Bill No.: SB-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 THE REVENUE THEREFROM.

Vote Date: 5/1/2019
Vote Action: Joint Favorable Substitute
PH Date: 4/29/2019

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SPONSORS OF BILL:
Finance, Revenue and Bonding Committee

REASONS FOR BILL:
This bill establishes an estate tax credit equal to 200% of the amount a decedent invested in (1) social impact bonds authorized under a Department of Economic and Community Development (DECD) -established bond program, (2) a Connecticut Innovations-established venture capital fund, or (3) both. Any amount invested in bonds or a fund must have been invested for at least five years at the time of the decedent’s death.

It also requires DECD to develop legislative recommendations regarding the establishment of a social impact bonding program targeted at distressed municipalities and submit them to the Finance, Revenue and Bonding Committee by January 17, 2020.

RESPONSE FROM ADMINISTRATION/AGENCY:

Office of Policy and Management, Secretary, Melissa McCaw
OPM shared their opposition to an increase in income tax rates as this proposal seeks to do. The secretary explained that this proposal 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. 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. She also notes that 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. 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.

NATURE AND SOURCES OF SUPPORT:

William Buhler
Mr. Buhler testified in support of section 3 of this bill. He explained that in light of Connecticut’s declining revenue growth, shrinking tax base and faltering economy I emphatically support a surcharge on capital gains income and other tax increases for the top two tiers of wealthy residents. He notes that Connecticut has the 2nd highest per capita income in the nation but little of the income gains circulate in the real economy. Spending drives the economy and because little is going on, the economy isn’t growing. Even as the ranks of millionaires expand the tax base is shrinking. The passage of a significant surtax on highest income residents will not threaten their affluent lifestyles.

CT Legal Rights Project- Kathleen Flaherty, Executive Director
Sheldon Toubman- New Haven Legal Assistance Association
Ms. Flaherty and Mr. Toubman thanked the committee for its leadership for hearing this proposal and attempting to come up with creative revenue solutions to support the expenditures outlined by the Appropriations Committee. Both groups encourage the members to continue to explore revenue proposals that place more responsibility on those who have more available to give.

NATURE AND SOURCES OF OPPOSITION:

Connecticut Business Industry Association- Eric Gjede, Vice President of Gov’t Affairs
CBIA explained that SB 1136 imposes a new one and a half percent surcharge on any capital gains from the sale or exchange of capital assets by any taxpayer paying the highest marginal income tax rate. CBIA opposes this measure out of the concern that it may discourage investment by residents that ultimately benefit the state economy. Mr. Gjede notes that if SB 1136 is enacted, not only would Connecticut have one of the highest capital gains taxes in the country, but it would be one of only two states that tax short term capital gains at a rate higher than ordinary income, and the only state in the country to tax long-term capital gains at a higher rate than ordinary income. CBIA is concerned that SB 1136 simply provides another source of revenue that will remove any incentive for lawmakers to reduce spending and apply the savings to fund past and future obligations. Businesses want to see Connecticut get its fiscal house in order before they will make the choice to invest and grow here.

National Federation of Independent Business
Yankee Institute for Public Policy- Scott Shepard, Policy Director
NFIB and The Yankee Institute offered similar testimony in opposition to Section 3 of the bill as currently drafted, which would establish and impose a new 1.5% capital gains tax surcharge. While one of the intended uses of the revenue source contemplated by this section is to pay down past unfunded pension liabilities, which in and of itself is a responsible fiscal policy that the small business community can support, doing so by creating yet another new revenue stream is not something that NFIB and Yankee can support. Both groups are concerned that the imposition of a capital gains tax surcharge could adversely impact many small business owners as well as the state’s overall economy. Higher tax rates could further fuel outmigration and a new capital gains tax surcharge would likely be a volatile revenue source. A capital gains tax surcharge could hit many small business owners directly, both on the “personal” side of their income, as well as with regard to their businesses. A majority (roughly 75%) of small businesses are established and organized as pass-through entities for federal tax purposes; as such, small business owners (as well as partners, members, etc.) could be directly impacted by the additional taxes contemplated through this legislation.

Reported by: Victor Luna

Date: May 12, 2019