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**TESTIMONY OF
NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)
BY
ANDY MARKOWSKI, CONNECTICUT STATE DIRECTOR
BEFORE THE
STATE TAX PANEL
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A non-profit, non-partisan organization founded in 1943, NFIB is Connecticut's and the nation's leading small-business association. In Connecticut, NFIB represents thousands of members and their employees. NFIB membership is scattered across the state and ranges from sophisticated high technology enterprises to "Main Street" small businesses to single-person "Mom & Pop" shops that operate in traditional ways. NFIB's mission is "To promote and protect the right of its members to own, operate, and grow their businesses." On behalf of those small- and independent- job-providers in Connecticut, I offer the following comments:

NFIB/Connecticut generally supports the intent behind and the mission of the State Tax Panel but encourages any recommendations to be made by the Panel to include small business perspectives and considerations. The important work before you is a first step in examining Connecticut's tax system and the economic impact it has on the state and upon small business owners. Small businesses play a significant part in our state's economy and are impacted by our tax system through income taxes, corporation taxes including the business entity tax, sales taxes, property taxes, and the estate tax, among others.

Tax related issues continue to be significant problems for small business owners. Small business owners not only find current tax rates a burden but equally problematic is the complexity of tax compliance, inconsistencies in state tax policy, and the frequency of changes in tax laws. In the 2012 edition of "Small Business Problems & Priorities" by the NFIB Research Foundation, "Tax Complexity" ranks as the seventh most serious problem for small business owners, with nearly thirty-percent ranking the problem as "critical"; and "State Taxes on Business Income" ranks as the tenth most serious problem for small business owners, with nearly a quarter ranking the problem as "critical". Small business feels that lawmakers focus only on the problems they and their immediate colleagues create for small business owners. While Congress only looks at the federal tax structure; the state legislature looks only at Connecticut taxes; and municipal bodies only consider the local taxes that they impose. No one, except the small business owner who must pay all the taxes, looks at the accumulation of levies. Owners see the tax problem as a whole and do not distinguish among the problem's sources.



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Therefore, given the unique and critical nature of state tax policy on small businesses, NFIB encourages the State Tax Panel to ensure that small business interests and perspectives are explicitly considered as the Panel contemplates reforms and makes recommendations to the legislature in the future. While matters of tax policy and administration impacting small businesses are both wide-ranging and far-reaching, some specific comments and suggestions on behalf of NFIB include the following:

Corporate Taxes – Regarding corporate taxes, first and foremost for a majority of NFIB members in Connecticut is to completely eliminate the Business Entity Tax (BET). NFIB/Connecticut strongly supports the full repeal of the Business Entity Tax (BET). This tax started as a “temporary” \$250 tax on small businesses simply for their existence in the state of Connecticut, whether profitable or not, to help defray a budget deficit. It was intended to be “sunset”, recognizing that it was particularly burdensome and an affront to Connecticut’s small businesses. This tax is one of many that is heaped upon small businesses and makes it difficult for individuals to own, operate or grow a small business. The BET is levied on top of the numerous other taxes and fees that small businesses must pay in this state, including costs associated with state and local permits and licenses related to the business, sales taxes for goods and services, property taxes and personal income taxes - taxes and fees that are considerably higher than most other states. While some might be dismissive of the BET as being “nominal”, to most small business owners - who operate on very thin profit margins - an extra \$250 back in their pocket would be more than welcome and is useful. For a small business, it could pay for a monthly utility bill, fund some advertising or marketing, or purchase a new printer or piece of office equipment, etc. Beyond the cost savings, fully repealing the BET would be notable for the message that it sends to small business in Connecticut and outside our state as well. Regarding the recent extension, once again, of the corporate tax surcharge, along with corporate tax rates in general, NFIB is concerned from a macroeconomic perspective about what permanently higher corporate tax rates will mean for business and the economy as whole in the state of Connecticut. For business owners, small or large, consistency and stability within the tax code and the state budget is essential for proper planning and ongoing operation of a business.

Personal Income Taxes & State Tax Credits For Businesses – Providing economic relief and certainty to Connecticut’s job creators should be the number one goal of tax policy recommendations to the legislature. Tax policy should be used to help stimulate, not stymie, job growth and the state’s economy. Notably, the state income tax rate has become an increasingly significant part of small business’ cost of doing business in Connecticut.



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More and more small and independent businesses are paying their taxes just like individuals due to the growth in sole proprietorships, partnerships and Subchapter S corporations. In Connecticut, as of 2012, the share of private sector employment by pass through entities is approximately 53%, according to the Tax Foundation based upon the Census Bureau's statistics. As more small and independent businesses pay individual income taxes, fewer state revenue dollars are derived from the corporate taxes. The Connecticut personal income tax rate thus has far a greater impact on job growth and other macro-economic factors, particularly in the critical small business sector. Reduction in the rate will spur new job growth among the state's job creators, while *an increase in the rate will only continue to further stagnate our state's economy*. Additionally, and unfortunately, when it comes to income tax rates, there is another aspect of the issue that is often overlooked: the stark contrast between the state's substantial financial assistance to certain targeted economic sectors and large businesses and the attention paid to the widely dispersed, but long-standing domestic small business sector that provides jobs for a majority of the state's workers. For example, as the Connecticut General Assembly rewarded the profitable film industry with millions of dollars of tax credits and benefits, the income tax rate remained unchanged and in fact even increased for some small and independent businesses. Many struggling small businesses have been and still are, in effect, subsidizing large profitable companies. Furthermore, once again due to the pass through nature of a majority of small businesses, these businesses are not able to avail themselves to many of the various tax credits, such as the apprenticeship training tax credit, etc.

The "Death" Tax – Connecticut's "death" (estate) tax can and does have a devastating impact on many of Connecticut's closely-held family businesses and farms. Further exacerbating this problem is the difference between the state and federal thresholds and application of the death tax. As it is, the estate tax provides no incentive for small and family-owned businesses to expand their business or create new jobs. In fact, it taxes the family right out of business. Much of the cost of the estate tax occurs before the tax itself is levied. This tax applies to property transferred at death if the value of the property exceeds the estate tax exclusion. While the owner of the estate is responsible for the tax, their heirs often are responsible for the actual payment of the tax upon the death of the owner. The value of the estate to which the tax is applied includes all property the owner has an interest in at the time of death, including life insurance, annuities, and business assets. The threat of this tax actually forces small business owners to pay for expensive estate planning if they want to keep their business in their family. Protecting small business from the estate tax is important in order to keep Main Street family businesses in business for future generations, while further reducing the threshold for taxable estates does exactly the opposite.

Property Taxes – Property taxes continue to be a major obstacle for many small businesses in Connecticut. At the same time, small business owners are concerned that



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certain “reforms” to the local property tax system in Connecticut could result in a system of “winners & losers” between municipalities, forcing some towns to increase their mill rates to continue to cover the costs of providing services following a net revenue loss, and thus adversely impacting small business owners’ property taxes. In the 2012 edition of *“Small Business Problems & Priorities”* by the NFIB Research Foundation, “Property Taxes” ranks as the ninth most serious problem for small business owners, falling five positions from 2008, but with nearly twenty-five (25) percent deeming this problem as “critical”. The recession took a heavy toll and real estate values, thus slightly tempering the impact of property taxes on small-business owners. As real estate prices increase, along with municipal mill rates, this will likely become a greater problem once again. Small-business owners are heavily invested in real estate, with ninety-two (92), including commercial and investment properties. Rather than focusing on requiring cities and towns to set aside and share portions of their commercial tax base or participate in regional revenue sharing models, eliminating wasteful spending, incentivizing shared services, and eliminating costly unfunded state mandates on municipalities would help put our cities and towns in a better fiscal position, which in turn would help alleviate the property tax burden and stimulate economic growth at the local level.

Gas Tax – In the 2012 edition of *“Small Business Problems & Priorities”* by the NFIB Research Foundation, “Energy Costs, Except Electricity” ranks as the third most serious problem for small business owners, one position lower from 2008. Thirty-five (35) percent of owners evaluate the problem as critical. Historically, the ranking of this problem reflects the average price of gasoline; not surprising considering the primary energy costs for thirty-eight (38) percent of small employers is in operating vehicles. With gasoline prices in Connecticut typically significantly higher than elsewhere in the region, any relief or restricting of the gas tax that can be provided would be welcome news for small business owners, particularly when prices fluctuate during the busy summer months and/or when wholesale prices typically increase due to market conditions.

Sales Tax – Any future increases to the sales tax will adversely affect many small retailers and other small businesses in the state, making Connecticut less competitive than other states, particularly those surrounding states with a sales tax rate less than the current rate. Furthermore, allowing municipalities, or even worse, un-elected, unaccountable “regional authorities”, the ability to impose additional sales taxes, would do nothing more than frustrate small businesses and create a patchwork of various local taxing jurisdictions in the state of Connecticut. Finally, small business owners that are monthly filers for their sales tax are troubled by the recent “acceleration” of the remittance schedule from 30 days down to 20 days.



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Conclusion

NFIB members do not simply warn against higher taxes and advocate for reforms because they are self-interested. They know that the consequences of failing to reform our tax system will lead to slower job growth and fewer opportunities for Connecticut residents. In order to survive, remain competitive and in business in the highly taxed, highly regulated, harsh economic climate of Connecticut, small businesses have had to have their fiscal house in order; it is certainly about time that state government does the same. Doing so will certainly not be easy. There is no doubt that whatever recommendations the Tax Panel produces will inevitably upset the status quo. NFIB and our members would like you to recognize, however, that your decision and recommendations this year could make the difference between temporary sacrifice and long-term decline.

Thank you for your consideration of NFIB's comments. We look forward to working on behalf of small business with members of the Panel in this important endeavor.