

Recommendations and Solutions for Improvement of the
Connecticut Tax Code

John Henry
PO Box 782
Naugatuck, CT 06770-0782

Connecticut suffers from an overly expensive to administer and very unstable tax system. To have a stable state financially taxation has to be built on a stable base. Wages, capital gains, property value, sales tax and lottery earnings are not stable bases. In addition the present system has many holes in it that allow for noncompliance not being economically found and corrected.

To have a fair tax system requires everyone to pay their fair share for state services. The most equitable system taxes based on the quality of life one is able to enjoy in Connecticut. In addition the system needs to use data that already exists and is constantly kept current. How do you measure quality of life? I believe that quality of life can be shown by what you own and what you have for living space. If you live in a 500 square foot apartment in a multi-floor apartment building and have a 15 year old car, I think most people would agree that your quality of life was better than someone living in a similar apartment but who could not afford a car. I think most people would agree that someone living in a single family starter home of 1000 to 1500 square feet on a ¼ acre lot and has a 3 year old car has a better standard of life than you do.

The key to the system is not the location or value of the housing or land, but the size. A person living in a 1000 square foot home anywhere in the state has the opportunity to enjoy the same housing. It does not matter if it is in Greenwich, New Haven, Hartford or Union. You only have so much space to enjoy. The owner chose the location to enjoy that space on many other factors that are important to them. It may be in the mountains, a city, a rural area, or on the waterfront. Each person has a different preference for these items, but all get to enjoy the same space to live in. The same goes true for land. A person on the 5th floor of an apartment building doesn't have much land to enjoy. A person on a 5 acre lot has an entirely different opportunity to enjoy that land. This also carries through to vehicles. These are the things

that measure quality of life. Luckily records of all of these items are already on file in every town. They are also accurately updated ever time a property is modified. Thus no added data needs to be collected or maintained. They are also material items that can be readily identified and accounted for. Thus the cost of auditing is very low. The only place to audit is the towns. They are easy to do with a very high accuracy.

So what is my solution? The General Fund should be funded only by a tax on residential housing space by the square foot, a tax on land by the acre or fraction there of whether for housing or commercial use, and on the value of the vehicle personally owned if that vehicle is less than 7 years old. The first 500 square foot of housing should be exempt. All other taxes must go to there own fund usable only for the stated purpose.

The sales tax should be repealed. It is a tax that is not enforceable. People buy from the internet and do not pay use tax or they bring items in from out of state and don't pay. It required a lot of manpower to process and to audit this tax to no compliance success. It also detracts from the business ability use the time necessary to process these returns to produce income for more business useful purposes. It also impacts lower income people more than upper income people because of their lower disposable income available to pay the tax and is an unstable base for tax purposes.

The personal income tax on earned income should be repealed. It is an unstable tax and does not measure quality of life. If you make twice as much as someone else but spend twice as much time working do you have twice the quality of life? The answer is no! There are only so many hours in a day and if you are working 16 of them you have no time to build a quality life. All you have is money. Money is not quality of life. Taxation on unearned income should have an exemption level that allows an average

person to slowly build some financial security untaxed. Excess compensation would be taxed to the business as explained next.

The corporate business tax needs to be changes so that it taxes a company for excess profits versus invested capital. If profit, after net operating loss carry forward, exceeds 10-15% of invested capital, this should be considered excess earning and be taxed for the excess. In the calculation of profit the excess compensation of employees will be added back in. If any FLSA exempt employee is paid more than 25 times the full-time equivalent pay of someone earning minimum wage, then that excess should be added to the company profits and if it results in excess profits then the company will pay the tax. There is one more modification needed for this rule. The wage of those employees, if employed by a multi-state or multi-national company, shall have their wages modified by the proportional factor that the income of the company is from Connecticut versus their entire income. So if a company has a high paid executive living in Connecticut and that company's total income is only 10% earned in Connecticut, then only 10% of the executives pay shall be counted in the determination of excess compensation.

PILOT – This program needs to be fully funded and reviewed every few years to determine if all of the items under it are still needed. If you promise something you need to deliver on the promise, not on a small percentage of what you promised.

Fuel taxes need to go into an exclusive fund to be used only on the type of transportation upon which it was collected. The IFTA program, though a pain to do, is one of the fairest taxes there is making sure all heavy trucks operating in and through our state pay for the roads they use. As for non-IFTA vehicles, the diesel fuel tax should remain without the Gross Receipts on Petroleum Products adjustment. That tax (CGRT) is a hidden tax that needs to be repealed on all petroleum products. As for non-diesel

vehicles the gas tax should be repealed. In its place should be a flat tax on all gasoline powered vehicles. That tax should be equal to the current gasoline tax divided by the number on non-diesel powered vehicles registered in the state. Thus electric and hybrid vehicles would be taxed and improved fuel economy on new vehicle would not reduce the tax collected since fuel mileage has no relation to highway wear by a vehicle. No toll and no GPS needed. No added overhead to run the program.

Sin taxes on alcohol and smoking products should be used to help people who have excessively used these products and for education programs about the problems of these products and any other addiction forming habit. This tax also goes into its own fund and is only spent for those purposes.

Lottery and Casino earning shall go into its own fund as well and be used exclusively for the prepayment of state debt. This money shall be in addition to the normal payments on debt. This income is unstable and therefore should not be used as a base tax source. Should all debt be paid off then this fund will continue to build and can only be used to avoid future borrowing. It shall not be a slush fund used for any other purpose.

I have more ideas I would like to offer, but I have run out of time to get this emailed to you. Should you desire more explanation on the above ideas or on any other taxes please feel free to contact me at the address listed on the cover page.

Thank you for the opportunity to have some input on this critical issue.

A handwritten signature in black ink, appearing to read 'John J. Henry', with a stylized, cursive script.

John J. Henry