CONNECTICUT VOICES FOR CHILDREN

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Testimony Supporting
H.B. 6187: An Act Concerning the Restructuring of Certain Taxes and Tax Equity
S.B. 821: An Act Concerning the Reformation of Certain Taxes and Tax Equity

Finance, Revenue, and Bonding Committee
March 15, 2021

Dear Senator Fonfara, Representative Scanlon, Senator Martin, Representative Cheeseman, and esteemed members of the Finance Committee,

My name is Sana Shah, and I am testifying today on behalf of Connecticut Voices for Children, a research-based child advocacy organization working to ensure that someday Connecticut is a thriving and equitable state where all children achieve their full potential.

Connecticut Voices for Children is testifying in support of H.B. 6187: An Act Concerning the Restructuring of Certain Taxes and Tax Equity, and S.B. 821: An Act Concerning the Reformation of Certain Taxes and Tax Equity. This testimony is focused on several provisions of both H.B. 6187 and S.B. 821, which include the personal income tax, investment income tax, estate tax, statewide property tax ("Mansion Tax"), property tax credit (CT PTC), and the earned income tax credit (CT EITC). In addition to these provisions, we support the child tax credit (CT CTC) outlined in S.B. 821. Together, income and wealth taxes on the wealthy plus expanded credits for working-class and middle-class families will boost economic growth as well as advance economic and racial justice in Connecticut.

Rising economic inequality and slowing economic growth harm Connecticut's families and children, and the pandemic-induced recession is contributing to the State's precarious fiscal situation. While challenges abound, we can and must do more to protect all Connecticut residents—not just those residents fortunate enough to have a job that allows them to save and build wealth, but also residents that are working multiple essential jobs and yet can barely make ends meet. **H.B. 6187 and S.B. 821 help to create a fair tax system that works for everyone**. Doing so will better support Connecticut's economy in general and allow the State to more effectively support its neediest families and children.

As detailed in our December 2020 report, *Advancing Economic Justice Through Tax Reform*, it is essential to provide context on some of the major economic problems in Connecticut in order to understand the full benefits of the proposed tax reforms.[1]

[1] Patrick R. O'Brien and Daniel Curtis, "Advancing Economic Justice Through Tax Reform," *CT Voices for Children* (December 2020).

First, Connecticut's economy has a highly unjust distribution of income and wealth in general as well as a highly unjust distribution of income and wealth by race. As several key indicators demonstrate, economic injustice has been rising for several decades in the state, benefitting a small group of wealthy families while working- and middle-class families fall further behind. For example, in 2018, the median household in Connecticut had a pre-tax income of $76,106. In contrast, the top 1 percent of tax filers in Connecticut had an average pre-tax income of $3,092,389, which is 40.6 times greater than that for the median household.

The disparity in income is even worse for households of color. For example, in 2018, the median Black household in Connecticut had a pre-tax income of $47,856, meaning the top 1 percent of tax filers in the state had an average pre-tax income 64.6 times greater than that for the median Black household.

Put differently, it would take the median household in Connecticut nearly 41 years to earn what the top 1 percent of tax filers in Connecticut earn on average in a single year and it would take the median Black household nearly 65 years to do the same.[2]

Second, Connecticut's regressive—or unfair—tax system contributes to economic injustice. As the Connecticut Department of Revenue Services' tax incidence report shows, a household earning $76,106 has an average effective state and local tax rate of 13.66 percent, whereas a household earning $3,092,389 has an average effective state and local tax rate of only 6.5 percent. This means that after accounting for state and local taxes, the median household has an income of $65,710 and the top 1 percent of tax filers have an average income of $2,891,384, which is now 44 times greater than that for the median household, an increase of 3.4 times.

This dynamic is even worse for households of color. For example, a household earning $47,856 has an average effective state and local tax rate of 14.72 percent. This means that after accounting for state and local taxes, the median Black household has an income of $40,812 and the top 1 percent of tax filers have an average income of $2,891,384, which is now 70.9 times greater than that for the median Black household, an increase of 6.2 times.

Adding to economic injustice, by disproportionately burdening the typical household, especially those of color, with a higher effective tax rate that exacerbates income inequality and the racial income gap, Connecticut's regressive tax system decreases the amount of income that the typical household, especially those of color, can turn into wealth each year, which in turn contributes to rising wealth inequality and the racial wealth gap. Further, by decreasing the amount of income and wealth available for the typical household to spend and boost economic demand, Connecticut's regressive tax system contributes to slowing economic growth.[3]

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[2] O'Brien and Curtis, "Advancing Economic Justice Through Tax Reform," 4-19.
[3] O'Brien and Curtis, "Advancing Economic Justice Through Tax Reform," 20-33.

Third, Connecticut has managed to close the projected deficits for the upcoming biennium budget due to a combination of fortunate factors—considerable federal support, a rising stock market, and a full Budget Reserve Fund. However, the state projects General Fund deficits of more than $1.4 billion a year on average for fiscal years 2024 through 2026 and the same fortunate factors will likely not be in place and/or sufficient to close those deficits. Most notably, the federal government will not indefinitely provide the same level of financial support that it has over the last year and even a rising stock market and a full Budget Reserve Fund will likely not be sufficient to fully close ongoing annual deficits of $1.4 billion. This problem is especially significant due to the combination of the state's poor economic performance over the last decade and its restrictive spending cap, which operates such that any cut in spending made to balance the budget decreases the budget base in subsequent years, thereby ratcheting down the level of investment in infrastructure and services and further weakening the economy and quality of life in the state.[4]

Fourth, the progressive tax reform policies included in the H.B. 6187 and S.B. 821, would ensure that Connecticut's tax system works to advance economic justice, and it would also help the state to close the projected General Fund deficits of more than $1.4 billion a year on average in the years following the upcoming biennium budget. In particular:

- *Increasing the income tax* on income over $500,000 for single filers and $800,000 for joint filers would provide a substantial source of revenue that is only partially restricted by the volatility cap; it would strengthen a progressive component of Connecticut's regressive tax system because it would be based on ability to pay and would only apply to the top income earners; and it would not make Connecticut an outlier or contribute to "millionaire tax flight."[5]

- *Expanding the estate and gift tax* through a combination of lowering the exemption, increasing the top rate, and removing the payment cap would provide a substantial source of revenue that is entirely exempt from the volatility cap; it would strengthen a progressive component of Connecticut's regressive tax system because it would be based on ability to pay and would only apply to wealthy families; it would help to tax a major source of wealth and income for the wealthiest that would otherwise go untaxed due to the step-up in basis; and it would reverse the dismantling of this progressive tax over the last decade and a half.[6]

- *Establishing a surcharge on investment income* over $500,000 for single filers and $1 million for joint filers would provide a substantial source of revenue that is only partially restricted by the volatility cap; it would strengthen a progressive component of Connecticut's regressive tax

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[4] O'Brien and Curtis, "Advancing Economic Justice Through Tax Reform," 34-36; "Three Year Budget Report for FY 2024, FY 2025 and FY 2026," *State of Connecticut* (January 2021), 1.
[5] O'Brien and Curtis, "Advancing Economic Justice Through Tax Reform," 38-41.
[6] O'Brien and Curtis, "Advancing Economic Justice Through Tax Reform," 42-44.

system because it would be based on ability to pay and would only apply to wealthy families; it would help to offset the step-up in basis that primarily benefits the wealthy; and it would partially reverse a tax cut for wealthy families.[7]

- *Establishing a statewide property tax (or "mansion tax")* on the portion of the market value of each owner-occupied home in excess of $1.5 million would provide a substantial and stable source of revenue that is entirely exempt from the volatility cap; it would add a progressive component to Connecticut's regressive tax system because it would be based largely on ability to pay and would only apply to wealthy families; it would not contribute to "mansion tax flight"; and it would be easy to implement relative to many other new wealth taxes.[8]

- *Expanding the Connecticut earned income tax credit (CT EITC) to 50 percent* would strengthen a progressive component of Connecticut's regressive tax system because the credit is based on income level and number of children and would benefit working-class families, who have the highest effective tax rate; it would especially benefit families of color, who have lower incomes and higher effective tax rates on average; it would reverse a tax increase on working-class families; and it would reduce poverty and boost economic growth.[9] This expansion is estimated to cost an additional $130 million a year, or an additional $155 million if the expansion includes Individual Taxpayer Identification Number (ITIN) filers. Wealth taxes can provide for this cost.

- *Increasing the Connecticut property tax credit (CT PTC)* would reverse a tax increase on working- and middle-class families; and it would reduce poverty and boost economic growth.[10]

- *Creating a Connecticut child tax credit (CT CTC)* that is fully refundable and has no phase in would add a progressive component to Connecticut's regressive tax system because the tax credit would be based on the number of children and would primarily benefit working- and middle-class families; it would especially benefit families of color, who have lower incomes and higher effective tax rates on average; it would make Connecticut more in line with the majority of states, which provide tax breaks to offset the cost of raising children; and it would reduce poverty and boost economic growth.[11]

Finally, it is important to emphasize two related points. First, the objective of tax reform is not simply to raise taxes on the wealthy in order to increase spending but rather to use that new revenue both to maintain the existing projected levels of spending and to lower the disproportionate tax

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[7] O'Brien and Curtis, "Advancing Economic Justice Through Tax Reform," 45-46.
[8] O'Brien and Curtis, "Advancing Economic Justice Through Tax Reform," 47-48.
[9] O'Brien and Curtis, "Advancing Economic Justice Through Tax Reform," 49-51.
[10] O'Brien and Curtis, "Advancing Economic Justice Through Tax Reform," 52-54.
[11] O'Brien and Curtis, "Advancing Economic Justice Through Tax Reform," 55-58.

burden on working- and middle-class families through some combination of expanding the earned income tax credit, expanding the property tax credit, and/or creating a child tax credit.

Second, when taking into account the tax policy status quo in Connecticut, opposing tax reform because it includes tax increases on the wealthy is the policy equivalent of supporting the disproportionate tax burden on working- and middle-class families, a position that we believe is far more radical than any of the necessarily bold reforms proposed to create a fairer tax system for the vast majority of the state's families.

Thus, Connecticut Voices for Children urges the committee to pass H.B. No. 6187: An Act Concerning the Restructuring of Certain Taxes and Tax Equity and S.B. No. 821: An Act Concerning the Reformation of Certain Taxes and Tax Equity; this fair tax reform program raises income and wealth taxes on the wealthy and also cuts taxes on the working and middle class, all of which will simultaneously raise revenue to fund essential government services, combat rising income and wealth inequality, support the economy, and advance economic justice.

JUST FACTS

- *Policymakers can lower taxes for working- and middle-class families through increasing the state earned income tax credit and creating a state child tax credit*. These tax credits provide substantial assistance to hard-working families and support our economy; together, they lift more families out of poverty than any government program outside Social Security.
- *A state CTC would also enhance the legislature's good work in eradicating child poverty.* 14.1 percent of children under 18 years (a total of 101,233 children) live below the poverty level in Connecticut, and it is the only high cost of living state in the U.S. that has an income tax but does not provide a child exemption or credit.
- *There is no evidence to support concerns about out-migration of millionaires.* Rather, 85 percent of out-migration is from working- and middle-class families making less than $200,000.
- *Connecticut an extreme outlier when it comes to not adjusting the state income tax for family size, contributing to its population decline and slow economic growth.* IRS data show that the top destination for families leaving Connecticut is New York, which has a top income tax rate of 8.82 percent, compared to a top rate of 6.99 percent in Connecticut, so there's no income tax incentive for millionaires to move to New York. However, there is currently an income tax incentive for middle-class families to move to New York. For example, in 2019, the median household income in Connecticut was $78,833, and a family in Connecticut at that income level with three children would pay $3,187 in the state income tax. In New York, in contrast, that same family would pay only $2,125, or about $1000 less in the state income tax. The reason is that the New York state income tax adjusts for family size, but the Connecticut income tax does not.
- *Establishing a surcharge on investment income will help raise much needed revenue for the state.* Establishing an additional one to two percent surcharge on investment income

exceeding $500,000 (1 million for joint filers) could raise anywhere from $167 million to $334 million per year

- *Connecticut's housing market is the strongest it has been in more than a decade due to an influx of New Yorkers fleeing the city amidst the coronavirus pandemic, making this an opportune time to establish a mansion tax.* Applying an additional one to two percent property tax on the portion of each home valued over 1.5 million could raise anywhere from $331 million to $663 million.

Thank you for your time and consideration.

Sincerely,

Sana Shah
Chief of Staff
Connecticut Voices for Children