CONNECTICUT CORPORATE TAXES
GUIDING PRINCIPLES
Presented to the Connecticut State Tax Panel
October 13, 2015
AGENDA

Historical perspective

Guiding principles

Current state

Trends

Q&A
HISTORICAL PERSPECTIVE


“Business Tax policy is cumulative, legacy-based, revenue driven, insufficiently aligned with economic policy, & inadequately reflects the emergent marketplace (global, mobile, virtual, contingent employment, intangible goods & services).”

- No defined policy
- Developed over time
- Driven by revenue needs
- Successful projects in targeted areas
- No overall alignment with economic policy or marketplace
GUIDING PRINCIPLES

Tax policy principles
• Revenue stability & sufficiency
• Balanced revenue sources
• Structural stability
• Ease of compliance
• Fair, efficient and cost effective administration
• Reflect the global and local marketplace

Analysis
• Sound policy “anchors” businesses and encourages investment
• Permits long-term investment and location planning
• Avoids short-term instability that creates budget crises
• Administrable by taxpayers and DRS
Comptroller Kevin Lembo

"Deposits into the fund must become a higher budgetary priority during good economic times and the cap on the Budget Reserve Fund balance must be increased…[t]he Budget Reserve Fund has the potential to enable the state to better manage the swings in revenue collections by storing money away in good economic times so that it is available when the economy slumps.

"This will hasten the state's rebound from the next recession and avoid a slower recovery. It will also help prevent cuts in programs and services at a time when they are most needed and tax increases when least affordable."

• Need a sufficient reserve fund to address volatility in revenue
• Many of our controversial tax proposals were in reaction to short term funding needs
• “Bad facts make bad law”
OVERVIEW - CORPORATE TAXES TODAY

Tax types – Not Just Corporate Income Tax
  • Income taxes – Personal and Corporate
  • Special industry taxes, e.g. insurance premiums
  • Sales & use tax
  • Local property tax
  • Unemployment insurance tax

Common tax credits
  • Research & development
  • Investment – property & people

Analysis
  • CT appears similar to most other states
  • Differences relate to the implementation
  • Volatility
  • Expanded bases
TRENDS IN CONNECTICUT

Trends

• Sharp decline in corporate taxpayers
• Total corporate income tax revenue remained constant
• Significant portion of other taxes, e.g. S&U and property
• Proposals to limit critical provisions, e.g. credits, NOLs, sales tax exemptions

Analysis

• Corporate tax policy must extend beyond the corporate income
• Should follow universally held tax principles, e.g. do not tax business inputs
• Long term investment and employment decisions require predictability in tax policy, e.g. cannot automatically sunset exemptions, credits
CT CORPORATION BUSINESS TAXES

82% Increase in Average Corporate Tax Liability Since 2001

Decreasing number of businesses organized as corporations (15% decrease since 2001)
Institute on Taxation and Economic Policy / Citizens for Tax Justice

“Economists agree that items purchased by wholesalers for resale, and items purchased by businesses for use in producing other products, should not be taxed.

Taxing these services will make sales taxes more unfair because [they] are ultimately passed through to the consumer in the form of higher prices…are invisible to the consumer and have unpredictable effects on tax fairness….”

- The ideal tax structure would not tax business inputs
- Pyramiding, lack of transparency, distortion of investment decisions
- CT continues to move farther away from this economic principle
GOING FORWARD

Sound tax policy will shape revenue decisions

Ease revenue insufficiency and volatility

Foster a predictable, stable and growing business climate

Make investment and location decisions easier

Bottom Line - Maintains competitiveness for the state in a global market
Q&A

Thank you!

Panelists – CBIA Tax Committee Members
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