Connecticut’s Tax Climate

Connecticut Tax Review Committee
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About the Tax Foundation

• Nation’s leading independent tax policy research organization
• Principled research, insightful analysis, and engaged experts
• 77 years of informing smarter tax policy at the federal, state, and local levels
• Tax systems that are simple, neutral, transparent, stable, and pro-growth
• State program named most impactful in state tax policy by *State Tax Notes* for 2011, 2012, & 2013
Tax Foundation Annual Projects

- **Facts & Figures** booklet
- **State-Local Tax Burdens**
  - Connecticut residents pay 11.9% of their income in state-local taxes, the 3rd highest in the country
  - Consistently in highest five states since 1992
- **Tax Freedom Day**
  - For Connecticut, is on May 13 in 2015
  - National day is April 24
- **Location Matters**
- **State Business Tax Climate Index**
Do Taxes Matter?

• Many things affect business and individual location decisions
• Taxes are part of that equation and policy changes can have immediate effects
• Anecdotes (Phil Mickelson, Tiger Woods, Gerard Depardieu, Tom Golisano)
• Migration effects in international tax policy are demonstrably large
• Migration is real enough that states seek to crack down on it
Do Taxes Matter?

• Study of 26 peer-reviewed academic articles on relationship between taxes and economic growth
  – All but three find a negative effect of taxes on growth
  – Most harmful to least harmful: corporate income tax, individual income tax, consumption taxes, property taxes
  – Even CBPP concedes there are “some studies by reputable economists” finding high state-local taxes have “measurable and consistently adverse impact on state economic performance.”

• Short term vs. long term
• Total cost vs. marginal cost
• Benefits vs. costs
Location Matters

- High corporate tax rate but single sales factor apportionment and no throwback rule
- High unemployment insurance taxes
- Capital stock tax (one of 18 states)
State Business Tax Climate Index

- *How* (not *how much*)
- Ranking of status quo (as of July 1) and roadmap for improving
- Overall rank and five component ranks
  - Individual Income, Corporate Income, Sales, Unemployment, and Property/Wealth
- Widely cited and used by media, policymakers, and other indices
- Downloaded 500,000 times a year
- Survey of academics, policymakers, and media named it 21st best think tank policy report in the world
State Business Tax Climate Index

2015 State Business Tax Climate Index
Which states have the most competitive business tax systems?

Note: Published October 28, 2014.
Source: State Business Tax Climate Index.

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State Business Tax Climate Index

• Connecticut’s overall rank is 42nd
  – 1st being best, 50th being worst
• Corporate Tax Component: 32nd
• Sales Tax Component: 42nd
• Unemployment Insurance Tax Component: 20th
• Property Tax Component: 49th
• Individual Income Tax Component: 34th
State Business Tax Climate Index

- Individual income tax recapture provision
- Income tax brackets not indexed for inflation
- Corporate income tax 20% surtax
- No net operating loss (NOL) carryback provision
- Capital stock tax
- Estate tax ($2m threshold) and gift tax
- Sales tax rate of 6.35% ranks 31st highest
- Sales tax breadth low, about 26%