CONNECTICUT TAX BASICS

Tax Review Panel
January 29, 2015
Taxes...are dues that we pay for the privileges of membership in an organized society.

President Franklin Roosevelt

I shall never use profanity except in discussing taxes.

Mark Twain
TAX PRACTICE

In the tax-law boiler room, the motto is, “Anything worth doing is worth overdoing.”

Michael Graetz & Ian Shapiro, *Death by a Thousand Cuts* (2005)
## Changing State Tax Profile

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>FY 1984</th>
<th>FY 1994</th>
<th>FY 2004</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (PIT)</td>
<td>0%</td>
<td>37%</td>
<td>48%</td>
<td>53%</td>
</tr>
<tr>
<td>Sales &amp; Use (SUT)</td>
<td>46%</td>
<td>32%</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Corporate</td>
<td>14%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Motor Fuels</td>
<td>7%</td>
<td>6%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Cigarette</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>All Other Taxes</td>
<td>30%*</td>
<td>13%</td>
<td>10%</td>
<td>12%</td>
</tr>
</tbody>
</table>

* Includes taxes on capital gains, dividends & interest
TAX LEGACY

OLD WORLD
- Production economy
- Wage earners
- Geographic boundaries
- Physical presence
- Tangible property
- Separate entities
- Cost of performance
- C corps

NEW WORLD
- Service economy
- Mobile & contingent workforce
- Cyberspace
- Economic presence
- Intangible property
- Combined reporting
- Market-based sourcing
- Partnerships, S corps, LLCs
TAX POLICY

pol·i·cy n. 1. A plan, guiding principle or course of action designed to influence and determine decisions and actions.

2. The numbers game.
   - Incidence
   - Equity
   - Effective rates
   - Pyramiding (“tax on tax”)
   - Competitiveness
   - Neutrality
   - Volatility
   - Sufficiency
   - Affordability
   - Tax expenditures
   - Tax gap & “tax planning”
   - Federal/state complementary
   - Cost of administration

Vision
TAX RORSCHACH TEST

What do you see?

Appropriations is NOT tax policy.
TAX LAW PRINCIPLES

- Due Process
- Equal Protection
- Commerce Clause
- Nexus
PERSONAL INCOME TAX

- Federal AGI based
- Rates & brackets (recapture)
- Withholding & estimated payment
- Modifications
- Credits (EITC, property tax & Angel Investor)
- Refunds: Direct deposit, check & debit card)
SALES & USE TAX

- Permits
- Rates
- Goods & services
- Tangible & intangible personal property
- Exclusions
- Exemptions
- Nexus & “Marketplace Fairness Act”
BUSINESS TAXES

• Corporate income tax
  • Rates & surcharge
  • Separate or combined (preference tax): Unitary?
  • Apportionment
  • NOL
    • Transfer payments
    • Offshoring
• Business entity “tax”
• Pass-through entities: Income tax
• Hospitals & longterm care facilities
• Insurance companies
• Utilities, public service companies, CATV, railroads, motor carriers
• Dry cleaners & remediation
• Credits & sales tax exemption
OTHER TAXES

- Gift & estate taxes
- Fuel & petroleum products taxes
- Liquor taxes
- Tobacco taxes & MSA
- Real estate conveyance
- Admissions & dues
- Regional set-asides
STATE TAX AUTHORITY

- Commissioner’s Office
- Operations
- Collections
- Audit
- Penalty, interest, waiver & amnesty
- Criminal enforcement
- Litigation
- Security & non-disclosure of taxpayer information
- Interagency & interstate offsets
- IRS
QUESTIONS ?