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TESTIMONY OF SHELDON TOUBMAN BEFORE THE FINANCE, REVENUE AND BONDING COMMITTEE IN SUPPORT OF HB 1136, SECTION 3, WITH MODIFICATIONS, AND ADDITIONAL REVENUE PROPOSALS TO PREVENT CUTS TO THE ESSENTIAL SAFETY NET

Good afternoon, Senator Fonfara, Representative Rojas, and other Members of the Finance, Revenue and Bonding Committee:

My name is Sheldon Toubman and I am an attorney in the benefits unit of New Haven Legal Assistance Association. I exclusively represent low income individuals, particularly those needing access to health care under Medicaid.

I am here to testify in support of section 3 of the Committee's bill, HB 1136, which, with modifications, will help to address the serious budget shortfall the legislature is facing so as to prevent further cuts to the safety net, while asking the most privileged individuals in our state to contribute a little more to make this possible. In addition to supporting that bill, with some suggested revisions to make it fairer, more progressive and more effective, we also support the other revenue proposals put forth by CT Voices directed at addressing both the imbalance in our taxation system and the need to balance the budget. See http://www.ctvoices.org/sites/default/files/bud19RevenueOptions_2019_04_04.pdf and http://www.ctvoices.org/sites/default/files/bud19RevenueOptions.pdf

Without these additional revenue sources, large cuts to the safety net, beyond those made in past years and proposed in the Governor's budget, will unfortunately be necessary. For example, the problematic proposed cuts even under the Governor's budget -- premised upon the assumption that his proposed broad expansion of the sales tax, to bring in $292 million and $505 million in the next two years, respectively, will be adopted by the legislature -- include:

- new prior authorization requirements in Medicaid (to save almost $30 million/year in the second year- state and federal dollars)
- imposition of an asset limit for the Medicare Savings Programs (to save $25.6 million/year)

However, if the legislature does not adopt the Governor's proposed sales tax expansion, there will be a **half billion dollar hole in the second year of the budget**, such that much deeper cuts to the safety net will have to be made. Given this obvious need, as well as the severe income inequality already present in our state which was exacerbated by the massive tax break given to the highest earners under the Trump Tax Cut bill, we fully support the committee's proposal to impose a capital gains tax surcharge.

Nevertheless, the specific proposal of a surcharge of only 1.5%, only on capital gains and only on the very top tier of earners is insufficient, while placing the money in a separate account will prevent the money raised from being used to balance the budget so as to prevent these cuts. As proposed, it is only expected to bring in a fraction of the $505 million loss (second year of the biennium) if the sales tax expansion is not passed—and we need additional revenue beyond that to avoid the Governor's proposed cuts above.

Accordingly, we urge revisions to HB 1136, as well as adoption of other revenue options directed at making our tax system fairer and ensuring that the budget is not balanced on the backs of the poorest, most vulnerable residents in our state.

First, 1136, section 3, should be amended to increase progressivity and bring in more revenue by applying a surcharge of **at least 2%** to both capital gains and income from dividends and interest, and it should be applied to the top two tiers, not just the top tier. Including those with incomes over $500,000 (joint filers), those in the second tier, is certainly fair and reasonable. And the bill also should be amended to provide that revenue raised goes to the general fund.

Second, there is no reason that the highest earners whose income is not in one of these specific categories should not be asked to pay a little bit more as well. Those with multi-million dollar **salaries** also received a massive windfall under the Trump Tax Cut so they can quite reasonably be asked to contribute a modest portion of that to the preservation of the safety net for the most vulnerable CT residents. Therefore, we endorse the other revenue proposals of CT Voices for Children, particularly the proposed increase in the income tax rates for the two top tiers of individuals from 6.9 and 6.99% to 7.9 and 7.99%, respectively. Raising these top two tiers is estimated to raise $437 million.

Finally, in the case of both the income tax rate increase proposal and the capital gains tax surcharge proposal in 1136, you do not have to worry about driving wealthy folks out, as is often claimed based on a few anecdotes. The research establishes that high earners very rarely move over state taxation issues alone. In any event, the proposed increases will **still** leave the highest earners with a lower income tax rate than the rates in our neighboring states in the tri-state area where the financial services industry generally is, and has to be, based (NJ's is 8.97% and NY's is 8.82% -- with up to a 3.88% additional tax for those residing in New York City).

I certainly recognize that it is not an easy thing to raise taxes, but the alternative, given the fixed pie, is that significant cuts to essential safety net programs will just have to be made—to protect the wealthy from any tax increases. That is certainly not the state that most of your constituents want to live in, with a Sacred Heart University poll finding that 75% of Connecticut residents support raising taxes on those with incomes over $500,000 if needed to prevent cuts to the safety net. There is just no other way.