State of Connecticut

HOUSE OF REPRESENTATIVES
STATE CAPITOL

REPRESENTATIVE GAIL LAVIELLE
ONE HUNDRED FORTY-THIRD ASSEMBLY DISTRICT

LEGISLATIVE OFFICE BUILDING, ROOM 4200
300 CAPITOL AVENUE
HARTFORD, CT 06106-1591

CAPITOL: (860) 240-8700
TOLL FREE: (800) 842-1423
Gail.Lavielle@housegop.ct.gov

RANKING MEMBER
EDUCATION COMMITTEE

MEMBER
APPROPRIATIONS COMMITTEE
TRANSPORTATION COMMITTEE

Testimony

State Tax Panel

September 16, 2015

Chairman Nickerson, Chairman Dyson, and distinguished members of the State Tax Panel, thank you for this opportunity to comment on our Connecticut's tax policy.

Your panel is charged with examining specific taxes that are already in effect and assessing their effectiveness and their effects on the state's economy and finances. It is timely and appropriate that you are doing this work because, as State Comptroller Kevin Lembo noted last year, the last comprehensive review of Connecticut's overall tax policy was conducted about 25 years ago. Thank you for your service.

I understand that you are most interested in concrete solutions – preferably revenue-neutral solutions -- as opposed to mere assertions that taxes are too high. So to introduce my recommendations, I'll make these prefatory remarks about revenue neutrality.

My constituents feel overwhelmingly that taxes are too high. Many business owners and operators from all over the state feel that taxes are becoming prohibitive. This is not a myth, or an exaggeration. I have a ream of correspondence documenting it, and the media is full of statements by businesses. Again, Comptroller Lembo noted last year that Connecticut's annual per capita state tax burden of $2,500 was "well above" the $1,400 national average and was the third highest in the country.

Increases in state spending have naturally accompanied increases in taxes, and nowhere more egregiously than in the area of personnel costs, which represent about 35% of the General Fund budget. During the 2015 legislative session, I joined legislative Republicans in offering a budget proposal that included a number of long-term approaches to neutralizing immediate and phased-in tax reductions. The most significant was a review of state contractual obligations to personnel, and most notably those related to fringe benefits. Another important component was improving the administrative efficiency of the higher education system. While the majority party did not support our proposal, I am convinced that its principles are essential for the state's economic and financial viability. The state cannot sustainably fund its overhead expenses.

So I do not come to you without revenue-neutral solutions. We introduced them many already this year. I would ask you to consider our proposals as the backdrop for my remarks.

Overall, Connecticut is in a deficit spiral. Each year, costs go up, and taxes must catch up with them. Two main reasons they go up are: 1) Many overhead increases are locked in, and 2) More people need resources. While Connecticut is innately a beautiful, well-located, and interesting state, the resultant higher taxes make it a less attractive place for people to locate, stay, or retire, and for businesses to locate or expand. So while population has not plummeted, it has turned over. Many people with financial resources leave, and many who need resources arrive. The consequence is that fewer people are paying higher per capita taxes. The same may be happening for businesses. So expanding the tax base is essential.

In that line of thinking, I respectfully suggest that you keep the following points in the forefront of your work:

Specific Taxes

There are several specific taxes that constituents have brought most frequently to my attention. The **propane tax on generators**, because it is unfair, because it has surprised them and because it makes them feel that nothing is sacred, that the government is here to hurt, not help them. The **taxes on pensions and Social Security**, because they are making retirement in Connecticut difficult or impossible for many residents. The **death tax**, because it is prohibitive, and there are so many states that do not impose one.

Property Taxes

Connecticut's towns, and a number of its cities, value home rule. Dictating more rules about property tax or regional taxation or shared services does not address their cost issues. Addressing state mandates, like prevailing wage and legislation governing contract negotiations, does.

Businesses

GE and several other companies have expressed their alarm about taxes, including the unitary tax. It appears likely that GE will leave the state. While GE would be a huge loss for many reasons, my greatest concern is what it would leave in its wake: a clear message that Connecticut is bad for businesses.

Paying GE to stay will not solve this problem. For several years now, the state's economic development policy has depended too heavily on one-off incentives. Tax policy, on the other hand, has become less and less favorable. But worse, much worse, it has become entirely unpredictable. And this is what I hear most often from businesses about what concerns them here. Businesses make 5-year or 10-year plans. Our state tax policy changes significantly every two years, and sometimes every year. I ask you to recommend consistency. And Connecticut must offer a reliable, attractive, competitive tax structure to all businesses across the board.

Connecticut must also offer tax advantages, available across the board, to attract new businesses. I have heard the argument that businesses already here might consider offering tax advantages to new businesses unfair. I disagree: if they come, and they stay, when the term of their advantages expires, they will be adding to the tax base. An expanded tax base means less tax exposure for each individual or business taxpayer.

We know that tax policy is not the only factor that influences the state's attractiveness for businesses. Others equally important include: infrastructure, workforce education and competency, and quality of life. These all require money, which means efficient, intelligent, strategic state spending, both capital and operational. To address that, I refer you once again to our budget proposal from the last session.

Communication

Were Connecticut to revise its tax policies radically, making them more attractive to businesses, families, and retirees, communication about those policies would become a top priority. It would be news. The state's reputation, which has undergone much criticism nationally, could be very effectively restored. This is an important consideration, and the initiative would need to be undertaken immediately. The serious financial, economic, and infrastructure problems Connecticut is facing can be fixed.

As you conduct your analysis of specific taxes, I ask that you keep this broader context and framework in mind. Our state is a great one, but the fiscal distress of Connecticut's people and businesses is real. Please take it seriously.