METRO★HARTFORD ALLIANCE

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State Tax Panel
State Capitol Building
Room 501
Hartford, CT 06106

Dear Chairman Dyson, Chairman Nickerson, and State Tax Panel Members:

The MetroHartford Alliance serves as the region's economic development leader and the City of Hartford's Chamber of Commerce. Our investors include businesses of all sizes, health care providers, arts and higher education institutions as well as the municipalities of North Central Connecticut. Our mission is to ensure that the region competes aggressively and successfully for jobs, capital, and talent so that it thrives as one of the country's premier places for all people to live, play, work, and raise a family.

In submitting this letter, we first thank you for your service on this important panel and for the opportunity to share our perspectives which are shaped by our continuing concern for a local economy characterized by slow job recovery, stagnant personal income, and unpredictable state budgets. The latter for the past several biennial cycles have been dominated by unsustainable growth in state retiree benefit costs and Medicaid coverage and equally unsustainable increases in personal and other private sector taxes to cover such spending increases. The combination, along with the additional burden of a growing set of unfunded liabilities, has stymied the retention and increase in private sector employment that is fundamental to generating and sustaining the revenue to invest in education, transportation, and other core public services that attract fiscal and intellectual capital.

With that context in mind, we urge you to submit recommendations that strengthen Connecticut's position as an attractive and robust competitor for private sector entities of all sizes. Some suggested actions include:

- **Elimination of the limitation on the use of tax credits** – In addition to being a key resource for companies, tax credits anchor businesses to Connecticut. The changes put in place in the 2015 legislative session only penalize companies that have invested in plant, equipment and employees in our state, while having no impact on out-of-state companies that exploit Connecticut's market. Further, only three states have permanent limitations on credit usage.

- **Elimination of the limitations on use of net operating loss (NOL)** – Allowing NOLs promotes long-term investment due to length of business cycle to earn a return. Start-up businesses, new product development, or surviving an economic downturn can all create NOLs. Start-up companies and entrepreneurs will simply locate in other states if NOLs limited. The negative impacts of this policy are reinforced by the fact that only two states have permanent limitations on NOLs.

- **Elimination of the sales tax on business analysis and management services** – It is telling that only five states tax these services. Imposing this tax puts Connecticut businesses at disadvantage, especially those headquartered in the state that need to buy consulting services. The establishment of a sales tax on business analysis and management services creates an incentive – in some cases a multi-million dollar incentive - to locate functions that use these services outside of our state.

When making decisions regarding employment, capital investment, and launching new ventures, private sector leaders evaluate numerous factors, including the tax and regulatory climates of states. With each proposed tax or law, policymakers should consider what type of incentives (or disincentives) they are creating - are they motivating businesses to stay and expand, or are they creating sound fiscal reasons for businesses to grow jobs and invest elsewhere. It is critical that Connecticut establish a tax structure that encourages private sector employment, attracts investment, and supports new ventures. Connecticut's tax structure should support the success of not only private sector businesses, but also, hospitals, and not-for-profit and for-profit care providers. State policymakers must recognize that a healthy, growing private sector is vital to generating the revenues needed to meet the education, health care, infrastructure, and social service needs of all residents.

In closing, we refer to Connecticut Tax Study Panel Executive Director Robert D. Ebel's memorandum to the panel's members of May 7, 2015 in which he described the "Criteria for Evaluating Changes in the Connecticut Revenue System." In the memo, Mr. Ebel details a set of criteria for evaluating the quality of the Connecticut state and local revenue system, including simplicity, equity, and certainty and reliability. We would respectfully suggest that it is the criteria of competitiveness that should be first and foremost in the minds of the panel's members. Mr. Ebel writes that it is often argued that if a state's tax system is not competitive, "the result is to discourage private investment and job development within the state." It is critical that we adopt competitive tax policies that drive private sector investment and job growth will in turn produce the revenues to fund the public investments and services demanded by residents and by employers in all sectors of the Connecticut economy.

If you have any questions or wish additional information, please contact my colleague, Patrick McGloin, at 860-728-2263 or me at 860-728-2277. We thank you again for your service and for the opportunity to submit our perspectives, and we look forward to your recommendations.

Sincerely,

Oz Griebel