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
ATTITUDE ADJUSTMENT
## CHANGING STATE TAX PROFILE

<table>
<thead>
<tr>
<th></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>52%</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>6%</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
STATE TAX COLLECTION

Total Revenue Less Refunds

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Revenue Less Refunds</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2007-2008</td>
<td>$13,000,000,000</td>
</tr>
<tr>
<td>FY 2008-2009</td>
<td>$11,000,000,000</td>
</tr>
<tr>
<td>FY 2009-2010</td>
<td>$9,000,000,000</td>
</tr>
<tr>
<td>FY 2010-2011</td>
<td>$11,000,000,000</td>
</tr>
<tr>
<td>FY 2011-2012</td>
<td>$13,000,000,000</td>
</tr>
<tr>
<td>FY 2012-2013</td>
<td>$15,000,000,000</td>
</tr>
<tr>
<td>FY 2013-2014</td>
<td>$17,000,000,000</td>
</tr>
<tr>
<td>FY 2014-2015</td>
<td>$19,000,000,000</td>
</tr>
<tr>
<td>FY 2015-2016</td>
<td>$21,000,000,000</td>
</tr>
<tr>
<td>FY 2016-2017</td>
<td>$23,000,000,000</td>
</tr>
</tbody>
</table>
**TAX LEGACY**

**OLD WORLD**
- Production economy
- Wage earners
- Geographic boundaries
- Physical presence
- Separate entities
- Cost of performance
- C corporations
- Domestic

**NEW WORLD**
- Service economy
- Mobile & contingent workforce
- Global economy
- E-commerce
- Transfer pricing
- Market-based sourcing
- Pass-through entities
- Off-shore
policy n. 1. A plan, guiding principle or course of action designed to influence and determine decisions and actions.

2. Appropriations
3. Special interests
“Much of what I learned surprised me, especially the degree to which the sound bites...bear as much connection to the reality of the tax system as my...grandson’s belief in Santa....[A] quarter century of tax cuts has produced not trickle down economics, but a Niagara up....”

• Johnston, Perfectly Legal (2005)

“Nowhere are vested interests, through their political action committees, more omnipresent than in tax writing.”

• Birnbaum & Murray, Showdown at Gucci Gulch (1987)

“Tax reform that will make America great again....”

• Trump (2017)
TAX PRINCIPLES

- Nexus
  - Due Process
  - Commerce clause
- Equity
- Cost of compliance (complexity)
- Volatility
- Efficiency
- Accountability
- Competitiveness
PERSONAL INCOME TAX

• Federal AGI based (before deductions & credits)
  • Few state modifications & credits
• Relatively simple rates & brackets (high end recapture)
• Efficient withholding & estimated payment
• CEITC refundable
• ERISA pension preemption
• Domicile evasion
• Volatility: Net negative biennial trend on high end increases
SALES & USE TAX

• Permits (renewable)

• Goods (tangible & intangible) & services (including business to business)

• Tax expenditures
  • Exclusion (services)
  • Enumeration (sales)

• E-commerce
  • Federal commerce clause nexus?
  • Digital downloads/Internet preemption

• Tax gap: Stronger analytics (segmentation & scoring)
BUSINESS TAXES

- Corporate income tax
  - Surcharge
  - Reform trifecta: Unitary, single factor (sales) & market sourcing
  - Net operating loss (NOL)

- Pass-through entities: Income tax

- Business entity “tax”

- Other: Healthcare (Medicaid), insurance, public service companies, admissions

- Transfer pricing, offshoring
OTHER STATE TAXES

• Unified gift & estate
• Motor fuel & petroleum products
  • No tolls
• Liquor & tobacco
• Real estate conveyance

I WANT YOU TO PAY TAXES
LOCAL PROPERTY TAX

- Residential, commercial, personal property & motor vehicles
- Mostly uniform valuation & assessment
  - Homestead-like 30% of value exempt
  - State motor vehicle cap or standard rate
  - Commercial market-adjusted
- Wide base variation = wide AENGL adjusted variation per median family or per capita income
- Asset, not income tested
- PILOT payments
- Property tax relief
TAX EXPENDITURES

• Multiple tax types: Total annual “cost” $6.5 billion
  • Sales & use tax: $2.9 billion annually
  • Business R&D/R&E: $12 million average annually

• Policy: Strategic economic drivers?
• Incentives or rewards?
• Entitlement, competitive, contractual
• Tax shifting and cost shifting
• Performance accountability
• Off budget & $2.2 billion unfunded credit liability
• Amazon HQ2 challenge: Raising the bar

Amazon HQ2 challenge: Raising the bar
TAX INCIDENCE

• Income Tax: Progressive, 33% total taxes, not exported, high volatility.

• Corporate Income Tax: Moderately regressive (ultimate consumers), 1% of total taxes, 56% exported, low volatility.

• Sales Tax: Moderately regressive, 15% of total taxes, 24% exported, moderate volatility.

• Property Tax: Regressive, biggest tax bite at 40% of total taxes 23% exported, low volatility but for state aid.
<table>
<thead>
<tr>
<th>State</th>
<th>State &amp; Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>CT</td>
<td>5 ($4,438)</td>
</tr>
<tr>
<td>MA</td>
<td>7 ($3,976)</td>
</tr>
<tr>
<td>NJ</td>
<td>11 ($3,524)</td>
</tr>
<tr>
<td>NY</td>
<td>8 ($3,952)</td>
</tr>
<tr>
<td>SC</td>
<td>43 ($1,967)</td>
</tr>
<tr>
<td>US</td>
<td>(48 ($3,220)</td>
</tr>
</tbody>
</table>

Source: Tax Foundation (2017)
<table>
<thead>
<tr>
<th></th>
<th>INCOME*</th>
<th>SALES *</th>
<th>CORPORATE</th>
<th>PROPERTY</th>
</tr>
</thead>
<tbody>
<tr>
<td>CT</td>
<td>1 ($2,279)</td>
<td>8 ($1,137)</td>
<td>13 ($ 192)</td>
<td>3 ($2,774)</td>
</tr>
<tr>
<td>MA</td>
<td>3 ($2,133)</td>
<td>27 ($ 854)</td>
<td>3 ($ 328)</td>
<td>8 ($2,181)</td>
</tr>
<tr>
<td>NJ</td>
<td>7 ($1,479)</td>
<td>16 ($1,021)</td>
<td>6 ($ 288)</td>
<td>1 ($3,065)</td>
</tr>
<tr>
<td>NY</td>
<td>2 ($2,208)</td>
<td>37 ($ 662)</td>
<td>8 ($ 257)</td>
<td>5 ($2,581)</td>
</tr>
<tr>
<td>SC</td>
<td>35 ($ 764)</td>
<td>32 ($ 729)</td>
<td>41 ($ 77)</td>
<td>32 ($1,080)</td>
</tr>
<tr>
<td>US</td>
<td>($ 967)</td>
<td>($ 844)</td>
<td>($ 144)</td>
<td>($1,462)</td>
</tr>
</tbody>
</table>

Source: Tax Foundation (2017)

*Excludes local & county taxes
STATE BUSINESS TAXES

COUNCIL ON STATE TAXATION (COST)

• Still *lowest* total effective state & local business as a percent of gross state product (3.5%)
• Still *lowest* business *share* of total state & local taxes (30%)
• 24\textsuperscript{th} ranked in Business taxes per employee ($5,400)
• FY15-16 change: -1.3\% (only actual reduction in Northeast)
WHAT WE KNOW ABOUT TAXES
(GOVERNOR MALLOY’S BUSINESS TAX TASK FORCE, 2012)

• Relatively *modest* factor in business location decisions but *important* in specific cases.

• Fiscal stability and tax predictability are far more important to business climate, business operations and economic growth.

• Every tax creates economic incentives and disincentives as well as the risk of unintended consequences in a complex, global economy.

• Tax policy should be aligned with longer term, strategic and dynamic fiscal, economic and social policies (not driven by short term expenditure needs and demands).

• Connecticut should not try to compete with low wage, low benefit or low public investment states but needs to be more competitive within the Northeast region.
General policy
• Economic & fiscal policy drive tax policy.
• Independent dynamic scoring for tax estimation.
• Legislative action on taxes before appropriations.
• Budget tax expenditures & report unfunded liability.
• Periodic evaluation of each tax.
• Periodic tax incidence analysis.

Health Care
• State coverage “penalty” fee intercepted to Health Care Access Fund.

Administration
• Biennial Taxes 101.
• Tougher civil & criminal penalties for tax crime.
• Replace & upgrade tax management information system (including advanced analytics).

Transportation
• Increase motor fuels tax indexed to price & reduce after tolls.
• Intercept revenue to Transportation Fund lock box.
**ISSUES**

**Personal income tax**
- Relative stability of federal AGI.
- Progressivity but diminishing return from high end adaptive behavior.
- Reduce modification & exemptions: Income is income.
- Shift to payroll tax or charitable donation to preserve federal deductibility.
- “Snow bird” parity.

**Uniform gift & estate tax**
- Phase in re-couple with federal but eliminate gift tax.

**Sales & use tax**
- Broader base (all goods & services except business-to-business), lower rate & simplification.
- E-commerce economic nexus with small business exemption.

**Local taxes**
- Reduce exempt value.
- Annual statistical revaluation.
- Supplemental state mill rate & revenue intercept for TRB share
- Non-profit exemption only for actual places of worship & no PILOT.
- Full fund state PILOT.
ISSUES

Business taxes

• Replace BET with SOTS fee.
• Decouple from federal changes & add partial “sponge” surtax intercepted to reduce state unfunded liabilities.
• Pass-through business parity (rate & credits).
• Repurpose & expand resale of “stranded” credits.
• Revise & reduce tax expenditures per 5-year state economic strategy with clear performance standards.
• Modified gross receipts business activity tax: Broader base, lower rate.