STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE FINANCE, REVENUE AND BONDING COMMITTEE
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Testimony Opposing Senate Bill No. 1136

AN ACT ESTABLISHING A CREDIT AGAINST THE ESTATE TAX, REQUIRING RECOMMENDATIONS FOR THE ESTABLISHMENT OF A SOCIAL IMPACT BONDING PROGRAM AND CONCERNING A CAPITAL GAINS SURCHARGE AND THE USE OF REVENUE THEREFORM

Senator Fonfara, Representative Rojas and distinguished members of the Finance, Revenue and Bonding Committee, thank you for the opportunity to offer testimony on Senate Bill No. 1136, An Act Establishing A Credit Against The Estate Tax, Requiring Recommendations For The Establishment Of A Social Impact Bonding Program And Concerning A Capital Gains Surcharge And The Use Of Revenue Therefrom.

This bill would impose a 1.5 percent surcharge on capital gains for those individuals in the 6.99% tax bracket beginning in the 2020 income year. Revenue derived from the new tax would be deposited into a newly established "capital gains account". The account would be used by the Treasurer to make required payments to the State Employees Retirement System and the Teachers Retirement System. After FY 2021 funds in the account would be used for additional payments for SERS and TRS for unfunded liability, payments to social impact bond investors, or any combination thereof. The bill would also establish a 200% tax credit against the estate tax for amounts invested by a decedent in social impact bonds created in the bill or in certain venture capital funds of Connecticut Innovations.

As the Governor has stated many times, we remain opposed to an increase in income tax rates. Since our state's enactment of a broad based income tax in 1991, we have raised income tax rates five times. Moreover, where once we had a single 4.5% tax bracket, we now have seven tax brackets that range from 3.0% to 6.99%. For our citizens in that upper bracket, the increase in tax rates from 4.5% to 6.99% represents an astounding 55% increase in taxes. Yet, the proponents of this bill believe that is not sufficient and would essentially be increasing taxes on capital gains by more than another 20% over current law. Unfortunately, establishing a separate tax rate on capital gains will be an entrée for further such tax increases in the future.

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As you are well aware, our state has wrestled with anemic revenue growth since the end of the last recession and we remain mired in an economy that is smaller than it was ten years ago adjusted for inflation. Employment levels remain below their pre-recession peak and median housing prices remain 12% below their peak in 2007. Sadly, some of our citizens are voting with their feet. Since 2013, the state has lost population. Raising income tax rates does not appear to be a recipe for success. It is important to be reminded that filers earning over one million dollars represent less than 1.0% of total filers yet paid 35% of our income tax in income year 2017.

As you are also well aware, given that the General Assembly passed a volatility cap in 2017, this revenue source is particularly vulnerable to changes in the economy in general and financial markets in particular. The General Assembly rightfully sought to insulate the General Fund operating budget from this volatility by creating the volatility cap. As this bill would spend these funds on required SERS and TRS pension payments it is thus reintroducing volatility to the financial support of those two programs. Although unclear in the bill, the setting up of a separate account may also be an attempt to bypass the state's volatility cap and constitutional spending cap programs supported by this proposed revenue source while simultaneously loosening the volatility cap a mere two years after it was passed. This change in tax policy would also not be well received by credit rating agencies as recent rating reports have affirmed Connecticut's budgetary principles of mitigating volatility and relying on recurring revenues. I implore you to consider tax policy that will posture Connecticut for stability, competitiveness and growth.

The bill will also establish a 200% estate tax credit for amounts invested by a decedent in social impact bonds authorized by DECD a venture capital fund established by Connecticut Innovations. The state already has numerous tax credits, none of which are set at a level as high as 200%, which makes this a significant outlier to the benefit of the heirs of large estates in Connecticut.

For the reasons outlined above, I respectfully request that the committee oppose this bill. I would like to again thank the committee for the opportunity to submit this testimony.