of the tax bill.

Let’s repeal the estate tax. We’d all be better off if we did.