DIVERSIFYING MUNICIPAL REVENUE IN CONNECTICUT

Presentation to the Connecticut Tax Study Panel
November 17, 2015

David L. Sjoquist
Georgia State University
Department of Economics
and Fiscal Research Center
Overview

• Current Environment

• Arguments For & Against Diversification

• Policy Options
  ▪ Adopt Local Sales Tax
  ▪ Adopt Local Income Tax
  ▪ Increase User Charges
Current Environment

Property Taxes/ OSR
Connecticut  88.0%
U.S.  51.1%

Property Taxes/ Tax Revenue
Connecticut  98.8%
U.S.  73.9%
Why Diversify Revenue

• Reduce reliance on property taxes
• Capture revenue raising capacity
• Revenue stability
Reasons Not to Diversify

• Property tax is a good tax
• Property tax is more stable
• Could lead to larger expenditures
Local Sales Tax

Considered a 1% tax on state base

• Revenue going to host town
• Regional sales tax
Estimated Revenue

• Generate an estimated $607 million

• Rev per capita vary widely across towns
  - $5 to $717 for the Local Sales Tax
  - $42 to $230 for the Regional Sales Tax
Estimated Revenue per Capita

Number of Towns

Local Sales Tax Per Capita  Regional Sales Tax Per Capita
Other Issues

• Cross-border effects
• Fiscal disparities
• Could reduce property taxes by about 6.1%
• Cost of admin/ compliance would be small
Other Issues

- Generate revenue from commuters/shoppers
- Some shifting of sales between towns
- Towns will compete for sales tax base
- More regressive than the property tax
Local Income Tax

Considered the following:

• AGI Tax:
  0.75% tax on CT AGI

• Income Surtax:
  18% tax on CT tax liability

• Payroll Tax:
  1% tax on earnings by place of employment

• Split Earnings Tax:
  1% tax on earned income split by
town of residence and town of employment

• Residence-based Tax:
  1% tax on earned income of residents
and those working in the town,
with a credit to town of residence
Estimated Revenue

• Generate an estimated $1,084 million

• Rev per capita vary widely across towns
  ▪ AGI Tax: $40 to $1,773
  ▪ Payroll Tax: $22 to $872
  ▪ Split Earnings Tax: $97 to $760
Estimated Revenue per Capita

Number of Towns

CT AGI  Payroll Tax  Split Earnings Tax
Other Issues

• Effect on employment
• Fiscal disparities
• Could reduce prop taxes by 11.5%
• Small admin cost for AGI Tax & Inc Surtax
• Large admin cost for earned income tax
Other Issues

• Payroll tax would generate rev from commuters
• AGI Tax and Inc Surtax are progressive
• Tax on earned inc is slightly regressive
User Charges and Fees

- Signals cost of providing public services
- Can reduce congestion
- Equity
- Can be a flat tax per household
Reliance on Current Charges

- CT raises 8.6% of OSR from current charges
- Average for U.S. is 22.9%
- Might increase revenue by $349 to $867 million
Reasons for Low Reliance

• State sets limits on some charges
• State is responsible for some services
• Reticence to use fees
Impact Fees

Not allowed in CT

Potential revenue of $33.4 to $45.2 million
Charges: Policy Options

• Review state limits on fees
• Encourage greater use of fees
• Encourage shifting to fees based on use
• Authorize impact fees
Thank You

Questions?
Figure 3. Percent Reduction in Property Taxes