Taxes...are dues that we pay for the privileges of membership in an organized society.

President Franklin Roosevelt

I shall never use profanity except in discussing taxes.

Mark Twain
## CHANGING STATE TAX PROFILE

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>FY 1984</th>
<th>FY 1994</th>
<th>FY 2004</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (PIT)</td>
<td>0%</td>
<td>37%</td>
<td>48%</td>
<td>53%</td>
</tr>
<tr>
<td>Sales &amp; Use (SUT)</td>
<td>46%</td>
<td>32%</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Corporate</td>
<td>14%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Motor Fuels</td>
<td>7%</td>
<td>6%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Cigarette</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>All Other Taxes</td>
<td>30%*</td>
<td>13%</td>
<td>10%</td>
<td>12%</td>
</tr>
</tbody>
</table>

* Includes taxes on capital gains, dividends & interest
TAX LEGACY

OLD WORLD
• Production economy
• Wage earners
• Geographic boundaries
• Physical presence
• Tangible property
• Separate entities
• Cost of performance
• C corps

NEW WORLD
• Service economy
• Mobile & contingent workforce
• Cyberspace
• Economic presence
• Intangible property
• Combined reporting
• Market-based sourcing
• Partnerships, S corps, LLCs
policy n. 1. A plan, guiding principle or course of action designed to influence and determine decisions and actions.

2. Appropriations.
In the tax-law boiler room, the motto is, “Anything worth doing is worth overdoing.”

Michael Graetz & Ian Shapiro, *Death by a Thousand Cuts* (2005)
TAX PRINCIPLES

Nexus
• Due Process, equal protection
• Commerce clause

Equity

Complexity

Volatility

Competitiveness

Neutrality
TAX INCIDENCE

Property Tax: Moderately regressive, biggest tax bite at 40%, 23% exported, not volatile.

Income Tax: Progressive, 33% total, not exported, volatile.

Corporate Income Tax: Moderately regressive (ultimate consumers), 1% of total, 56% exported, fewer but paying more.

Sales Tax: Moderately regressive, 15% of total, 24% exported, few services, volatile.
PERSONAL INCOME TAX

• Federal AGI based (before deductions & credits)
• Rates & brackets (high end recapture)
• Withholding & estimated payment
• State modifications
• State credits (EITC, property tax, Angel Investor)
SALES & USE TAX

• Permits (renewable)
• Rates
• Consumption of goods & services
• Tangible & intangible personal property
• Tax expenditures
  • Exclusions
  • Exemptions
• Use tax
BUSINESS TAXES

• Corporate income tax
  • Rates & surcharge
  • Separate or combined
  • Apportionment & sourcing
  • Net operating loss (NOL)
  • Transfer payments, offshoring

• Business entity “tax”

• Pass-through entities: Income tax

• Other: Hospitals, insurance companies, utilities, public service companies, CATV, railroads, motor carriers

• Credits & sales tax exemption: Cost, benefit?
  • Competitive or entitlement
CONNECTICUT TAXES ARE NOT ANTI-BUSINESS

• 2015 *Council on State Taxation*
  • Low (2\textsuperscript{nd} region) to moderate (23\textsuperscript{rd} nation) total *effective* state & local business tax burden
  • Lowest (region), 3\textsuperscript{rd} lowest (nation) business share of total state & local taxes
• CBIA 2015 survey: 63% profit, 82% growing or holding steady
• Typical later and slower recovery
• Location, education, quality of life.
• Governor’s transportation initiative

. . . BUT WE CAN ALWAYS DO BETTER
OTHER TAXES

• Gift & estate taxes
• Fuel & petroleum products
• Liquor taxes
• Tobacco taxes
• Real estate conveyance
• Admissions & dues
STATE TAX AUTHORITY

• Commissioner’s Office
• Operations
• Collections
• Audit
• Penalty, interest, waiver & amnesty
• Criminal enforcement
• Litigation
• Security & non-disclosure of taxpayer information
• Interagency & interstate offsets
• IRS
HOT TOPICS

Personal income tax
- Credits
- Mobile workforce
- Retirement income

Corporate income tax
- Unitary, single factor apportionment
- NOL
- R&E, R&D credits
- Gross receipts alternative: Eliminate corporate income tax, pass-through taxation, business entity “tax”

Tax incentives
- What really matters – cost & benefit?

Sales tax
- Economic nexus: Quill “quagmire”
- Remote sellers & “sharing” economy
- Goods & services broader base, lower rate
- Business-to-business services
- Use tax rebuttable presumption
- Earmarking

Local option taxes

Uniform gift & estate tax
- Re-couple with federal tax (indexed)

Administration
- Tobacco enforcement
- Fraud
- Index interest rate & pay first
QUESTIONS ?